

Subject	Understanding the Impact of Our Investments	Status	For Publication
Report to	Authority	Date	17 th March 2022
Report of	Director		
Equality Impact Assessment	Not Required	Attached	No
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1 **Purpose of the Report**

- 1.1 To allow members to consider the Authority's first attempt to assess the impact of its investments and the Authority's review of its adoption of the Impact Investing Principles for Pension Funds.

2 **Recommendations**

- 2.1 Members are recommended to:
- a. **Consider the Authority's first impact report and determine whether any specific actions should be undertaken in relation to the information contained.**
 - b. **Note the review of the Authority's first year of adoption of the Impact Investing Principles for Pension Funds.**

3 **Link to Corporate Objectives**

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

Listening to our stakeholders

To ensure that stakeholders' views are heard within our decision-making processes.

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.

Responsible Investment

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

Effective and Transparent Governance

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

The Authority has long championed responsible investment. Understanding the impact of our investments on people and planet gives us a deeper understanding of where we should focus engagement activity to reduce negative impacts and also of the areas where there is the potential for us to achieve positive benefits beyond our required investment return. The Impact Investing Principles provide a framework within which we can consider opportunities of this sort.

4 Implications for the Corporate Risk Register

- 4.1 The actions outlined in this report are intended to increase understanding of the wider systemic risks to which the investment portfolio exposes the Authority and to highlight the additional opportunities that may be available.

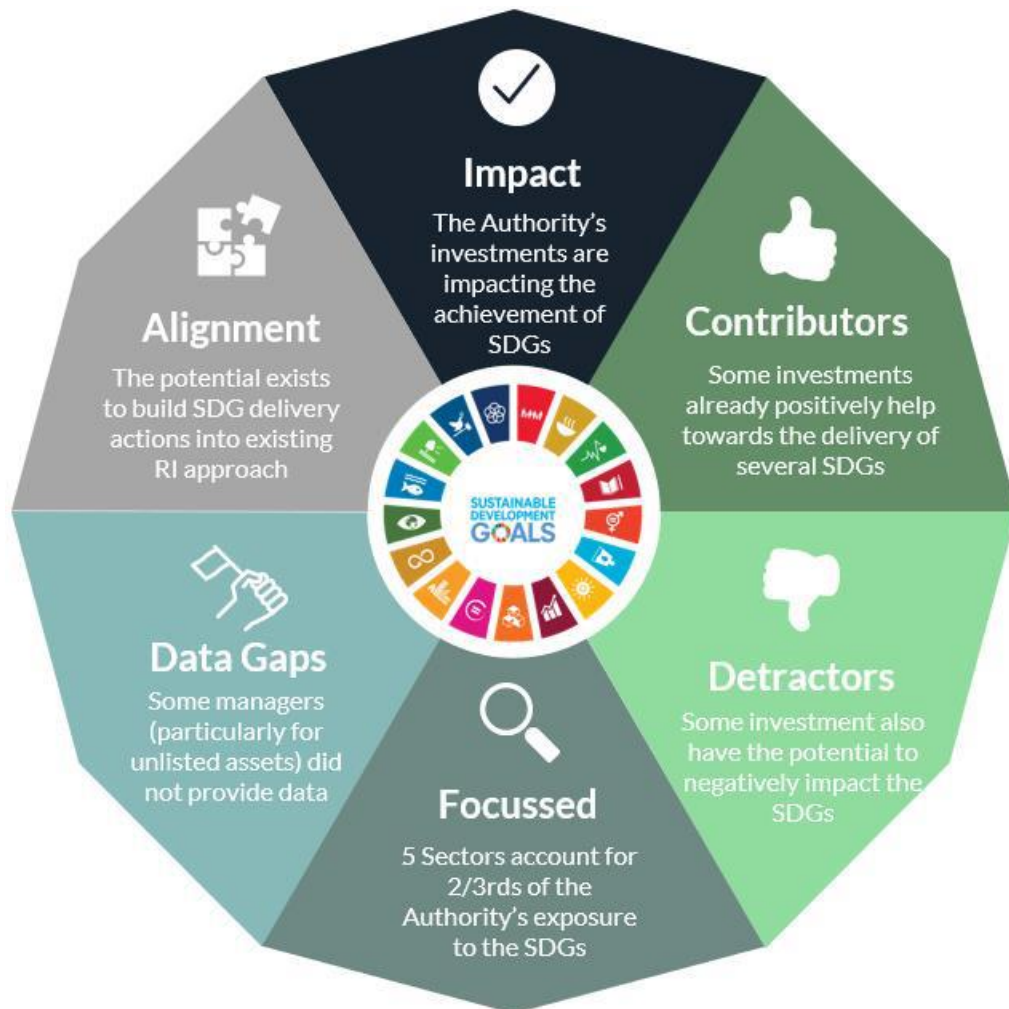
5 Background and Options

Reporting on the Impact of Our Investments

- 5.1 Last September the Authority agreed to undertake work to gain a more complete understanding of the impact of all of its investments on people and planet using the UN Sustainable Development Goals as a framework for analysis. The intention was to go beyond the ESG scoring of portfolios and the emissions data for the listed portfolios and to understand whether there were significant hidden risk exposures of which we were not aware and similarly whether there are unrecognised opportunities and/or positive impacts.
- 5.2 This is a very significant piece of work and Minerva were commissioned using the LGPS National Framework for Stewardship activities to undertake it. The contract awarded is to produce reports over 3 years with an increasing amount of activity being undertaken in house in each year and eventually it being possible to undertake the work entirely in house. As set out below the experience of this first year and wider developments in relation to stewardship reporting may mean that this was an optimistic assumption.
- 5.3 Minerva's first report is set out in Appendix A. The report has been produced somewhat later than all involved would have wished due to the difficulty in securing data from some fund managers, although the report does address the vast majority of holdings.
- 5.4 Given this is, of necessity, a top-down exercise there is not much granular detail here and as has been regularly reported there are significant challenges with data in this area. However, the report does highlight some areas where the impact being created by our various investments might be more negative than might have been assumed. The heat map contained in the report particularly draws attention to our impact on SDG 14 (Life Below Water) and SDG 15 (Life on Land). While the former seems to relate to exposure to shares in mining companies (which represent a disproportionate share of the UK index to which we are relatively over-exposed) the second is a bit more complex but related to the propensity of various industries to make use of natural resources in unsustainable ways. The first case relates to one of Border to Coast's chosen engagement themes for the coming three years, while the second is addressed

through a number of different routes, for example engagement with companies around sustainable packaging, support for work on Nature Related Financial Disclosure and elements of engagement around climate issues. This analysis will help focus the Authority's own priorities for engagement and other activity in this area in coming years.

5.5 The diagram below summarises the conclusions drawn by Minerva:



5.6 This shows that given the concentration of sectoral exposure it should be possible to achieve benefits through fairly focussed activity.

5.7 This work has proved far more difficult than anticipated and it has not been possible to achieve much in terms of specific measures, however it is a start and a significant contribution to developing understanding, which will only increase in further reporting cycles. This deeper understanding will help frame priorities within our overall stewardship approach which is a positive benefit in terms of adherence to the Stewardship Code. One of the member learning sessions in the next municipal year will be dedicated to this report and what we can learn from it as part of shaping future policy.

Impact Investing Principles for Pension Funds

- 5.8 In March 2021 the Authority agreed to adopt the Impact Investing Principles for Pension Funds. Some 12 months later it is appropriate to review what we have done in relation to complying with the principles and recommit to them. Appendix B sets out what has been done and intentions for the future in relation to each of the principles. This is the area of work for which the Authority received an award last December.
- 5.9 It is important to understand that we are taking what might be regarded as a broader view of impact. Everything we do involves investing *with* impact, some of which as set out in Minerva's work is negative, while we choose within a limited part of the portfolio to specifically invest *for* impact in addition to the required investment return. In all the work we are doing we aim to look at the whole portfolio, rather than the relatively small part where we are intentionally seeking to make an impact.

6 Implications

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

Financial	None specifically the work commissioned from Minerva is being funded within existing resources
Human Resources	None
ICT	None
Legal	None
Procurement	Minerva have been commissioned using a compliant framework.

George Graham

Director

Background Papers	
Document	Place of Inspection