

Investment, Governance and Engagement Sub Committee

Item 10 – Paper C

Responsible Investment – Update

1.1. There are three main issues that the committee should be aware of :-

- Publication of a statement on the legal landscape governing the use of non-financial factors in investment decision making;
- Publication of the government's interim statement on Pension Funds and Social Investment (December 2017);
- Publication of UNISON's guide on Divesting from Carbon (January 2018), and

Legal Landscape on non-financial factors.

2.1. At its meeting on the 16th November, the Board agreed that the Secretariat should prepare a statement setting out how the legal landscape applies to non-financial considerations being taken into account when investment policies and decisions are made.

2.2. A copy of the draft statement (see Annex A) was sent to committee members on the 12th December asking for comments by the end of the month. Only one comment, supporting publication, was received.

2.3. Recommendation - that the Board is invited to approve publication of the statement.

Government's Interim Response on Pension Funds and Social Investment

Background

3.1 In response to two reports from the Law Commission on Fiduciary Duty and Social Investment, the government has now published its interim response. A copy of the interim response can be found at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/668301/pension-funds-and-social-investment-interim-response-to-law-commission-report.pdf.

3.2 The two Law Commission reports can be found at <http://www.lawcom.gov.uk/project/fiduciary-duties-of-investment-intermediaries/> and <http://www.lawcom.gov.uk/project/pension-funds-and-social-investment/>

3.3. In general, the government welcomed the Law Commission's recommendations and, in particular supported the Law Commission's view

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that trustees should consider members' ethical and other concerns, and may respond by acting on them where they have good reason to think members share the concern and does not involve a risk of significant financial detriment.

3.4. However, the government went on to say that it is not intended that these measures will give any support to campaign groups for boycotts of certain countries or divestment from certain assets. Trustees have primacy in investment decisions, and their prime focus is to deliver a return to members.

3.5. A full response to this and other recommendations made by the Law Commission from the government is expected in the Summer 2018.

Conclusion

3.6. It would be premature at this stage to make any firm recommendations to the Board until the government has published its full response in the Summer. But before then, the committee may find it helpful to be able to compare the full range of recommendations accepted by the government in its interim response against the current provisions of the 2016 Investment Regulations and statutory guidance. The committee may also wish to recommend to the Board that early discussions should be opened with DWP and MHCLG to ensure that the LGPS' position is fully represented.

3.7. Recommendation – that the Secretariat should prepare a paper summarising the agreements listed in the government's interim response against the ESG provisions of the LGPS and that the Board should be invited to arrange meetings with DWP and MHCLG to discuss next steps and future policy.

UNISON Guide on Divesting from Carbon

4.1. On the 10th January 2018, UNISON, in conjunction with Share Action, published guidance for scheme members about the divest from carbon campaign. A copy of the guide can be found at <https://www.unison.org.uk/content/uploads/2018/01/Divest-from-carbon-campaign.pdf>.

4.2.,. The guide has been produced to help implement UNISON conference policy on reducing the impact of climate change and also to help scheme members understand what climate risk is and how it will affect people and the economy.

4.3. Recommendation – that the committee notes publication of the guide

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