

Responsible Investment Beliefs

Addressee

This paper has been prepared for the Investment Steering Committee ("ISC") of the Essex Pension Fund ("the Fund")¹.

Background

The ISC is required to maintain an Investment Strategy Statement ('ISS') setting out its principles for governing the Fund's assets.

The four main areas for setting its principles are:

- 1 The Fund's investment strategy and the process for determining suitability;
- 2 Risk measurement and management;
- 3 Asset pooling; and
- 4 Approach to Environmental, Social and Governance ('ESG') considerations.

The first three of these are a relatively straightforward documentation of an existing process. However, ESG is far more qualitative and depends on an individual's viewpoint. The area of ESG has also experienced far more scrutiny from action groups and the media recently.

Reflecting the above, the ISC undertook a workshop on 25 October 2019 to receive training and agree their beliefs in relation to ESG policies.

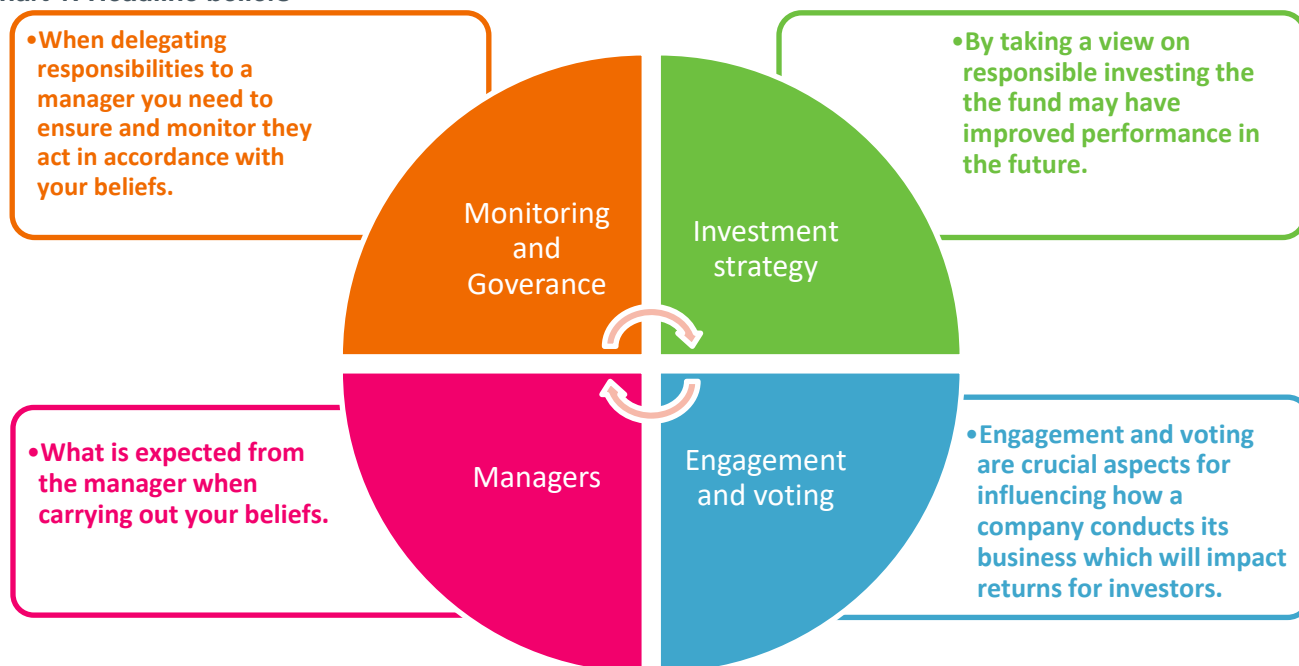
This paper documents the beliefs articulated at that workshop for ratification at the November ISC meeting and sets out the next steps for documenting these as principles to guide their investment approach in the ISS.

Responsible investment beliefs

As part of the workshop the ISC members were asked to complete a questionnaire to elicit their views around ESG and Responsible Investment ('RI') issues alongside a decision tree to help guide the views articulated into a coherent set of beliefs. The full decision tree, including progress made to date, is included in Appendix 1 to this note. The next area for consideration is circled.

¹ This paper should not be released or otherwise disclosed to any third party without our prior written consent except as required by law or regulatory obligation. We accept no liability to any other party unless we have especially accepted such liability in writing.

Chart 1: Headline beliefs



Beliefs articulated

Breaking down the beliefs articulated at the meeting under the main areas above.

Investment strategy

- 1 Having a responsible investment policy **will** lead to better financial outcomes.
- 2 Having a responsible investment policy **could** lead to better outcomes for society.
- 3 Long term, businesses with more sustainable practices should outperform.
- 4 Allowing for the impact of ESG issues has many dimensions to it.
- 5 The Fund should avoid/limit exposure to securities where environmental or social aspects will be financially detrimental to the portfolio.
- 6 Environmental and social investing only needs to **not** be detrimental to returns.
- 7 Poor management of ESG risks has led to financially material losses in the past and is expected to do so in the future.
- 8 ESG is a factor, but not the only factor in choosing investments.

Engagement and voting

- 1 Engagement in a company is more effective then disinvesting from the company.
- 2 Engagement and voting are influential and can be effective in changing behaviour and improving the Fund's performance as well as having a positive impact on the environment/society.
- 3 Collaboration with other investors gives the Fund a stronger voice .

Managers

1 *Passive managers*

- 1.1 The only influence an investor has on a passive manager is the choice of benchmark and level of engagement.
- 1.2 The choice of benchmark is important as it defines the investment portfolio.
- 1.3 The Fund should be an active owner seeking to influence behaviour in investee companies.
- 1.4 The Fund should consider alternative indices that reflect ESG factors.

2 *Active managers*

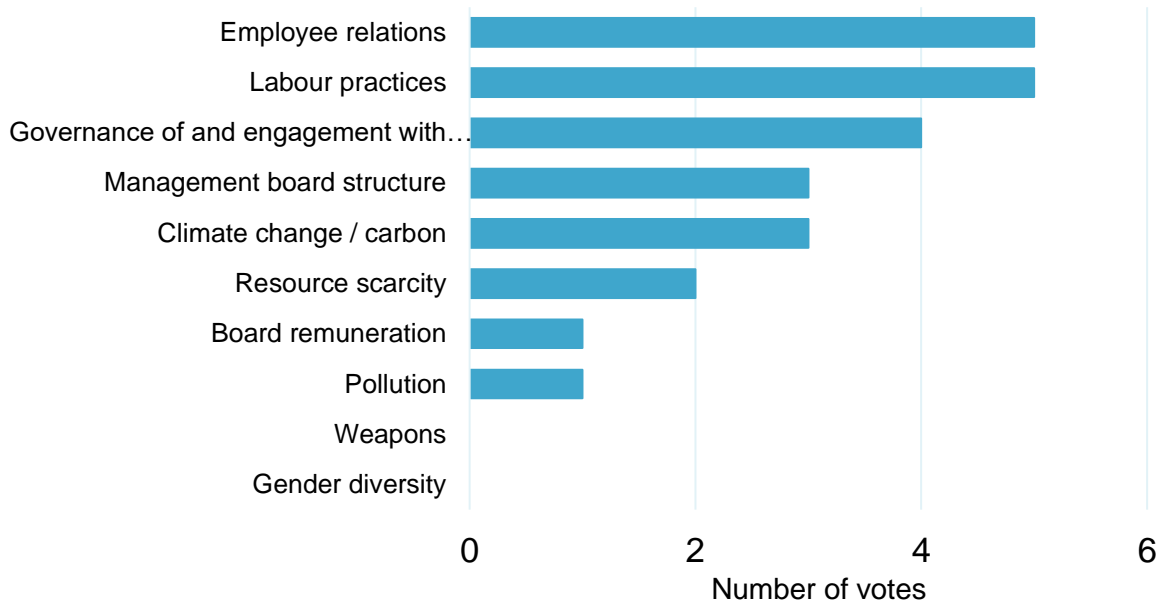
- 2.1 The social cost of companies will eventually need to be self financed.
- 2.2 Managers should try as far as possible to price in the potential future impact of ESG risk in asset selection.
- 2.3 Active managers can take into account forward-looking metrics better than passive managers.
- 2.4 The Fund's investment managers should embed the consideration of ESG factors into their investment process and decision making.

Monitoring and Governance

- 1 The ISC should not rely on the pool for leadership on ESG issues.
- 2 The ISC should expect the pool to be able to implement investments in line with its RI policy.
- 3 Engagement and voting are influential and can be effective in changing behaviours and improving outcomes.
- 4 The Fund needs to engage and challenge managers on integrating ESG issues in their investment process in line with the RI policy.
- 5 An RI policy focussed on improving financial outcomes will be to the benefit of Fund stakeholders.
- 6 It is best to engage stakeholders on the overall approach to managing the Fund rather than on RI policy only.

Priority areas for responsible investing

As part of the questionnaire, ISC members were asked to select three priority areas to be addressed by their RI policy. The chart below sets out the results:



Next steps

- 1 The ISC are asked to ratify the beliefs outlined in this paper are an accurate reflection of those agreed at the October workshop.
- 2 Once ratified, the O&A will translate these beliefs into policy statements for inclusion in the ISS. These will be brought to the ISC in draft for agreement early in 2020 prior to consultation on the revised ISS.
- 3 Incorporate beliefs into a Responsible Investment policy in this ISS (February ISC).

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Appendix 1 – Decision Tree

