



PENSIONS COMMITTEE

11 DECEMBER 2018

Subject Heading:

FUND MANAGERS REVIEW - VOTING AND ENGAGEMENT

SLT 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 2018**.

RECOMMENDATIONS

That the committee:

1. Note Hymans summary review of fund manager voting and engagement activity attached as Appendix A.
2. Note the Responsible Investment policy of the London CIV attached as Appendix B
3. Consider and agree the potential next steps in respect of future developments 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 (1) 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 2018**.
 4. The London CIV has produced a Responsible Investment Policy which was agreed at the Shareholder Committee on 18 October 2018 and later ratified by the Board. The policy, attached as Appendix B, will be the subject of ongoing review and update reports to the Shareholder Committee and the Board in the light of regulatory and other developments in Responsible Investment.
 5. Officers are in discussion with Hymans regarding the potential development of responsible investment monitoring, as outlined in the summary of Hymans report.

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 2018, R. (on the application of Palestine Solidarity Campaign Ltd) v Secretary of State for Communities and Local Government, the Court of Appeal considered the guidance issued by the Secretary of State on investment strategy for local government pension schemes. which provided that administering authorities should not use pension policies to pursue boycotts, divestment and sanctions against foreign nations.. The particular issue related to the boycott of Israeli investments as a protest against the occupation of the West Bank and Gaza Strip. Thje Court of Appeal held that it was plainly within the scope of the Act for a local authority to take non-financial considerations into account in its investment strategy. Consequently, it was within the secretary of state's power to issue guidance on non-financial considerations, which could include considerations of wider public interest such as foreign and defence policy.

In the light of this decision it is lawful to consider non-financial considerations such as environmental and social implications.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- i. the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- ii. the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- iii. foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants

An EIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected

None arise from this report as this report is required to be published in order to comply with Local Government Pension Scheme Regulations 2013.

BACKGROUND PAPERS

Background Papers List

None other than Appendices attached to this report