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REPORT TO: **PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE & PENSION BOARD – 21 JUNE 2021**

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

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

REPORT NO: **198-2021**

1. PURPOSE OF REPORT

This report reviews the Fund's current policy on Socially Responsible Investing (Article X of the Minute of Meeting of the Pension Sub-Committee of the Policy and Resources Committee of 7th December, Report No:331-2020 refers).

2. RECOMMENDATION

The Sub-Committee is asked to approve the Environmental, Social & Corporate Governance Policy for the Tayside Pension Fund, noting the additional measures now incorporated into the revised policy.

3. BACKGROUND

Whilst Corporate Governance and Corporate Social Responsibility have significantly progressed in recent years in response to both legislative and stakeholder demands, there is now increased requirements to strengthen policies and demonstrate the commitments of Tayside Pension Fund in supporting good environmental, social and corporate governance (ESG) within the companies in which it invests.

Whilst for a number of years Tayside Pension Fund has made it an essential requirement for all asset managers to be signatories to the United Nations Principles for Responsible Investing (UNPRI), the revised UK Stewardship Code (effective from 1 January 2020) provides further opportunity to demonstrate the Fund's commitment to responsible investment through incorporating this code into the Fund's ESG policy. By making it a requirement for asset managers and advisors to seek to be signatories to the UK Stewardship Code as well as UNPRI, Tayside Pension Fund can demonstrate improved stewardship and transparency of investment strategies in relation wider ESG issues.

In-keeping with the Fund's Investment Beliefs that "Responsible Stewardship and active engagement with companies is more effective in seeking to initiate change rather than divesting", the Fund has reinforced this belief through seeking membership of the Institutional Investors Group on Climate Change and Climate Action 100+, but sees formalisation of membership of formal investor groups within the Fund's ESG policy as further strengthening of its commitment to effect positive change through responsible ownership.

Although the reporting requirements the Taskforce for Climate related Financial Disclosures (TCFD) will not affect Tayside Pension fund until 2022, it is important to acknowledge this within the Fund's ESG policy to affirm the intention of ensuring appropriate governance arrangements and reporting to ensure that climate risks and opportunities are being considered.

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

6.1. Voting

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 Fund requires investment managers to vote in accordance with these recommendations.

6.2. UK Stewardship Code

The revised UK Stewardship Code represents a new best practice standard for asset owners and asset managers, with the aim of improving stewardship practices, and setting higher standards. The requirements of the revised Code for asset owners and managers extend to the requirement of establishing clear stewardship objectives, integrating stewardship in investment strategies, and adhering to clearer and more elaborate reporting requirements. Tayside Pension Fund requires all assets managers and investment advisors to seek to be signatories to the to the UK Stewardship Code, undertaking the required reporting regime as outlined in appendix 1.

6.3. Institutional Investors Group on Climate Change (IIGCC) and Climate Action 100+

The mission of the IIGCC is to support and enable the investment community in driving significant and real progress by 2030 towards a net zero and resilient future. This will be achieved through capital allocation decisions, stewardship and successful engagement with companies, policy makers and fellow investors. With over 300 members, and over €37 trillion in assets under management, it is the European membership body for investor collaboration on climate change and the voice of investors taking action for a prosperous, low carbon future.

Climate Action 100+ engagement focuses on 167 companies that are critical to the net-zero emissions transition. Investors are responsible for driving engagement and developing and implementing company specific engagement strategies. The Climate Action 100+ is a collaborative five-year initiative requiring participating investors to sign on to a public statement of action. This public statement (summarised below) sets out the commitment from investor signatories and expectations of the companies on the focus list.

Investors participating in Climate Action 100+ recognise that decarbonisation of the global economy is complex and will require unique strategies and approaches across different businesses, regions and sectors. However, signatories have agreed there should be a broad common engagement agenda across sectors, regions and business types. This consists of seeking commitments from boards and senior management to:

- Implement a strong governance framework which clearly articulates the board's accountability and oversight of climate change risk and opportunities.
- Take action to reduce greenhouse gas emissions across their value chain consistent with the Paris Agreement's goal of limiting global average temperature increase to well below 2 degrees above pre-industrial levels (aiming for 1.5 degrees). Notably, this implies the need to move towards net zero emissions by 2050 or sooner.
- Provide enhanced corporate disclosure in line with the final recommendations of the Task Force on Climate related Financial Disclosures (TCFD) to enable investors to assess the robustness of companies' business plans against a range of climate scenarios, including well below 2 degrees and improve investment decision making.

Supporting this high-level agenda, investors are identifying and communicating with companies on more detailed company specific expectations.

The formal incorporation of membership these groups into policy is outlined in appendix 1.

7. REPORTING REQUIREMENTS

The Taskforce for Climate related Financial Disclosures TCFD is a framework for managing and reporting climate-related risks and opportunities. The TCFD reporting and compliance with climate governance requirements is soon to be mandatory for pension schemes with assets of £1bn or more.

Pension schemes will be required to follow the broad recommendations of the TCFD in framing and implementing an approach to managing climate risk. Tayside Pension wish to proactively incorporate their endeavours to work towards complying with these requirements in respects of governance arrangements, assessment framework and disclosure regime in anticipation of statutory deadline, being outlined in appendix 1.

8. 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.

9. CONSULTATIONS

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

10. BACKGROUND PAPERS

Principles for Responsible Investment: 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
Institutional Investors Group on Climate Change (IIGCC): https://www.iigcc.org/
Climate Action 100+: https://www.climateaction100.org/
Taskforce for Climate related Financial Disclosures (TCFD): https://www.fsb-tcfd.org/

ROBERT EMMOTT

EXECUTIVE DIRECTOR OF CORPORATE SERVICES **30 JULY 2021**

APPENDIX 1

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 through the following:

    - **Voting**: Exercising voting rights globally in accordance with independent corporate governance and shareholder advisors and further engagement activity of investment managers.
    - **UK Stewardship Code**: All asset managers and investment advisors must seek to be signatories to the code and fulfil reporting requirements.
    - **Membership of Key Investor Groups**: To use collaborative powers as asset owners to support net-zero emissions transitions.

3. Seek appropriate disclosure of ESG issues by entities in which the Fund is invested through the following:

    - **Investment manager engagement**: To be monitored and reported on a bi-annual basis.
    - **Taskforce for Climate related Financial Disclosures (TCFD)**: Commitment to ensuring that appropriate governance, assessment and disclosure requirements are met in advance of statutory deadline.

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.