

**PENSIONS COMMITTEE 12 JANUARY 2022**

**Report title:** ESG Beliefs – Survey Results

**Wards:** All

**Portfolio:** Cabinet Member for Finance and Performance: Councillor Andy Wilson

**Report Authorised by:** Strategic Director for Finance and Investment: Fiona McDermott

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**REPORT SUMMARY**

This report and the attached papers present the results of an Environmental, Social and Governance (ESG) Beliefs survey which was issued to Committee members in November 2021. The survey draws out a number of views held by members in the context of a wider understanding of ESG, how ESG should be considered in investment decision making, and the role that voting and engagement activity has to play. Those views with most support will be used to draft a set of ESG investment beliefs and incorporated into the Fund's Investment Strategy Statement when updated later in 2022.

**FINANCE SUMMARY**

There are no direct financial implications arising from the recommendations in this report.

**RECOMMENDATIONS**

1. That the Committee identifies any additional specific ESG training needs that may have come to light as a result of completing this survey and notify officers accordingly so that appropriate training can be planned;
2. That the report, together with the information in the accompany papers, be noted.

## **CONTEXT**

- 1.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, specifically section 7(2)(e), requires administering authorities to report on how environmental, social and corporate governance (ESG) considerations are taken into account in the selection, non-selection, retention and realisation of investments. As a long-term active investor, the London Borough of Lambeth Pension Fund believes that ESG considerations are integral to the Fund's strategy and has committed to actively engaging and collaborating with its investment managers and likeminded bodies to reduce ESG risks and responsibly invest in sustainable opportunities.
- 1.2 The Fund has carried out a number of steps since October 2020 to develop and improve its approach to responsible investment, climate change and stewardship, which are summarised in the responsible investment timeline at Appendix One.
- 1.3 At the October 2021 Committee meeting members agreed that an updated Statement of Investment Beliefs (SIB) be prepared to set out the overriding high-level principles by which the Pensions Committee makes its investment decisions. Not only does the SIB evidence good stewardship, but the review and agreement of ESG and climate change-related beliefs in particular is a recommendation of the TCFD (Taskforce on Climate-Related Financial Disclosures) reporting requirements.
- 1.4 In early November 2021 the Fund's advisers Mercer issued an ESG Beliefs Survey, to which all Committee members responded. The aim of the survey was to gauge and formalise members' views on issues of responsible investment and find a consensus on which the Fund's policies can be based. The results are explored in more detail in the report attached at Appendix Two, whilst the following paragraphs summarise the key findings.

## **2 PROPOSALS AND REASONS**

### **ESG Understanding**

- 2.1 75% of Committee members believe their understanding of ESG issues is fairly well developed or better in the context of both investment risk and opportunity, with the majority of members holding the view that ESG issues create both risk and opportunity, each of which should be reviewed.
- 2.2 Half of the Committee believes that its current approach to managing ESG risks and opportunities could go further and should be reviewed, the other half believing the current approach is appropriate or are unsure. The majority of members see ESG and stewardship as materially relevant to the best interests of the Fund's beneficiaries, and that by disregarding ESG concerns the Committee risks failing its fiduciary responsibilities.
- 2.3 Of the ESG issues identified in the survey, Committee members' highest priority is investing in strategies that target long-term ESG themes on the basis that such

opportunities will generate good risk-adjusted returns, as well as addressing climate change risk. The lowest ranked priority was investor stewardship; however, members commented that it was difficult to prioritise issues and that overall all were important.

### **ESG and Investment Decisions**

- 2.4 88% of members most agree with the statement “Good management of ESG issues is a key determinant of long-term shareholder value. It is therefore an essential consideration for long-term investment decisions to help identify potentially material financial issues and generate better risk adjusted returns.”
- 2.5 In terms of governance, most members (75%) believe it is up to investors to closely monitor material ESG risks as an early indicator of wider management or financial problems yet to emerge, and 88% are of the view that material environmental and social factors should also be considered by shareholders to ensure long-term benefits for the Fund.
- 2.6 Half of the Committee believe that climate change is already materially impacting asset prices today and should be a current priority, whilst a quarter of the Committee believe that climate risk will only have a gradual impact over multiple decades.
- 2.7 75% of Committee members feel only somewhat informed about climate change risks and their relationship to investment decision making, members’ fiduciary duty and their management of the Fund, though comments from members suggest this is more a reflection of the wide scope of risks that require consideration.

### **Voting and Engagement**

- 2.8 75% of members believe that all shareholders should vote their shares and engage with portfolio companies as part of active ownership and wider stewardship duties owing to beneficiaries.
- 2.9 63% of members believe that acting collectively with other investors is an effective way to engage with companies and that without such collective action improvements in management processes would often not occur.

### **Alignment of Interest and Reputation**

- 2.10 88% of members believed there are certain ethical or moral considerations that the Committee should also take into account; examples include:
- Weapons, pornography, tobacco, gambling;
  - Resource extraction in conflict regions;
  - Fair trade/supply chain issues; and
  - Human rights issues, including modern slavery and gender equality.
- 2.11 75% of members most agree that the Committee should set clear expectations of its investment managers and advisers on how ESG considerations are incorporated into investment activities/advice.

## **Recommendations and Follow-on Actions**

- 2.12 Considering the results as summarised above and presented in Appendix Two, officers will draft a core set of ESG beliefs that best reflect the Committee's views, and present them for approval at the next meeting for inclusion in the updated Investment Strategy Statement.
- 2.13 Officers will undertake work to better understand the investment managers' approaches to responsible investment and ESG, which will begin with a review of ESG scoring and how best the Fund might capture a range of scoring approaches for a more informed view of ESG integration; a paper on this subject will be brought to the next meeting.
- 2.14 Officers recommend that the Committee identify any additional specific ESG training needs that may have come to light as a result of completing this survey and notify officers accordingly so that appropriate training can be planned.

## **3 FINANCE**

- 3.1 There are no direct financial implications arising from the recommendations in this report.

## **4 LEGAL AND DEMOCRACY**

- 4.1 The Lambeth Pension Fund is run in accordance with the Local Government Pension Scheme Regulations 2013 enacted along with other Regulations under the Superannuation Act 1972 and the Public Service Pension Act 2013, and is for the benefit of Council employees and outside organisations which have entered into an agreement with Lambeth to provide pensions for their staff.
- 4.2 The Pension Committee must be mindful of their fiduciary duty to obtain the best possible financial return on the investments it administers within the investment strategy framework.
- 4.3 There are no additional comments from Democratic Services.

## **5 CONSULTATION AND CO-PRODUCTION**

- 5.1 Not applicable.

## **6 RISK MANAGEMENT**

- 6.1 Investment decisions involve taking risks that Members of the Committee should always bear in mind. Generally, risk is taken to mean the variability of returns. Investments with greater risk must usually promise higher returns than more 'stable' investments before investors will buy them. Members must consider the risk/reward

trade-off; generally, the higher the potential return expected the higher the associated risk. Members in their capacity as Trustees bear that risk.

## **7 EQUALITIES IMPACT ASSESSMENT**

7.1 None for the purposes of this report.

## **8 COMMUNITY SAFETY**

8.1 None for the purposes of this report.

## **9 ORGANISATIONAL IMPLICATIONS**

### **Environmental**

9.1 None for the purposes of this report.

### **Health**

9.2 None for the purposes of this report.

### **Corporate Parenting**

9.3 None for the purposes of this report.

### **Staffing and accommodation**

9.4 None for the purposes of this report.

### **Responsible Procurement**

9.5 None for the purposes of this report.

## **10 TIMETABLE FOR IMPLEMENTATION**

10.1 Not applicable.

| <b>AUDIT TRAIL</b>                             |   |                  |                      |                          |
|--|---|------------------|----------------------|--------------------------|
| <b>Consultation</b>                            |   |                  |                      |                          |
| <b>Name/Position</b>                           | <b>Lambeth directorate/ division or partner</b> | <b>Date Sent</b> | <b>Date Received</b> | <b>Comments in para:</b> |
| Councillor Andrew Wilson, Cabinet Member       | Finance and Performance                         | 20.12.2021       | 20.12.2021           |                          |
| Dami Awobajo, Acting Strategic Director        | Finance and Investment                          | 20.12.2021       | 05.01.2022           |                          |
| Christina Thompson, Director of Finance        | Finance and Investment                          | 20.12.2021       | 20.12.2021           |                          |
| Hamant Bharadia, Assistant Director of Finance | Finance and Investment                          | 20.12.2021       | 29.12.2021           |                          |
| Andrew Pavlou, Legal Services                  | Legal and Democratic Services                   | 20.12.2021       | 22.12.2021           |                          |
| Marianna Ritchie, Democratic Services          | Legal and Democratic Services                   | 20.12.2021       | 22.12.2021           |                          |
| Mercer (External)                              | Consultant                                      | 20.12.2021       | 20.12.2021           |                          |

| <b>REPORT HISTORY</b>   |   |
|---|---|
| <b>Original discussion with Cabinet Member</b>                          | N/A   |
| <b>Report deadline</b>  | 17 December 2021  |
| <b>Date final report sent</b>   | 5 January 2022  |
| <b>Part II Exempt from Disclosure/confidential accompanying report?</b> | No  |
| <b>Key decision report</b>  | No  |
| <b>Date first appeared on forward plan</b>                              | N/A   |
| <b>Key decision reasons</b>   | N/A   |
| <b>Background information</b>   | N/A   |
| <b>Appendices</b>   | <ul style="list-style-type: none"> <li>• Appendix One – Responsible Investment Timeline</li> <li>• Appendix Two – ESG Beliefs Survey</li> </ul> |