



Agenda Item

Subject	Responsible Investment – Quarterly Update	Status	For Publication
Report to	Authority	Date	12 September 2019
Report of	Head of Investment Strategy		
Equality Impact Assessment	Not Required	Attached	No
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1 Purpose of the Report

- 1.1 To provide members with an update on Responsible Investment Activity during the quarter ended June 2019.
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2 Recommendations

- 2.1 Members are recommended to:
- a. **Note the activity undertaken in relation to Responsible Investment matters in the Period April to June 2019.**
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3 Link to Corporate Objectives

- 3.1 This report links to the delivery of the following corporate objectives:

Customer Focus

To design our services around the needs of our customers (whether scheme members or employers).

Scheme members and employers all express significant interest in a range of aspects of responsible investment, and reporting in this way provides transparency for them in relation to the activity being undertaken by the Authority.

Investment Returns

To maintain an investment strategy which delivers the best financial return, commensurate with appropriate levels of risk, to ensure that the Fund can meet both its immediate and long term liabilities.

An effective approach to Responsible Investment will result in the Authority better understanding and recognising the risks to the value of its investments and will therefore assist in delivering a successful investment strategy.

Responsible Investment

To develop our investment options within the context of a sustainable and responsible investment strategy.

This report demonstrates how consideration of responsible investment issues impacts upon the Authority's investment strategy.

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times.

Providing transparency about the Authority's activities in this area is reflective of good practice in relation to governance.

4 Implications for the Corporate Risk Register

- 4.1 The actions outlined in this report are focussed on ensuring that the risks to the value of investments arising from poor corporate behaviour are addressed and also to outline the steps being taken to ensure that the risk posed to the value of investments by climate change is addressed.

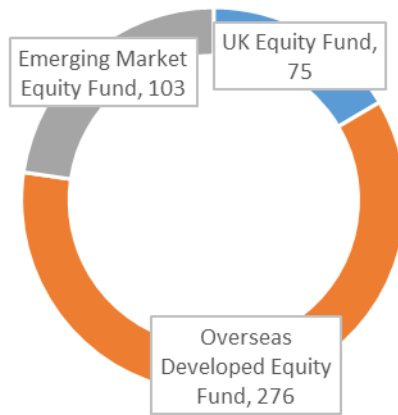
5 Background and Options

- 5.1 The Authority's approach to responsible investment is delivered through four streams of activity, largely in collaboration with the other 11 funds involved in the Border to Coast pool.
- Voting – Using the voting rights attached to shareholdings to influence the behaviour of companies to move in line with best practice.
 - Engagement through Partnerships – Working with others to engage in dialogue with companies in order to influence their behaviour and also to understand their position on key issues.
 - Shareholder Litigation – Joining in legal actions which seek to punish companies for corporate “misbehaviour” and thus protect the financial interests of the members of the pension fund.
 - Active Investing – Making positive choices about which companies to invest in having considered the full range of responsible investment issues based on the premise stated above that well governed companies will produce sustainable and superior returns. This is part of the Authority's overall investment philosophy and is not covered in this report.

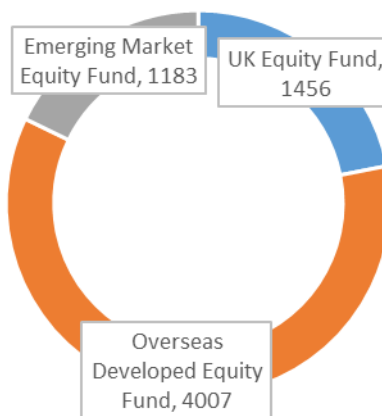
Voting

- 5.2 Detailed voting reports for the quarter ended June 2019 have been provided for members through the Reading Room and are publicly available through the Border to Coast website. The headlines in relation to voting this quarter are summarised below:

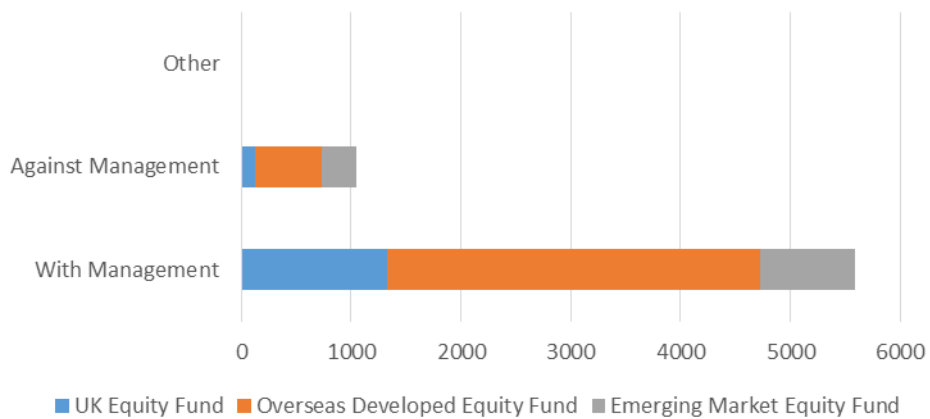
Number of Meetings Voted April - June 2019



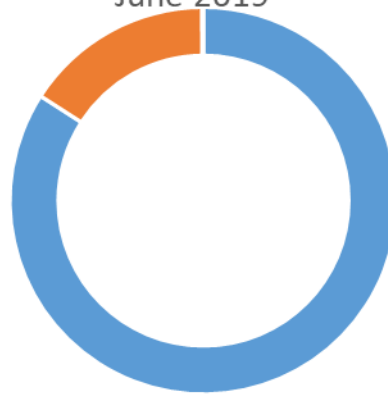
Votes Cast April - June 2019



Votes for and Against Management By Fund April - June 2019

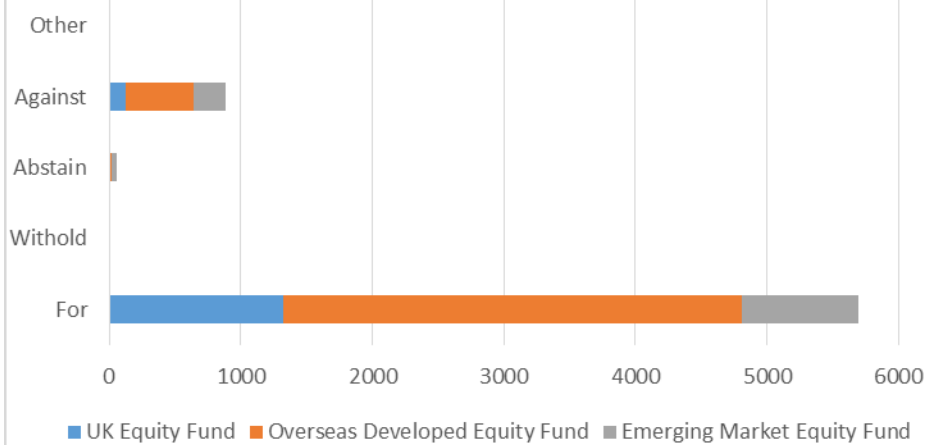


Votes for and Against Management in Total April - June 2019



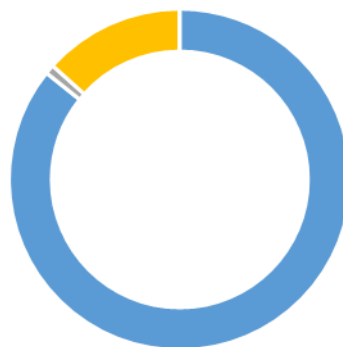
■ With Management ■ Against Management ■ Other

Support and Oppose Votes By Fund April - June 2019



■ UK Equity Fund ■ Overseas Developed Equity Fund ■ Emerging Market Equity Fund

Support and Oppose Votes in Total April - June 2019



■ For ■ Withhold ■ Abstain ■ Against ■ Other

- 5.3 Again the total number of votes cast and number of meetings voted is materially higher than in previous years due to the fact that Border to Coast are now able to vote shares in all markets. The proportion of resolutions supported has increased compared to the pattern in previous years, however, this is likely more to do with the pattern of meetings in the quarter rather than any qualitative change and judgement should be reserved on this until the full year data are available.

Engagement

- 5.4 The Authority supports engagement with companies through two main routes. By Robeco working on behalf of all 12 Border to Coast funds and through the Local Authority Pension Fund Forum (LAPFF) on behalf of its members which includes all 12 funds in Border to Coast. In addition the internal fund managers at Border to Coast also engage directly with a small number of companies. During the quarter:

- Robeco have continued to engage with a range of companies on behalf of Border to Coast across a number of themes, prominent amongst which are climate and other environmental issues, the themes of the UN Sustainable Development Goals and governance and issues such as board composition. Further details are contained in the quarterly report available on the Border to Coast website.
- LAPFF engaged with 42 companies over a wide range of issues but with a particular focus this quarter on climate and human rights issues alongside the usual interaction with a number of companies around remuneration issues. Of particular note LAPFF took the lead within the Investor Tailings Dam initiative on liaison with affected communities. The Forum's most recent quarterly engagement report is available in the Reading Room. The Forum's AGM was held in July and Cllr Doug McMurdo Chair of the Bedfordshire Pension Fund (a fellow Border to Coast Fund) was elected as Chair of the Forum. The Forum also held a business meeting in July and a detailed briefing on the items discussed is in the Reading Room. In addition to reviewing engagement activity and progress with the Tailings Dam initiative the meeting also focussed on work arising from one of the Forum's long running campaigns in relation to "reliable accounts". In this context the meeting agreed to the proposed responses to two significant consultation exercises. The first was to the Brydon review on the future of audit and the second to the Independent Review of the Financial Reporting Council (the audit regulator). Following major corporate failures such as Carillion there is now a significant head of steam behind these reviews and government support for change, following a long campaign in which the Forum has been instrumental.

Climate Change

- 5.5 The work of the Border to Coast Climate Change Working Group continues with one meeting remaining which will formulate specific proposals for inclusion in the next iteration of the Responsible Investment Policy. Details of the work undertaken at each meeting are available in the Reading Room. The key tension which the Working Group is seeking to address (and which is apparent in other non-climate related areas as well) is between taking action which has a real impact on changing company behaviour which is long term and hard work and simplistic solutions which are increasingly being described as "green washing" and which make no real impact on achieving the transition to a low carbon economy, because for example they involve only investing in companies which start with a low carbon footprint.

- 5.6 Over the last quarter the Fund Director was invited to participate in a round table discussion, involving the Pensions Minister on how pension funds can assist in the transition to a low carbon economy as part of London Climate Change Week.

Collaborations

- 5.7 The Authority has become an affiliate member of Pensions for Purpose which is a platform for the sharing of learning in relation to responsible and impact investing. While the other collaborations in which the Authority is involved are focussed on achieving specific goals (e.g. the Workforce Disclosure Initiative) Pensions for Purpose is concerned with sharing learning across the investor and investment management community.

Litigation

- 5.8 When company behaviour has been particularly egregious the Authority looks to participate with other shareholders in litigation to recover losses which will have been incurred as a result of failures by management. In addition the Authority looks to ensure that it recovers any tax payments which might be due to it under various treaties. These processes can often take many years, and while new activity is likely to reduce fairly quickly following the transfer of beneficial ownership of equity holdings to Border to Coast it will be some years before all current claims are settled. The Authority uses an agent to identify potential cases. The agent works on a “no win no fee” basis in the US where actions of this sort are much more numerous. In the UK and Europe actions are less common but tend to be larger. In most cases the fees involved are very small relative to the sums at stake. The latest settlement achieved in relation to litigation in relation to Fortis, a European financial institution resulted in the Authority receiving a settlement of approximately £113,000 around the turn of the financial year.
- 5.9 Legal action in relation to taxation of overseas dividends continues to make slow progress through the courts and officers, on the advice of the relevant legal advisers have taken steps to protect the Authority’s claims in the event of a “no deal” Brexit scenario.

6 Implications

- 6.1 The proposals outlined in this report have the following implications:

Financial	There are no immediate financial implications arising from this report.
Human Resources	None
ICT	None
Legal	The Authority has appropriate powers to allow it to participate in collaborative efforts such as LAPFF.
Procurement	None

Sharon Smith

Head of Investment Strategy

Background Papers	
Document	Place of Inspection
Border to Coast and Robeco Quarterly Reports	https://www.bordertocoast.org.uk/?dlim_download_category=engagement