

COMMITTEE: <b>Pensions Committee</b>	DATE: <b>24 February 2015</b>	CLASSIFICATION: <b>Unrestricted</b>	REPORT NO.	AGENDA NO.
REPORT OF: Interim Corporate Director of Resources  ORIGINATING OFFICER(S): Kevin Miles – Chief Accountant		TITLE: <b>Tower Hamlets Pension Scheme- Social, Environmental and Ethical Investment</b>  Ward(s) affected: N/A		

## 1. **SUMMARY**

- 1.1 Following a request for information at a previous committee, this report informs Members of the Pensions Committee of the pension fund's approach to Socially Responsible Investments.

## 2. **DECISIONS REQUIRED**

Members are recommended to note the contents of the report

## 3. **SRE INVESTMENTS**

- 3.1 The pension fund's statement of investment principles (contained within the annual report) includes the following statement on Social, Environmental and Ethical Considerations:
- 3.2 **Social, Environmental and Ethical Considerations:** The Council has a fiduciary responsibility to obtain the best level of investment return consistent with the defined risk parameters as embodied in the strategic benchmark. However, the Council recognises that Social, Ethical and Environmental issues are factors to be taken into consideration in assessing investments. The investment managers have confirmed they pay due attention to these factors in the selection, retention and realisation of investments. The Investment Panel or pensions committee will monitor the managers' statements and activities in this regard.
- 3.3 As a Local Government Pension scheme (LGPS), the pension fund managers are aware that SRE is of particular interest to members of the pension fund. London Borough of Tower hamlets (LBTH) pension fund approach is to ensure managers consider SRE issues as part of their overall investment strategy rather than have separate SRE investments.
- 3.4 The following paragraphs make reference to comments and reports from LBTH pension fund main equity managers in recent months. Excerpts of the reports are included in the appendix. The full reports have been circulated to committee members by email to reduce the length of the printed agenda.
- 3.5 Baillie Gifford has included a summary of their approach in their December quarter report. They make reference to visits to garment factories to monitor acceptable working environments, they also refer to climate change and as part of the Mercer Climate change project, consider if companies can adapt to increased weather volatility. They have also supplied copies of their environmental, social and

governance policy and their latest Corporate Governance Annual Review at the last committee.

- 3.6 Legal and General have provided their “Sharing Our Views” report on their approach to environmental, social and governance matters. This report covers a number of subjects including sustainability on areas such as mining, voting activity and executive pay. They also summarise work with international corporate governance organisations such as the International Corporate Governance Network (ICGN) and the Asian Corporate Governance Association (ACGA).
- 3.7 GMO – GMO’s investment strategy is based with less emphasis on SRE investment and engagement with company management, especially as pooled funds are used widely. GMO do address sustainability issues as part of their decision making. They vote at company meetings via a proxy voting organisation, ISS. GMO Renewable Resources (GMORR), a joint venture of GMO is a signatory of UN PRI (principles for responsible investment), though GMO are not signatories as they will only sign up when they know that they can meet all of the reporting requirements. GMO’s investment strategy is intended to be different to that of Baillie Gifford, so where one manager underperforms one period, the other manager is likely to outperform (but be beneficial to the fund overall). GMO act as a contrast to GMO.
- 3.8 In addition, LBTH is a member of the Local Authority Pension Fund Forum. This service highlights items of concern regarding the management of companies and suggests how general meeting votes should be cast. LAPFF consider shareholder action to vote against boards at AGMs as a last resort, they prefer to have constructive dialogue with company management on issues of concern.
- 3.9 Where companies are aware of and consider factors that affect their environment (not necessarily “green” environmental issues), then this demonstrates that the company is monitoring the potential for changes in circumstances that might require action to protect the company’s long term interests, so in theory provide long term benefits for the pension fund.
- 3.10 At a recent “Future of LGPS” conference, Dresdner Kleinwort presented an environmental equity fund that concentrates on investments to supply fundamental services, such as water, energy and increasing food production from limited resources. This kind of fund is likely to be outside the Council’s mainstream investment strategy, so would only warrant a relatively small investment, however the creation of the CIV may give scope for a number of Boroughs to each contribute a relatively small investment to make a larger fund. This kind of investment is likely to be considered as part of a later tranche of investments once the CIV has organised the first batch of investment consolidations as part of its launch later this year. Before investment is made, there are likely to be other similar fund managers who will need to be considered. Also, the same conference outlined the risk of Government intervention into how LGPS funds invest assets; this could limit future investment opportunities.

#### **4. COMMENTS OF THE CHIEF FINANCIAL OFFICER**

There are no specific comments arising from the recommendations in the report.

## **5. LEGAL COMMENTS**

There are no specific legal comments arising out of this report. However when deciding whether or not to proceed with the project, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty).

## **6. EQUAL OPPORTUNITIES IMPLICATIONS**

There are no specific equalities considerations arising from the recommendation in the report.

## **7. ANTI-POVERTY IMPLICATIONS**

There are no specific anti-poverty implications arising from this report though SRE does consider factors such as employment conditions.

## **8. RISK MANAGEMENT IMPLICATIONS**

There are no specific risk management implications arising from the recommendations in the report.

## **9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

There are no specific environmental decisions implications arising from this report; however the report considers how the pension fund approaches socially responsible investment so might affect future investment strategies.

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### **LOCAL GOVERNMENT ACT, 1972 SECTION 100D (AS AMENDED) LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT**

Brief description of "background paper"

If not supplied  
Name and telephone

Baillie Gifford Governance Summary Report  
Legal & General Sharing Our Views Report  
GMO Statement regarding ESG