

**REPORT TO: PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD – 18 MARCH 2024**

**REPORT ON: ENVIRONMENTAL, SOCIAL & CORPORATE GOVERNANCE POLICY**

**REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**REPORT NO: 81-2024**

## **1. PURPOSE OF REPORT**

This report reviews Tayside Pension Fund's Environmental, Social & Corporate Governance Policy.

## **2. RECOMMENDATION**

The Sub-Committee is asked to approve the policy, and note that there are no changes.

## **3. BACKGROUND**

The Fund's current policy on Socially Responsible Investing was approved on 20 March 2023 (Article XV of the Minute of Meeting of the Pension Sub-Committee of the Policy and Resources Committee of 20 March 2023, Report No 97-2023 refers).

## **4. POLICY IMPLICATIONS**

This report has been subject to an Integrated Impact Assessment to identify impacts on Equality & Diversity, Fairness & Poverty, Environment and Corporate Risk. An impact, positive or negative, on one or more of these issues was identified. An appropriate senior manager has checked and agreed with this assessment. A copy of the Integrated Impact Assessment showing the impacts and accompanying benefits of / mitigating factors for them is included as Appendix 2 to this report.

## **5. CONSULTATIONS**

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

## **6. BACKGROUND PAPERS**

Principles for Responsible Investment: [www.unpri.org](http://www.unpri.org).

The Scottish Local Government Pension Scheme – Scheme Advisory Board 24 June 2016 – Guidance on Fiduciary Duty:

<http://www.sppa.gov.uk/Documents/Governance/Scheme%20Advisory%20Boards/Letter%20to%20Funds%20on%20Fiduciary%20Duty.pdf>

Institutional Investors Group on Climate Change (IIGCC): <https://www.iigcc.org/>

Climate Action 100+: <https://www.climateaction100.org/>

Taskforce for Climate related Financial Disclosures (TCFD): <https://www.fsb-tcfd.org/>

**ROBERT EMMOTT**

**EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**27 MARCH 2024**



## 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 through the following:
  - **Voting:** Exercising voting rights globally in accordance with independent corporate governance and shareholder advisors and further engagement activity of investment managers.
  - **UK Stewardship Code:** All asset managers and investment advisors must seek to be signatories to the code and fulfil reporting requirements.
  - **Membership of Key Investor Groups:** To use collaborative powers as asset owners to support net-zero emissions transitions.
3. Seek appropriate disclosure of ESG issues by entities in which the Fund is invested through the following:
  - **Investment manager engagement:** To be monitored and reported on a bi-annual basis.
  - **Taskforce for Climate related Financial Disclosures (TCFD):** Commitment to ensuring that appropriate governance, assessment and disclosure requirements are met in advance of statutory deadline.
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.
7. Exercise their fiduciary duty to guard against extremes or selective interpretation of the legal principles which might unduly restrict the consideration of ESG and other wider factors which may influence the choice of investments so long as that does not risk material financial detriment to the Fund.

\* In the case of the following industries:

- **Tobacco** - The Fund requires investment managers to provide the Fund with an investment case prior to undertaking new investments within this industry. These investment cases must

demonstrate that there are no suitable alternatives at that time that better meet the criteria to meet their investment objectives.

- **Energy** - The Fund requires that:
  - companies held within the segregated equity mandates to have agreed a Scope 1/ Scope 2 emission reduction target by December 2022;
  - companies held within the segregated equity mandates to have a firm commitment to achieve a net zero position by 2050 by December 2024;
  - investment managers must engage with energy sector companies on these requirements, and monitor and report on progress.
  - managers will be expected to disinvest from any companies where engagement is failing to encourage progress towards targets, and reasonable progress is not being demonstrated.