



Falkirk Council

FALKIRK COUNCIL PENSION FUND

Statement of Responsible Investment Principles

November 2020

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1. Introduction

- 1.1 This Statement of Responsible Investment Principles (SRIP) has been agreed by the Pensions Committee of Falkirk Council on 10 December, 2020. Falkirk Council is the administering authority of the Falkirk Council Pension Fund (“the Fund”).
- 1.2 Responsible investment is an approach to investing that aims to integrate Environmental, Social and Governance (“ESG”) factors into investment decisions, in order to better manage risk and to generate sustainable, long-term returns. Increasingly, good fund stewardship is seen in terms of how it manages and allocates its capital in order to create sustainable value for beneficiaries, the economy and society.
- 1.3 At the Falkirk Fund, we believe Responsible Investment reduces the risks that can arise from being an institutional investor and, as a result, contributes to the main objective of the Local Government Pension Scheme (“LGPS”) - to provide retirement benefits for individuals whilst seeking to reduce the financial burden on employers and taxpayers.
- 1.4 The Statement of Responsible Investment Principles (“SRIP”) is intended to complement the broader Statement of Investment Principles (“SIP”) which the Fund is required to prepare, maintain and publish under the terms of Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010. In essence, the SRIP seeks to explain the Fund’s approach to the oversight and monitoring of its investment activities from a Responsible Investment perspective.
- 1.5 Responsible Investment is not the same as Ethical Investment. Ethical investment is an investment approach determined by an investor's specific views, usually based on a set of personal values. These values can take precedence over financial considerations. Falkirk PF should not be considered as either an “Ethical” or an “Unethical” investor, but as a responsible steward of capital.
- 1.6 At Falkirk Pension Fund, we are guided in our roles as quasi-trustees, executive officers and investment managers by the legal principle of fiduciary duty. Guidance on our fiduciary responsibilities has been provided by the Scottish Scheme Advisory Board (SAB), which has taken legal advice on the matter (<https://lgpsab.scot/fiduciary-duty-guidance/>). The SAB advises the Scottish Government and Scottish LGPS Funds on policy issues. We review this guidance on an ongoing basis to assess it against any changes to the legal or regulatory framework, and still believe it to be relevant.
- 1.7 The SRIP is consistent with the requirements of Regulation 12(2)(f) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 which require administering authorities to disclose how Environmental, Social and Governance (“ESG”) matters are taken into account in the investment decision making process.
- 1.8 In preparing this statement, the Committee has taken professional advice from the Joint Investment Strategy Panel (JISP), which includes external advisers and members of the Lothian internal investment team who are FCA authorised individuals.
- 1.9 The Fund gratefully acknowledges the assistance of officers from Lothian Pension Fund in compiling the SRIP.

2. Roles and Responsibilities

- 2.1 Falkirk Council is the administering authority for the Fund, but the Fund is not owned by the Council. Pension fund assets, which are earmarked for pension payments over the life of the fund, are ringfenced from 'Council Money'. There are more than 30 employers and 35,000 members, whose pension payments will be funded by these and further employer and member contributions.
- 2.2 Falkirk Council has delegated responsibility for the management of the Fund to its Pensions Committee, which comprises six elected members from Falkirk Council and three co-opted members drawn from Employer, Pensioner and Trade Union interests. The Committee is supported by a statutory Pensions Board, consisting of four Trade Union and four employer representatives, which in turn is responsible for ensuring that the Fund operates in accordance with the applicable laws and regulations. The Committee and Board are supported by officers and advisers.
- 2.3 The Committee determines high level investment strategy based on proper advice from the Council's Chief Finance Officer, who in turn takes advice from a Joint Investment Strategy Panel, consisting of three independent investment professionals and two FCA accredited members of the LPFI Ltd, the FCA authorised investment vehicle of the Lothian Pension Fund.
- 2.4 Responsibility for implementing the strategy is delegated to the Chief Finance Officer who in turn takes advice from the JISP or from other authorised sources as permitted by the Scheme rules. Day to day management of the Fund's assets rests with external investment managers whose activities are governed by Investment Management Agreements and the limits set out in Scheme regulations.
- 2.5 The SRIP forms part of a governance framework that includes Statutory Regulations, the Pensions Committee, the Pension Board, the Joint Investment Strategy Panel, the Fund's Advisers and the Fund's Funding Strategy and Governance Compliance Statements.

3. Investment Beliefs

- 3.1 The Fund's Statement of Investment Principles contains a number of beliefs which have been agreed by the Pensions Committee and which have relevance to or refer directly to responsible investment. As with other Fund principles and beliefs, they are designed to guide the Fund's governance, strategies and alignment with its agents and to support consistency in decision-making over the long term. These beliefs are as follows:
- 3.2 **Committee believes that their decisions, and those of officers, must give precedence to the fiduciary duty owed to members and employers.** Fiduciary duty is paramount. The Pensions Committee recognises the potential conflicts of interests inherent in a local authority administering a multi-employer pension fund. The objectives of the administering authority, its officials and officers and those of the Fund are not necessarily the same. The primary objective is to ensure solvency so that retirement benefits that employers promise to members under scheme rules can be paid when they fall due. (Legal view on fiduciary duty issued by the Scheme Advisory Board is available at <https://lgpsab.scot/fiduciary-duty-guidance/>.)
- 3.3 **Committee believes that responsible investment should reduce risk and may improve returns.** The Local Government Pension Scheme (LGPS) was designed with an important social purpose in mind – the provision of retirement income for individuals. The Fund's fiduciary duty means that the pursuit of financial return is its paramount concern, although it may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment. Committee believes that investment should involve a holistic approach to analysis and decision-making that considers sustainability and financially material risks, including environmental (such as climate change), social and governance issues.
- 3.4 **Committee believes it should exercise its ownership rights in a responsible way, constructively engaging with companies to reduce risk, rather than divesting.** The Fund's interests are better protected from adverse impacts by collaborating with like-minded investors to have greater influence in engaging with companies, government and regulators.
- 3.5 The undernoted statement further clarifies the Fund's position around engagement and divestment

At Falkirk, we are committed to acting as responsible investors by managing the risks associated with ESG factors. We believe that as responsible owners we should engage with our investee companies and appointed managers, either directly or via their collaborative partners. Where material risks remain following engagement activity, **we ultimately retain the ability to divest by selling out from any position.**

4. Responsible Investment Principles

Principles for Responsible Investment

- 4.1 The Principles for Responsible Investment (“**PRI**”) – previously the United Nations Principles for Responsible Investment – is an international network of asset owners and managers who are committed to the PRI’s six principles and thereby to working collaboratively towards best practice in the sphere of responsible investing.
- 4.2 Although Falkirk PF is not a signatory to the PRI, due to the resourcing implications for a fund of Falkirk’s size, we will strive to act in accordance with the six principles with a view to contributing to the development of a more sustainable global financial system, as follows:

Principle 1

We will incorporate ESG issues into investment analysis and decision-making processes.

- 4.3 The implementation of Falkirk’s investment strategy is delegated by the Pensions Committee to the Chief Finance Officer (“CFO”). The CFO engages various external investment managers, including LPFI (Lothian Pension Fund’s investment vehicle) to invest the Fund’s assets. It is noted that Lothian Pension Fund are signatories of the PRI and have been so since 2008.
- 4.4 The way ESG issues are incorporated into investment analysis and decision-making processes varies according to not only the asset category, but also the processes of the manager in question.
- 4.5 *LPFI Internal Equity investment*
LPFI’s investment managers analyse ESG data as part of the stock selection process and, on an ongoing basis, monitor ESG developments at underlying investee companies. Data and rating changes from independent providers trigger stock reviews.
- 4.6 *Other Equity managers*
During the manager appointment process, we assess the approach of managers to incorporating ESG issues into their investment analysis and decision-making processes. Through our collaborative arrangement with LPFI, we monitor the managers’ implementation of the approach on a quarterly basis alongside all other investment matters, and review the PRI transparency reports of external managers, where available. Managers are encouraged to join PRI as signatories where they are not already members.
- 4.7 *LPFI Internal Sovereign Bond investment*
LPFI’s investment managers analyse ESG reports and respond to government and market consultations, either directly or with our collaborative partners.

4.8 *Other Corporate Debt managers*

During the appointment process, we assess the approach of managers to incorporating ESG issues into their investment analysis and decision-making processes. Through our collaborative arrangement with LPFI, we monitor the managers' implementation of the approach on a quarterly basis alongside all other investment matters, and review the PRI transparency reports of external managers, where available. Our ambition is to appoint managers who will not provide new financing to companies or projects that are incompatible with the aims of the Paris Agreement.

4.9 *Direct Property investment*

The Fund has a single direct property holding for which ownership is shared with Falkirk Council. We will liaise with the Council to assess the environmental efficiency and sustainability credentials of property. In the event that any new direct property holdings are secured, as part of the due diligence process we will assess the environmental efficiency and sustainability. We will work with the appointed property managing agent to enable ESG strategies and risks to be considered at every stage of the ownership cycle.

4.10 *External Property investment:*

These investments are spread across a range of property funds which are monitored and managed by LPFI. In making any new buy recommendations to Falkirk for consideration, LPFI will explicitly consider the ability of the manager to manage ESG risks during the manager appointment process. Management and monitoring of ESG matters by the manager will be reviewed on a quarterly basis alongside all other investment issues. Where available, LPFI will consider PRI Transparency and GRESB (Global ESG Benchmark for Real Assets) reports and, if they are not, managers are encouraged to articulate their approach to ESG and sustainability. Where appropriate, we seek improvement to both the management and implementation of that approach.

4.11 *External Real Asset management (infrastructure, timber) managers*

These investments are spread across a range of limited partnership funds which are monitored by LPFI. In making any new buy recommendations to Falkirk, LPFI will assess the approach of managers to incorporating ESG issues into their investment analysis and decision-making processes. LPFI will monitor the managers' implementation of the approach on a quarterly basis alongside all other investment matters, and review PRI transparency and GRESB reports of external managers, where available.

Principle 2

We will be active owners and incorporate ESG issues into our ownership policies and practices.

4.12 *Voting*

We use a proxy voting agent to vote on all resolutions at AGMs and EGMs where holdings are with an active manager. The agent periodically presents their voting policy to the Pensions Committee to ensure there is good alignment of interests. Where holdings are with a passive manager, we monitor the manager's ESG reports to ensure their voting record and policy is attuned to that of the Fund.

- 4.13 *Shareholder resolutions*
We are prepared to co-file shareholder resolutions where the issue at stake is important and co-filing aligns with the principles of the Fund.
- 4.14 *Stock lending*
We do not participate in stock lending but may do so in the future. If participating, we would recall stock to enable voting to be undertaken on a systematic basis.
- 4.15 *Corporate engagement*
We engage with our investee companies on material ESG issues. We use all methods at our disposal, including direct letters, open letters, company calls, company meetings, speaking at shareholder meetings, filing/co-filing of shareholder resolutions and proposing board members. We do this in the main through working with collaborative partners or an engagement specialist.
- 4.16 *Government engagement*
We engage with government officials and regulators to ensure that markets run efficiently, and that rules and regulations proportionally protect the interests of the various market participants. This is done using all methods at our disposal, including direct letters, open letters, responding to consultations, working collaboratively with government departments and working collaboratively with regulators and quangos. We do this either directly, through collaborative partners or through an engagement specialist / service providers or alongside them
- 4.17 *Manager monitoring*
We actively and regularly monitor the approach of our investment managers to ESG issues, and what portfolio activity has occurred as a result of managing ESG risks.

Principle 3

We will seek appropriate disclosure on ESG issues by the entities in which we invest.

- 4.18 *Investee companies*
We encourage the companies, whose shares the Fund owns, to report on relevant ESG metrics. These include the reporting of greenhouse gas emissions in line with the recommendations of the Taskforce for Climate-related Financial Disclosures (“TCFD”).
- 4.19 *Investment Managers*
We encourage the Fund’s investment managers to provide transparency by reporting relevant and accessible ESG-related information. This includes their commitments to and alignment with the UK Stewardship Code 2020, the TCFD, the PRI and GRESB, where appropriate.

Principle 4

We will promote acceptance and implementation of the Principles within the industry.

- 4.20 *Commitment to PRI*
We are transparent about the fact that we are **not** a signatory to the PRI but attempt to show - through this document - that we are strongly supportive of its aims.

4.21 *Investment Managers*

We endorse the PRI Principles to our managers and encourage them to become full signatories to PRI. Where this is not possible, we encourage our managers to use the six principles to guide their RI approach.

Principle 5

We will work together to enhance our effectiveness in implementing the Principles.

4.22 *Collective Approach*

We are committed to working collaboratively to increase the reach, efficiency and effectiveness of Responsible Investment. We work with a host of like-minded partner funds, service providers and related organisations striving to attain best practice in the industry and to improve industry standards. This includes working with appointed engagement specialists and groups such as ShareAction and being members of the Local Authority Pensions Funds Forum, the Institutional Investors Group for Climate Change, Climate Action 100+ and the Scottish Responsible Investment Group.

Principle 6

We will each report on our activities and progress towards implementing the Principles.

4.23 *Annual Reporting*

We provide details of our responsible investment activities in our Annual Report

4.24 *Pensions Committee Reporting*

We report voting information on a quarterly basis to our Pensions Committee, together with a summary of engagement activity. We also make available the ESG reports from our investment managers.

5. Climate Change

Climate Change & the Taskforce for Climate-related Financial Disclosures (TCFD)

5.1 The Falkirk Fund recognises the importance of the Paris Agreement of the United Nations Framework Convention on Climate Change¹. The central aim of the agreement is to strengthen the response to the global threat of climate change by:

- keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius;
- strengthening the ability of countries to deal with the impacts of climate change through appropriate financial flows, a new technology framework and an enhanced capacity building framework;
- enhancing transparency of action and support through a more robust transparency framework.

5.2 At Falkirk, we understand that the Paris Agreement is creating change that represents both significant risks to - and opportunities for - the Fund. As such, we are making the following commitments to climate monitoring and action:

- To measure and report on carbon-equivalent emissions throughout the equity portfolios
- To continue to support the work of Climate Action 100+ and the Institutional Investors Group on Climate Change (IIGCC)
- To continue to research and support the deployment of new impact capital into projects set to benefit from the transition to a low carbon economy (as has been the case with the Fund investing in several renewables projects)
- To assess the carbon intensity of all assets (using estimates if necessary) by the end-of the 2022/23 reporting cycle, supported by external managers and General Partners
- Using data from the Transition Pathway Initiative (TPI), to engage alongside our collaborative partners to encourage companies to adopt business models and strategies that are in line with the aims of the Paris agreements. Our ambition is that all holdings covered by TPI will have achieved a level 4 assessment and have a business plan whose carbon performance is in-line with the Paris agreement or better by 2025.
- Using data from the Transition Pathway Initiative (TPI), we will not subscribe to new equity and fixed income issuance from companies whose business plans are not aligned with the aims of the Paris agreements at the time of the fundraising.

5.3 Financial returns from current and future investments will affect our ability to fund future pension payments, and so we have committed to implement processes that adhere to TCFD recommendations as follows:

5.4 **Governance:** The Pensions Committee monitors stewardship of the Fund's assets at least annually. This includes considering reporting on RI issues and specific climate-related risks and opportunities. The Chief Finance Officer will ensure that training on

¹ <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

climate related issues is made available and undertaken by the Pensions Committee and Pension Board members. The Pensions Committee:

- affirms the Fund's commitment to integrate environmental, social and governance (ESG) considerations, such as carbon efficiency trends into its decision-making;
- affirms that scrutiny and engagement with investment managers is delegated to Fund officers with advice from the Joint Investment Strategy Panel to ensure that they take ESG issues, including climate change and carbon risk, into account in their investment decision-making;
- affirms the Fund's policy of not divesting solely on the grounds of non-financial factors;
- notes that the Fund will monitor research on the link between ESG factors (including carbon-related factors) and financial performance to inform future investment strategy, such as stock selection criteria for quantitative strategies;
- agrees that the Fund will use its shareholdings in companies that perform poorly on carbon efficiency measures to influence engagement activity.

- 5.5 **Strategy:** we work individually and with our collaborative partners to drive for openness and transparency on climate related issues affecting our investments.
- 5.6 **Risk Management:** we will work both individually and with the internal team at LPFI to help understand and manage the climate risk within the Fund
- 5.7 **Monitoring:** we will use monitoring tools with the aim of mitigating risk to Fund assets from trends towards net-zero carbon and more broadly from climate change. The Joint Investment Strategy Panel reviews and scrutinises RI issues and specific climate-related risks and opportunities at least annually. The internal investment team at LPFI has access to data services and analytical tools to assist the Fund in monitoring climate risk at as granular a level as possible.
- 5.8 **Carbon Analysis:** we note that carbon-equivalent footprinting produces a simple metric, which can be misinterpreted. It encourages selective divestment of the shares of high emission companies as some investors 'greenwash' their portfolios. Rather than divesting, we encourage our managers to incorporate an analysis of carbon output into their risk assessment of individual companies and their stocks. In addition, we actively engage with companies to align their business strategies with the targets of the Paris Agreement. Where analysis of carbon risk (or any other risk) points to poor financial outcomes, share divestment is, of course, an option.

6. Conclusion

- 6.1 At Falkirk, we are committed to delivering a valued and sustainable pensions savings product for our existing and future members. We believe that as a provider of responsible capital, the Fund should be an agent for positive change, engaging with companies to help them maintain or adopt best business practices and sustainable business models. If you'd like more information on our ESG activities, please visit our website www.falkirkpensionfund.org.

Pensions Section
Falkirk Council

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