

<b>PENSIONS INVESTMENT COMMITTEE</b>			
<b>REPORT TITLE</b>	Responsible Investment and Climate Risk – Report by Hymans		
<b>KEY DECISION</b>	No	<b>Item No:</b>	
<b>WARD</b>	N/A		
<b>CONTRIBUTORS</b>	Acting Chief Finance Officer		
<b>CLASS</b>	Part 1	<b>Date:</b>	February 2019

## **1. PURPOSE**

- 1.1. This paper follows up from discussions from November's meeting on the Committee's Statement of Investment Beliefs, specifically on the issue of responsible investment, climate risk, and an agreed approach to managing both in the context of the Committee's wider fiduciary duties and the setting of the Fund's Investment Strategy Statement.

## **2. RECOMMENDATIONS**

- 2.1. Members are asked to note and discuss the contents of the report and agree on the next steps forward for developing the Fund's RI approach.

## **3. BACKGROUND**

- 3.1. Responsible Investment (RI) and Environmental, Social and Governance (ESG) factors form key components of this Committee's investment beliefs, and the Fund's investment managers are expected to integrate such factors into their investment decision making, as well as acting responsibly and engaging with investment companies on ESG issues to positively influence behaviour.
- 3.2. Discussions at the November 2018 Committee meeting raised the issue of divestment versus tilting and engagement as alternative approaches to managing climate risk as part of the Committee's wider approach to RI, and this paper from the Fund's advisors seeks to clarify the Committee's current approach to RI in the context of current LGPS guidance, and aims to fully explain each option for managing climate risk in order to develop a specific belief going forward.
- 3.3. The full report from Hymans is appended to this report. Members are recommended to discuss the report and consider the next steps for developing the Fund's RI approach as outlined by Hymans.

## **4. FINANCIAL IMPLICATIONS**

- 4.1. There are no financial implications arising directly from this report.

## **5. LEGAL IMPLICATIONS**

- 5.1. An administering authority must, after taking proper advice, formulate an Investment Strategy Statement which must be compliant with the relevant

Regulations (Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016/329 Regulation 7). The statement must be published and reviewed at least every three years.

- 5.2. In considering the proposed Statement of Investment Beliefs, this Committee must have regard to matters including the need to ensure the adequacy of the Pension Fund and for diversification of investment fund monies, and the suitability of any investment proposed having obtained proper advice. It must act prudently with regard to risk whilst obtaining the best return on the fund investments, and comply with the fiduciary duty. That duty requires consideration of matters such as the need to invest the scheme assets in the best interests of scheme members and beneficiaries; the weighing of returns against risks including long-term risks taking into account factors which are financially material to the performance of investments; and not taking decisions for “improper purposes”.
- 5.3. In accordance with Regulation 7(2)(e) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, and the associated *Guidance for Preparing and Maintaining an Investment Strategy*, an administering authority must explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments, and must also explain their approach to social investments.

## **6. CRIME AND DISORDER IMPLICATIONS**

- 6.1. There are no crime and disorder implications directly arising from this report.

## **7. EQUALITIES IMPLICATIONS**

- 7.1. There are no equalities implications directly arising from this report.

## **8. ENVIRONMENTAL IMPLICATIONS**

- 8.1. There are no environmental implications directly arising from this report.

## **APPENDICES**

The full report is attached for Members only. Commentary will be provided at the meeting by the Council’s appointed advisors from Hymans Robertson.

## **FURTHER INFORMATION**

If there are any queries on this report or you require further information, please contact either:

David Austin, Acting Chief Finance Officer on 020 8314 9114 or at [david.austin@lewisham.gov.uk](mailto:david.austin@lewisham.gov.uk)

Robert Browning, Principal Accountant – Treasury & Pensions on 020 8314 6274 or at [robert.browning@lewisham.gov.uk](mailto:robert.browning@lewisham.gov.uk)