



PENSIONS COMMITTEE

12 DECEMBER 2017

Subject Heading:

**RESPONSIBLE INVESTMENT:
MANAGER REVIEW**

CMT Lead:

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Policy context:

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Responsible investment issues as set out
in the Statement of investment Principles

Financial summary:

No financial implications

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

The attached report, produced by the Fund's Investment Advisor (Hymans), presents a summary on the responsible investment activities, of the Fund's investment managers in support of the Committee's ongoing monitoring requirement as set out in the Investment Strategy Statement. The review focused on the period for the year to **30 June 2017**.

RECOMMENDATIONS

That the committee:

1. Note Hymans summary review of fund manager voting and engagement activity (Appendix A).
2. Note the potential development of the monitoring and review process as outlined in Hymans report Appendix A).

REPORT DETAIL

1. **Background**

1. The attached report, produced by the Fund's Investment Advisor (Hymans), presents a summary on the responsible investment activities, of the Fund's investment managers in support of the Committee's ongoing monitoring requirement as set out in the Investment Strategy Statement (ISS).
2. Hymans report also includes an Appendix which sets out the Fund's current policy with regard to the responsible investment issues of which I have included extracts as below:
 - a. It is recognised that a range of factors, including Environmental, Social and Governance (ESG) factors, can influence the return from investments. The Fund will therefore invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including ESG factors to the extent these directly or indirectly impact on financial risk and return. In making investment decisions, the Fund seeks and receives proper advice from internal officers and external advisers with the requisite knowledge and skills.
 - b. The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

- c. The Fund expects its external investment managers (and specifically the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.
 - d. Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.
 - e. The Committee recognises the need to collaborate with other investors to promote best practice on responsible investment and effectively engage with companies. The Committee is a member of the Local Authority Pension Fund Forum (“LAPFF”) and participates in this to promote its views.
 - f. The Fund monitors the activity of its investment managers on an ongoing basis and will review the approach taken annually.
3. As mentioned in the policy shown above the engagement and voting activity is largely delegated to the Fund’s investment managers with the Fund reviewing their approach on an annual basis. Hymans carried out a review of the activity undertaken by the managers. The review focused on the period for the year to **30 June 2017**.
4. Officers are in discussion with Hymans regarding the potential development of responsible investment monitoring, as outlined in the summary of Hymans report, and to explore the possibility of arranging a training session in the New Year that would also cover the broader developments of the investment strategy, incorporating responsible investments and the impact this may have on the Fund.

IMPLICATIONS AND RISKS

Financial implications and risks:

Incorporated within the background of the report but would highlight the Pensions Committee view that, non-financial factors should not drive the investment process to the detriment of the financial return of the Fund and Investment Managers have been given full discretion over day to day decision making.

Legal implications and risks:

“In a recent case decided in June 2017, R. (on the application of Palestine Solidarity Campaign Ltd) v Secretary of State for Communities and Local Government, the High Court considered the guidance issued by the Secretary of State on investment strategy for local government pension schemes. The Judge held that the secretary of state had been wrong to provide, in the statutory guidance governing the investment strategy for the local government pension scheme, that administering authorities should not use pension policies to pursue boycotts, divestment and sanctions against foreign nations. That guidance had been issued for non-pensions purposes and so was outside the secretary of state's powers. The particular issue related to the boycott of Israeli investments as a protest against the occupation of the West Bank and Gaza Strip. However, this may have wider implications. At present the decision is subject to appeal. Otherwise there are no apparent legal implications in noting the content of the Report.” .None arise from this report.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

There are no equality implications or risks as a result of this report.

BACKGROUND PAPERS

Background Papers List