

Review of Environment, Social and Governance (ESG) Investment Arrangements

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Executive Portfolio Holder: Not applicable
Division and Local Member: Not applicable

1. Summary

1.1 Pension Board specifically requested a review of ESG investment arrangements be put on the workplan.

2. Issues for consideration

2.1 The report is for information only unless the Board deems that action is necessary having reviewed the report.

3. Background

3.1 The Fund's policy on ESG investing is contained within its Investment Strategy Statement (ISS). The current version of the ISS was reviewed at its November 2021 meeting and was reviewed and adopted by the Pensions Committee at its March 2022 meeting. A copy is provided as appendix A.

3.2 The Fund's ISG states:

- The Fund recognises the risks associated with social, environmental and governance (ESG) issues, and the potential impact on the financial returns if those risks are not managed effectively. The Fund will work with its partners in the Brunel pool and the Brunel Pension Partnership Limited company to ensure that robust systems are in place for monitoring ESG risk, both at a portfolio and a total fund level, and that the associated risks are effectively managed.
- More broadly the Fund adopts the policies set out in the Brunel Responsible Investment Policy. The Brunel policy can be found at:
<https://www.brunelpensionpartnership.org/responsibleinvestment/responsible-investment-policy/>

4. Climate Change

- 4.1 The fund has adopted a policy, as stated in the ISS, of seeking to be net zero by at least 2040. We have set interim targets of an average of a 7%p.a. fall in carbon intensity of the investment portfolio starting at 2019 levels and through this to be 50% below 2019 levels by 2030. These interim targets match those of Brunel contained in their Climate Change Policy.
- 4.2 To date Brunel has achieved these levels of reduction across its listed equity investments and we have accelerated the fund's rate of achievement by moving our passive equity to a Paris aligned benchmark/product and from passive and active UK portfolios to the Global High Alpha offering, which has lower carbon intensity.
- 4.3 Both the ISS and Brunel's climate change policy should be reviewed every 3 years, this provides scope to review progress and refresh targets at regular intervals.
- 4.4 Whilst the Fund's ISS doesn't specifically reference other environmental risks Brunel do take these into account as part of their ESG work.

5. Company Engagement

- 5.1 One method of altering the ESG performance of companies we invest in is via engagement with those companies to discuss their performance and use our influence as shareholders to effect change.
- 5.2 We typically engage with companies via third parties within the work of Brunel and LAPFF. This is resource efficient and also allows for our voice to be amplified by engaging collectively with a much higher proportion of a company's shareholder base. These collaborations do not preclude us from engaging directly with companies but in a practical sense we do not have the skills or sufficient resources to do this on a meaningful scale.
- 5.3 Brunel use a 3 part process to engage with companies. The first part is via the work of the third party fund managers that Brunel hires to run portfolios. These managers have in part been specifically chosen for their strong commitment to ESG investing. The second part is via their voting and engagement partner Federated Hermes EOS, a company Brunel have specifically hired to provide voting research and company engagement. The third part is Brunel directly engaging with companies where they feel this can add value above what is achieved by the fund managers and Federated Hermes EOS.
- 5.4 The Local Authority Pension Fund Forum (LAPFF, is a loose affiliation of the vast majority of LGPS funds with a specific budget and resources to engage with companies across a wide range of ESG issues. The Somerset Fund is an LAPFF member.

6.0 Voting

- 6.1 With the ownership of shares usually comes the right to vote at company meetings. The majority of our listed equity holdings are held within Brunel's bespoke Authorised Contractual Scheme (ACS) funds. For these funds Brunel agrees voting actions in conjunction with Federated Hermes EOS consistent with its published voting guidelines. Brunel aims to vote on all resolutions where practical. Within this process is the ability for the Somerset fund to requested specific voting, however this is intended to only be used in very specific circumstances and we do not have sufficient internal skills or resources to use this regularly.
- 6.2 For the passive funds Brunel has hired LGIM. As the specific funds that LGIM places our investment in are not specific to Brunel LGIM decides and undertakes the voting on Brunel's (our) behalf. Brunel does retain the ability to direct LGIM's voting but since the policies of Brunel and LGIM are very closely aligned it is unusual for Brunel to utilise this.

7. Background Papers

None

Note For sight of individual background papers please contact the report author.