

## RI training day

### Addressee

This paper is addressed to the Investment Steering Committee ('ISC') of the Essex Pension Fund ('the Fund') and notes the outcome of the Responsible Investment ('RI') workshop held on 16 September 2021 and sets out next steps.

### RI workshop

On 16 September 2021 the ISC undertook a workshop on RI. This workshop was a training/discussion session to further progress the RI workstream and prepare for the Fund's Stewardship Code submission in 2022.

The agenda for the workshop was:

- 1 Refresher on the journey to date;
- 2 Introduction to TCFD;
- 3 Discussion of net zero targets;
- 4 Manager engagement; and
- 5 Review of index tracking approach.

Taking each in turn.

### Refresher on the journey to date

The ISC and O&A project plans for review of the Fund's RI approach, including substantial progress against these, were noted.

It was highlighted that the project plans were slightly ahead for the manager engagement workstream and slightly behind for climate metrics workstream, but this was expected to be resolved by the November ISC.

### Introduction to TCFD

The disclosure requirements for the Task Force on Climate Related Financial Disclosures ('TCFD') were discussed. Although not a requirement for the LGPS as yet, it is likely to become a requirement during 2022/23 and there is significant overlap with the Stewardship Code.

Areas discussed were:

- 1 The 11 areas of required disclosure;
- 2 Scenario analysis; and
- 3 Metrics and targets.

***Next steps; proposed metrics and targets will be brought to the November ISC for discussion/agreement.***

## Net zero targets

In addition to agreeing metrics, TCFD requires asset owners to set targets to assess and manage climate related risks and opportunities.

A common target being discussed at the moment is 'net zero' in terms of both decarbonising investment portfolios and increasing investment in solutions/technologies that help meet that goal.

A framework for achieving this, based on the IIGCC<sup>1</sup>, was discussed, including:

- 1 Scope of emissions under consideration;
- 2 Long term goals;
- 3 Medium term targets in line with achieving long term goals and consistency with transition pathways for industry sectors; and
- 4 The Council's own stated goals.

***Next steps; objectives, targets, scope of emissions and metrics to be discussed/agreed at November ISC in line with the discussions above.***

## Manager engagement

The approach to manager engagement, with a focus on active managers, in relation to the approach they adopt and the stocks they hold on behalf of the Fund was discussed, including:

- 1 The ISC's agreed approach (as set out in earlier workshops);
- 2 The engagement process developed by the O&A based on the ISC's agreements, including the use of 'top-down' and 'bottom-up' measures; and
- 3 Examples of engagement undertaken with the managers by the O&A (5 O&A manager engagement meetings had been completed by the end of September).

***Next steps; engagement notes for each of the 5 managers will be presented at the October ISC for review/discussion. These will then become evidence of engagement and outcomes for the Fund's Stewardship Code submission.***

## Review of index tracking approach

During the workshop it was recognised that the approach to index tracking<sup>2</sup> portfolio management needed to be considered separately to active management as the ISC defines the index tracked and, though that index selection, the underlying stocks held.

The session discussed:

- 1 The current approach of tracking market capitalisation<sup>3</sup> indices which does not specifically take into account RI factors in the selection of stocks held;
- 2 Potential for a 'better' approach given the ISC's stated RI beliefs and objectives;

<sup>1</sup> Institutional Investors Group on Climate Change

<sup>2</sup> Previously referred to as 'passive' management. It was agreed that the term 'passive' was no longer appropriate as multiple indices are available and the ISC can make an active decision to select the index tracked.

<sup>3</sup> Stock allocations weighted by number of stocks in issue and price

- 3 Factors to consider in selection of RI indices, including the risk of decisions leading to unintended consequences (and therefore the need to liaise with other ACCESS funds and UBS, the fund's current index tracking manager); and
- 4 An overview of alternative approaches available in the marketplace.

***Next steps; a review of the index tracking approach will be brought to the October ISC for discussion/agreement on the preferred approach. The outcome will be an agreement to liaise with other ACCESS funds/UBS on implementation of the preferred approach.***

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For and on behalf of Hymans Robertson LLP

### **General Risk Warning**

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.