

PENSIONS INVESTMENT SUB-COMMITTEE

28TH JULY 2020

QUESTIONS FROM MEMBERS OF THE PUBLIC FOR WRITTEN REPLY

(1) From Gill Slater

(7) Pension Fund Annual Report 2019/20

ISS (e) outlines the approach to ESG considerations. DWP (PCRIG) have produced a draft guide for trustees of occupational pensions schemes on the risks and opportunities associated with climate change (welcomed by the Pensions Regulator, March 2020). When will the committee revisit its processes in line with the guide to embed climate-risk considerations into governance, risk management and strategy?

Reply:

The Fund's primary aim and fiduciary responsibility is to secure the payment of member pensions both now and into the future. The Fund's strong funding basis and performance against its LGPS peer group over the long term are testimony to the Sub-Committee's focus on this.

The Sub-Committee believes in investing over the long term with asset managers who are research driven and build high conviction portfolios rather than rely on replicating market indices. It is because of this research driven, active and long-term investment approach that the Fund's asset managers have to imbed Environmental, Social and Governance (ESG) issues, including climate risks, into their fundamental research process. The Sub-Committee and its Adviser meet with the Fund's asset managers on a regular basis to discuss these issues.

The Sub-Committee recognises the increased emphasis that the DWP and the Pensions Regulator are placing on climate change and will continue to engage with their asset managers on these issues going forward.

(2) From Sheila Grace

(7) Pension Fund Annual Report 2019/20 & (9) Pension Fund Risk Register

Whilst scientific evidence connects fossil fuels with climate change, the report and register omit any reference to climate change / fossil fuels. With the government being advised to take active steps to prepare for an increase of 4 degrees, does the committee understand what a 4 degree increase will mean for humanity and does it consider its pensions investments have any role to play in reducing these impacts?

Reply:

The Sub-Committee recognises the importance of climate change and believes that Pension Funds can play a role in encouraging change in corporate behaviour to help mitigate these risks. As noted in the previous response, the Sub-Committee believes that by investing in actively managed portfolios driven by fundamental research and invested for the long term, it is best placed to imbed these issues into its investments.

(3) From Sheila Grace

(7) Pension Fund Annual Report 2019/20

It is stated that the fund has appointed asset managers who explicitly consider ESG issues in their research (page 98). But the report does not include how asset managers invest or divest from funds with material ESG issues. Investments in environmentally harmful funds which include fossil fuels and factory farming are proving to be a greater risk as well as impacting negatively on climate and biodiversity. How is this compatible with the Fund's fiduciary responsibility?

Reply:

The Sub-Committee expects its asset managers to research and understand the environmental impact of each of the investments they make on behalf of the Fund. Because of this it does not believe in excluding specific companies from investment but for its asset managers to work with the companies they are invested in to improve the ESG profile of the Fund. It is occasionally those companies which are most challenged by issues such as climate change and are making serious efforts to tackle those challenges, which, by changing their behaviour, can have the biggest impact and through this change, become a highly profitable investment for the Fund.

(4) From Gill Slater

(6) Pension Fund Performance Q1 2020/21

The report indicates a fall in the rankings for the past 4 years & significantly in 2019/20. Appendix 5 notes the impact of COVID 19 and what it refers to as 'the seeds of the next crisis' (rising inflation, lower spending & slow growth) but completely ignores the looming climate crisis other than a single passing reference to the future of fossil fuels in respect of the US election. Does the committee know which of its funds involve fossil fuel investments and the extent of that investment and can that be communicated in simple terms for fund members to understand?

Reply:

The Sub-Committee is aware of which of its asset managers have investments in fossil fuel companies and will ask its Adviser to include this information in the next quarterly report.