

Pension Fund Committee

Meeting to be held on 27 March 2014

Electoral Division affected: None

Notice of Motion Relating to Socially Responsible Investment Agreed by the County Council

(Appendix 'A' refers)

Contact for further information:

George Graham, (01772 538102), County Treasurer's Department

george.graham@lancashire.gov.uk

Executive Summary

A notice of motion was carried by the Full Council at its meeting on 12 December 2014, the text of which is reproduced in the body of this report dealing with issues of environmentally and socially responsible investment, which come within the broad heading of socially responsible investment. The notice of motion asks the officers of the Fund to undertake work aimed at examining potential routes to increase the level of environmental and social responsibility of invested companies and to examine the barriers to a policy of active disinvestment in areas which would appear to be in conflict with the County Council's broader policy agenda.

This report sets out a proposed brief and the potential costs for undertaking a piece of work in response to the notice of motion utilising the Fund's consultancy framework.

Recommendation

That the Committee authorise officers to commission consultancy work to the brief set out in Appendix 'A'.

Background and Advice

The Pension Fund Committee has discussed issues of socially responsible investment on a number of occasions in the last 12 to 18 months, and had previously resolved to await the deliberations of the Law Commission's review of fiduciary duty before taking any further specific actions. This position is similar to that taken by the majority of LGPS funds.

At its meeting on 12 December 2013 the County Council adopted the following notice of motion proposed by County Councillor Dowding

"Lancashire County Council recognises the good reputation and sound financial management of the Lancashire County Pension fund (LCPF) and notes that the Fund has recently won the 'European Institutional Investor of the Year.

In light of the increasing concern in the media nationally and locally about pension funds' investment principles regarding environmental, social and governance issues, Full council asks the Pension Fund officers:

- 1. To explore what potential routes there are for further increasing the environmental and social responsibilities of the companies in which the Fund invests while giving due consideration to the fiduciary duty.*
- 2. To report on the barriers and challenges, legal and otherwise, to disinvesting from individual investment types, such as those which may be considered to undermine the health improvement, social fairness and carbon-reduction related targets that the County Council aims to reach, and to find out the cost of taking appropriate professional advice including risk and return considerations.*
- 3. To investigate what practices and initiatives moves there are nationally to support positive action in this area.*
- 4. To report to the Pensions committee on the above."*

In essence the notice of motion seeks to initiate a fairly wide ranging piece of work which examines the practicality, legality, performance risk and cost implications of adopting a range of rules and processes within the Pension Fund's overall investment strategy with the aim of furthering a range of wider policy objectives, while having regard to issues of fiduciary duty.

Officers have considered the options to undertake such a piece of work and believe that to have the necessary credibility it needs to be undertaken by a third party not involved in the Fund's management and decision making processes with significant knowledge and experience of the operation of LGPS Funds and pension funds more generally as well as access to an investment advisory practice. This combination could be delivered by a generalist consultant from the Fund's consultancy framework. A proposed brief for such a piece of work is attached at Appendix 'A', and subject to approval officers will commission the relevant work using the appropriate procurement processes.

The proposed consultancy brief seeks to establish:

- The constraints within the current legal framework in relation to an investment strategy either wholly, or more than at present driven by policy rather than financial or fiduciary considerations;
- The nature and means of implementation of more policy driven investment strategies and the definitions used within such strategies and the resource implications of the need to adopt a more active direct engagement with investee companies;

- An understanding of the potential scale and investment performance impact of both divestment and investment driven by any more policy driven strategy looking specifically at the listed equity and credit and fixed income portfolios where some degree of "back testing " is easier to achieve. This would include an analysis of the degree to which any change in policy would impact on achievement of the investment strategy objectives and hence the overall funding level;
- This would allow a view to be expressed on the validity, or otherwise of market commentary on the negative impacts of what are termed "restrictive investment strategies";
- The potential impact of a "positive" tilt in the investment strategy either in whole or in part towards defined policy objectives.

This piece of work will aim to take evidence from as wide a field as possible. However, at this stage the Fund has no agreed definition of what it means by "environmental and social responsibility" beyond the generally accepted dictionary definition of the terms and therefore further work will be required by those undertaking the consultancy exercise to understand whether what is meant goes beyond this definition.

Subject to approval by the Committee, the Fund's Officers will commission the consultancy work as quickly as possible with a view to reporting back at the autumn meeting by which time other work in the same space being undertaken by the LGPS Shadow Scheme Advisory Board is likely to have produced some conclusions which could be looked at alongside the specific piece of work commissioned by the Fund.

Consultations

Informal discussions have taken place with PIRC as the Fund's Governance Adviser and members of the Fund's consultancy framework in order to inform the proposals set out in this report.

Implications:

This item has the following implications, as indicated:

Risk management

Any consideration of a fundamental change in investment strategy presents the Pension Fund and the Committee with a range of risks. The majority of risks will only need to be addressed as part of the process of making a decision on a change in strategy, rather than at this exploratory stage.

The key risk at this stage relates to the effective communication of the Committee's intentions and what the Committee has actually agreed to both fund members and employers. Officers will make use of the Fund's normal communication channels to ensure that accurate information is communicated to all relevant stakeholders.

Financial

Informal discussions with members of the consultancy framework indicate a potential cost of up to £50,000 for this work which would be a charge to the Fund. The potential range of cost is fairly wide as the detailed scope and depth of work required will need to be fully defined in discussion with the chosen provider.

Local Government (Access to Information) Act 1985 List of Background Papers

Paper	Date	Contact/Directorate/Tel
-------	------	-------------------------

Reason for inclusion in Part II, if appropriate

N/A