

### **PE36. Environmental, Social and Governance (ESG) Policy Review**

The Committee and Board considered a report by the Director of Corporate and Housing Services providing an update on the Environmental, Social and Governance (ESG) Policy Review.

The areas covered within the report included the following:-

- The legal considerations surrounding Environmental, Social and Governance (ESG) policy;
- The Fund's existing ESG policy;
- The themes emerging from the Fund's recent ESG seminar on 24 October 2016 including climate change risks, sustainability, divestment versus engagement, stranded assets and carbon measurement;
- The LGPS rules requiring Funds to maintain a written Statement of Investment Principles (the "SIP") specifying the extent to which social, environmental or ethical considerations were taken into account in selecting and retaining investments;
- The Fiduciary duty of Fund stakeholders (i.e. beneficiaries and employers) to act selflessly, responsibly and with prudence on behalf of stakeholder interests, putting aside their own personal views and interests;
- The Fund's current approach to ESG within the Statement of Investment Principles including obligations as a responsible investor and its commitment to monitoring investee companies to ensure they meet standards of acceptable corporate practice;
- The policy and the Fund's focus on corporate environmental policy, human rights and employment standards (including Executive pay);
- The consideration whether to retain the current focus or to give greater weight to other matters, such as the threats from climate change and the engagement arrangements; and
- The options for developing the Fund's updated ESG policy.

#### **Decision**

**The Committee and Board noted the report.**

**The Committee agreed:-**

- (1) to review the Statement of Investment Principles in relation to ESG policy;**
- (2) to monitor the Fund's carbon exposure regularly;**
- (3) that a policy of engagement was generally preferable to disinvestment;**
- (4) to improve dialogue with Managers around carbon risk management;**
- (5) to consider adopting either or both the UNPRI and the UK Stewardship Code;**

- (6) to consider receiving quarterly voting information and publicise this information on the Fund website;**
- (7) to consider making an allocation to a Fund which tracks a low carbon index or has sustainability and long term returns at its core; and**
- (8) that the Chief Finance Officer bring forward revised ESG proposals to the Committee and Board meeting in March 2017 with a view to the revised ESG Policy being incorporated within the Statement of Investment Principles.**