

Committee: Pension Fund Advisory Committee

Date: 3 December 2015

Agenda item: 4

Wards: All

Subject: RESPONSIBLE INVESTING

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Councillor Imran Uddin

Forward Plan reference number: N/A

Contact officer: Paul Dale

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Recommendations:

- a) Note the content of this report.

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 Pension funds' investment in commodities including gas, oil and other fossil fuels and armaments have been the subject of analysis, debate and numerous requests for information under Freedom of Information. Pension funds' exposure to companies operating in these sectors have been scrutinised since the correction in share prices made headline news earlier this year.
- 1.2 The purpose of this report is to discuss the issues and the previously agreed position of the Committee in respect to the investment strategy and approach to the management of Merton Pension Fund investments.

2. THE ISSUES

- 2.1 Campaigners are calling on pension funds to divest from companies in the mining, oil, gas and the wider energy sector. They point to the current low share prices and profitability of such companies. Also, they argue for a cut in fossil fuel consumption to slow the pace of climate change and reduce the influence of powerful companies.
- 2.2 Others believe that divestment is ill-advised. They argue that pension funds would miss out on vital return on their investment and expose themselves to greater risk by restricting their ability to diversify.
- 2.3 The Statement of Investment Principles (SIP) states that the authority has statutory responsibility and fiduciary obligation to ensure that investments are

in the best financial interests of members of the fund, taking into account the appropriate level of risk.

3. ADVICE OF COUNSEL

3.1 Counsel opinion is that the Committee would be acting in breach of its fiduciary duty if based solely on social, ethical and environmental reasons it used negative screening to exclude particular investments.

3.2 In serving the pension fund beneficiaries' best financial interests, the Committee should give less weight to their personal views or any externally generated policies and should pursue the best financial return at the desired level of risk.

4. CONSULTATION UNDERTAKEN OR PROPOSED

4.1 N/A

5. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

5.1 The investment strategy chosen will affect the return on the fund, its actuarial valuation and the cost to the Council.

6. REGULATORY AND SPECIFIC LEGAL MATTERS

6.1 Please see 3 above.

7. COMPLIANCE WITH COUNCIL POLICIES EXTRANEOUS TO PENSION PROVISION

7.1 Please see 3 above.

8. CRIME AND DISORDER IMPLICATIONS

8.1 N/A

9. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

9.1 N/A

10. APPENDICES

1. Note of Counsel Advice – 12 April 2013 (Confidential)

11. BACKGROUND PAPERS

2. Statement of Investment Principles – approved by PFAC on 23 June 2014
3. UK local council pensions lose £683 million with coal crash - Blue and Green Tomorrow

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