

ITEM No ...3.....

**REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE
& PENSION BOARD – 6 JUNE 2016**

REPORT ON: ENVIRONMENTAL, SOCIAL & CORPORATE GOVERNANCE POLICY

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 213-2016

1 PURPOSE OF REPORT

This report reviews the Fund's current policy on Socially Responsible Investing (Article III of the Minute of Meeting of the Pension Sub-Committee of the Policy and Resources Committee of 1st June 2015, Report No 222-2015 refers).

2 RECOMMENDATION

The Sub-Committee is asked to note the extension of independent voting guidelines beyond UK to global assets across Tayside Pension Fund portfolios to support effective capital ownership through the identification and mitigation of governance risk through active ownership and independent engagement.

3 BACKGROUND

PIRC (Pensions & Investment Research Consultants Ltd) have for a number of years provided Tayside Pension Fund with voting recommendations and disclosures on a quarterly basis for companies within the FTSE All-Share index. PIRC have now introduced global voting recommendations. As over 70% of the portfolios equity holdings are now external to the UK and the fund desires to exercise responsible stewardship across the entire global portfolio, the fund have introduced the requirement for investment managers to vote in accordance with PIRC recommendations at a global level.

4 PRINCIPLES FOR RESPONSIBLE INVESTING AND ACTIVE OWNERSHIP

The United Nations Principles for Responsible Investing Initiative is now intrinsic within the global investment community. Tayside Pension Fund requires all assets managers be signatories to the principles. These principles are incorporated into the Statement of Investment Principles and the policy is applied as outlined in Appendix 1.

These principles widen socially responsible investing to cover environmental, social and corporate governance (ESG). They set out guidance on how this can be met and encourage organisations to sign up to show their commitment to implementing the principles.

There is ever increasing levels of transparency around the activities and capabilities of UNPRI signatories and the foster collaboration to support their engagements with companies and policymakers on ESG issues. With that in mind the ability to ensure effective responsible stewardship through active ownership is incorporated into the Statement of Investment Principles and the policy as outlined in Appendix 1.

5 POLICY IMPLICATIONS

This Report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

The Fund's policy will continue to require its investment managers to engage with companies on Sustainability and the Environment and Employee Care and Human Rights.

6 CONSULTATIONS

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

7 BACKGROUND PAPERS

Principles for Responsible Investment www.unpri.org.

**MARJORY STEWART
EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

27 MAY 2016

TAYSIDE PENSION FUND**POLICY ON ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE**

The fund believes that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios through time. So, where it is consistent with its fiduciary duty, the Fund would follow the principles below:

1. Incorporate ESG issues into investment analysis and decision-making processes - this would require to be done by the investment managers and monitored by the Fund.*
2. Be an active owner and incorporate ESG issues into ownership policies and practices - this will be mainly achieved by exercising voting rights globally in accordance with independent corporate governance and shareholder advisors and further engagement activity of investment managers.
3. Seek appropriate disclosure of ESG issues by entities in which the Fund is invested - this will be achieved through investment manager engagement.
4. Promote acceptance and implementation of the Principles within the investment industry - this can be met by seeking the quarterly reports from investment managers.
5. Work to enhance effectiveness in implementing the Principles - this will be both by working with its investment managers and other Pension Funds (particularly other Scottish Local Authorities).
6. Report on activities and progress towards implementing the Principles - a six monthly Report will continue to be prepared for the Sub-Committee.

* In the case of tobacco companies, the Fund requests that investment managers provide quarterly review of investments in tobacco with a view to identifying investments which would provide satisfactory returns without materially affecting the volatility of risk and return or impacting on current investment benchmarks.

As it is the Fund's aim (where circumstances permit) to disinvest from tobacco stocks, the Fund require investment managers to provide the Fund with an investment case prior to undertaking new investments within this industry. These businesses cases must demonstrate that there are no suitable alternatives at that time that better meet the criteria to meet their investment objectives.

