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18 June 2008

To: All Members of the Pensions Committee

Dear Member,

Pensions Committee - Monday, 23rd June, 2008

I attach a copy of the following report for the above-mentioned meeting which were not available at the time of collation of the agenda, and marked '**TO FOLLOW**'.

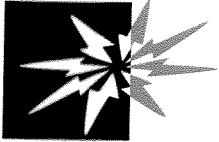
9. RESPONSIBLE INVESTMENT POLICY (PAGES 1 - 8)

Report of the Chief Financial Officer to review our Responsible Investment Policy. **TO FOLLOW**

Yours sincerely

Helen Jones
Principal Committee Coordinator

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Haringey Council

Agenda item:

Pensions Committee
On 23 June 2008

Report Title: **Review of the Responsible Investment Policy**

Forward Plan reference number: Not applicable

Report of: Chief Financial Officer

Wards(s) affected: **All**

Report for: **Non-Key Decision**

1. Purpose

1.1 To review the Responsible Investment Policy.

2. Recommendations

2.1 That the revised Responsible Investment Policy as set out in Appendix 2 be agreed and included in the Statement of Investment Principles (SIP).

2.2 That implementation of the revised policy be formalised by means of a side letter to Fund Managers current agreements.

2.3 That officer's monitor the Fund Managers approach to the revised Responsible Investment Policy.

Report Authorised by: Gerald Almeroth – Chief Financial Officer

Contact Officers:

Mike Sargeant - Corporate Finance Tel: 020 8489 3731 &
John Hardy - Corporate Finance Tel: 020 8489 3726

3. Head of Legal Services Comments

3.1 The Head of Legal Services has been consulted and comments that the Pensions Committee would be acting within its powers in agreeing to the recommendations set out at 2.1, 2.2 and 2.3. However, in considering this report Members of the Committee must bear in mind consistently their overriding fiduciary duty, which can be summarised in the following terms:

- a) to act prudently and in good faith;
- b) to act in the best interests of the beneficiaries and the contributors to the pension scheme as a whole; and
- c) to seek to maximise the assets of the pension scheme.

3.2 An administering authority is required to include within its statement of investment principles the extent to which social environmental or ethical considerations are taken into account in the selection, retention and realisation of investments.

4. Local Government (Access to Information) Act 1985

4.1 Reports to Pensions Panel in 2000/01 (current policy was approved).

4.2 Report to Pensions Committee on 25 October 2007 on responsible investments.

5. Strategic Implications

5.1 The proposed changes to our responsible investment policy are made with a view to improving the policy on this matter and having due regard to trustees overriding fiduciary duty.

5.2 One of the Council's priorities is to make Haringey one of London's greenest Boroughs. Whilst investment policy should not be seen as a key contributor to this objective as the aim of investment policy is clearly to maximise returns, it is appropriate for investment decisions to consider environmental issues where appropriate.

6. Financial Implications

6.1 The proposals take account of our preference for a low maintenance solution to minimise in-house administrative costs as previously agreed. Other measures would add additional burden of administration and costs.

6.2 Haringey has signed up to the United Nations Environmental 'Principles for Responsible Investment' initiative (UN PRI). As a signatory we anticipate being asked to contribute US \$10,000 to support the activities of the initiative. This cost will be charged to the Pension Fund.

7. Consultation

7.1 Consultation has been undertaken with our three core fund managers regarding their responsible investment policies, their responses are detailed in Appendix 3.

8. Background

- 8.1 Haringey's current responsible investment policy was introduced approximately 7 years ago; the policy is attached as Appendix 1.
- 8.2 Pensions Committee on 25 October 2007 considered a report on Haringey's Responsible Investment Policy. The Committee agreed a number of amendments to the current policy and requested that a revised policy be brought back to Committee, which included the agreed amendments and consideration of the core Fund Managers Responsible Investment Policies. The proposed revised policy is set out in Appendix 2.
- 8.3 The aim of the proposed changes to our responsible investment policy is to ensure that any changes proposed represent good practice, and fully take account of CIPFA guidelines and legal advice in respect of trustees fiduciary duty.
- 8.4 In November 2007 Haringey's three core fund managers – Fidelity, Capital International and Alliance Bernstein were asked to provide copies of their responsible investment policies to enable work to commence on updating the Council's policy. In addition a brief summary of the proposed new approach was outlined to fund managers; they were advised that they would be expected to engage with companies and vote in line with the Council's revised policy once developed.
- 8.5 Fund managers were also encouraged to sign up to the Enhanced Analytics Initiative (EAI) which has gained favour with a number of pension funds in recent years. With this approach, asset managers adjust their financial analysis and portfolio construction approaches to better integrate Environmental Social and Governance risk factors into their investment decision making. To date none of our core fund managers have signed up to the EAI. However, as part of their submissions, they all indicated they are investing resources into research analysis on environmental and social issues to enable informed judgements to be made as part of their investment decision making.

9. Summary of Fund Managers Responsible Investment Policies

- 9.1 Haringey has three core fund managers Capital International, Fidelity and Alliance Bernstein. The fund managers have responded to our request to forward details of their Responsible Investment Policies and these are attached as Appendix 3. Also included in this Appendix are observations made by Hymans Robertson, our Investment Advisors, on the core fund managers approach to socially responsible investment that were previously reported to Pensions Committee on 25 October 2007.

10. Side letter to Fund Managers current mandates

- 10.1 In order to add some additional weight to our revised approach to Responsible Investment, it is considered appropriate to agree a side letter with our core fund managers to reflect the requirements of our revised Responsible Investments Policy. The key requirements are set out below.
- 10.2 Haringey's responsible investment policy in practical terms be applied to UK and non-UK equities and to pooled funds, but not bonds.

- 10.3 Fund managers to give due consideration to Environmental, Social and Governance (ESG) issues in their decision making, and that they adopt the principles of the UN Principles for Responsible Investment.
- 10.4 The fund manager-led approach to voting and engagement be continued on an improved basis to include reporting regularly to Pensions Committee to explain and justify where they do not follow the Council's policy and voting guidelines. In instances where shareholder value and responsible investment are at odds, the fund manager would vote for shareholder value and would report these instances to the next meeting of Pensions Committee with brief reasons why they voted as they did. If there were no instances in a quarter where shareholder value and responsible investment conflicted then a nil return would be reported. Pending approval of our revised policy Fund Managers have been reporting the above as part of their grids each quarter.
- 10.5 Both officers and members will play an important monitoring role to ensure that the Responsible Investment Policy is adhered to. This will be enhanced through membership of LAPFF and the United Nations Principles for Responsible Investment Initiative.
- 10.6 At quarterly meetings with officers fund managers will be challenged and provide information on Responsible Investment Policy issues on the funds they manage. Fund managers will also provide updates to members at each meeting of the Pensions Committee.

11. Recent initiatives undertaken in respect of enhancing Haringey's responsible investment policy

- 11.1 As agreed at Pensions Committee on 25 October 2007 we have recently become a member of the Local Authority Pension Fund Forum (LAPFF).
- 11.2 The Chair of Pensions Committee attended the AGM of this Forum on 30 January 2008.
- 11.3 LAPFF regularly sends information bulletins that provide useful responsible investment information on a range of issues including policies adopted by specific companies. It is the intention that, where applicable, this information will be shared with Pensions Committee or the Chair if in between meetings on an on-going basis. The information will also form a part of our officers regular monitoring meetings with fund managers.
- 11.4 In December 2007 Haringey signed up and formally adopted the 'United Nations Environmental Principles for Responsible Investment' initiative.
- 11.5 The six principles contained in the initiative are as follows; -
- Incorporate Environmental Social and Governance issues into investment analysis and decision making processes;
 - Be active owners and incorporate Environmental Social and Governance issues into ownership policies and practices;
 - Seek appropriate disclosure on Environmental Social and Governance issues by the entities in which we invest;

- Promote acceptance and implementation of the principles within the investment industry;
- Work together to enhance our effectiveness in implementing the principles;
- Each report on our activities and progress towards implementing the principles.

11.6 Many organisations – asset owners such as pension funds, investment managers and professional service managers have signed up to the principles, which commit organisations to work together to implement the principles effectively. These principles call for asset owners to give due attention to Environmental Social and Governance issues in their investment decision making, to be responsible owners, and thereby improve long-term returns to beneficiaries.

11.7 In addition the initiative also provides an information resource on emerging best practice in responsible investment and a clearing house for engagement activity undertaken by its signatories.

11.8 As a signatory we are able to use the United Nations Principles for Responsible Investment logo on our website as well as in our annual report. Haringey has also been added to the signatory list on the Principles for Responsible Investment website.

11.9 To ensure that the revised responsible investment policy is adhered to by Fund Managers, officers will monitor their performance on a regular basis. If sufficient progress is not being made this will be reported to Pensions Committee. The monitoring will include ensuring that agreed voting procedures are followed and where necessary reports are made to Pensions Committee.

12. Use of Appendices –

Appendix 1 – Current socially responsible investment policy.

Appendix 2 – Proposed responsible investment policy.

Appendix 3 – Core fund managers responsible Investment policies.

APPENDIX 1

Current SRI Policy

Haringey's Socially Responsible Investment policy relates to issues of the Environment, Sustainability, Human Rights and Employee Care and the impact of such issues on the Fund's UK Equity portfolios. These issues are of concern to the Pension Fund because it is considered that Companies who

- do not have regard for the environmental impact of their business, or
- who conduct their business in a way which is not sustainable over the longer term or
- who engage in, or condone the abuse of Human Rights or
- who fail to adequately care for the wellbeing of their employees

are in danger of adversely affecting the future prospects of the company, and potentially the company's share price.

The Fund has decided to use its influence, via its investment managers, to improve corporate behaviour where it finds examples of shortcomings in the approach of companies to these issues. The overall approach is to establish a range of issues, using EIRIS within each of the categories of Environment, Sustainability, Human Rights and Employee Care which are felt to be diagnostic of the company's overall performance in that area, and to ascribe a numeric score to their relative performance on each issue.

Scores may be weighted to reflect the relative importance of the chosen issues. These scores can then be summed at the Company level and a ranking order produced. A process of "engagement" is then expected to be pursued, focussing on those stocks, where appropriate, with the lowest score.

Some of the shortcomings of this approach should be noted, however. The answer produced is dependent on many variables and judgements within the scoring matrix. The inclusion of an issue within the matrix may be limited or hampered by the amount and quality of the research data available. The results therefore do not represent an absolute statement on the merits or worth of a company or its activities. Instead the scores and ranking orders provide a priority order or trigger for more specific research and information gathering by the investment manager. The issues raised by the analysis also help to form an agenda for discussion with the companies.

The Fund has a policy of not excluding companies on the grounds of their activities per se. Whilst financial considerations remain paramount, the scoring system could also help managers to make choices between companies on environmental or sustainability grounds where the financial analysis gives no clear signal as to the company's future potential. This will become increasingly important as SRI becomes adopted as a mainstream investment activity.

APPENDIX 2

Proposed Responsible Investment Policy

The fund believes that the adoption by companies of positive Environmental, Social and Governance principles (ESG) can enhance their long term performance and increase their financial returns.

These issues are of concern to the Pension Fund because it is considered that companies who

- do not have regard for the social and environmental impact of their business, or
- who conduct their business in a way which is not sustainable over the longer term;

are in danger of adversely affecting the future prospects of the company, and potentially the company's long term share price.

The trustees have an overriding fiduciary duty to the members of its pension fund to maximise financial returns, whilst taking a prudent level of risk. Subject to complying with that duty, the Pensions Committee has decided to use its influence, via its fund managers, to improve corporate behaviour where it finds examples of shortcomings in the approach of companies to these issues.

The fund's policy in practical terms applies to UK and non-UK equities and to pooled funds, not bonds.

There will be no engagement in stock screening or exclusionary approaches.

In instances where shareholder value and responsible investment conflict the fund manager would vote for shareholder value and would report these instances to the next meeting of the Pensions Committee with brief reasons why they voted as they did. If there were no instances in a quarter where shareholder value and responsible investment clash then a nil return would need to be reported.

Fund managers are expected to sign up to the Enhanced Analytics Initiative, or demonstrate that they have access to at least equivalent research.

In December 2007 Haringey signed up and formally adopted the 'United Nations Environmental Principles for Responsible Investment' initiative and we encourage our fund managers to also adopt these principles.

The six principles contained in the initiative are as follows; -

- Incorporate Environmental Social and Governance issues into investment analysis and decision making processes;
- Be active owners and incorporate Environmental Social and Governance issues into ownership policies and practices;
- Seek appropriate disclosure on Environmental Social and Governance issues by the entities in which we invest;
- Promote acceptance and implementation of the principles within the investment industry;
- Work together to enhance our effectiveness in implementing the principles;
- Each report on our activities and progress towards implementing the principles.

APPENDIX 3

Core Fund Managers Responsible investment Policies

Capital International	Fidelity	Alliance Bernstein
<p>Hymans Robertson reported that Capital International considers Environmental Issues important and do take them into consideration, where material, when evaluating an investment. However, Capital International primarily focuses on achieving the best financial returns for the client.</p>	<p>Hymans Robertson reported that Fidelity's focus in looking at Governance and Socially Responsible Investment issues is primarily on their implications for investment decision making. Although having a dedicated Socially Responsible Investment Analyst, Fidelity does not have a large scale programme of engagement with companies to encourage change on these issues.</p>	<p>Hymans Robertson reported that Alliance Bernstein focuses on financial performance but does take into account Responsible Investment factors in their analysis and security selection when it is thought that they will affect long term performance.</p>
<p>Capital International reported that they have not yet become signatories of the United Nations Principles for Responsible Investment (UN PRI), but state that their approach to Responsible Investment and Environmental, Social, and Governance issues is broadly consistent with the objectives of the UN PRI.</p>	<p>Fidelity reported that although they have not signed up to the United Nations Principles for Responsible Investment, they are investigating the compatibility of the initiative with existing practices and the United Nations expectations, requirements and standards.</p>	<p>Alliance Bernstein reported that there investment process incorporates many of the best practices embodied in the United Nations Principles for Responsible Investment (UN PRI). However, they have reservations about other aspects of the UN PRI, and as a result have not adopted them.</p>
<p>Capital International has stated that although they are not signed up to the Enhanced Analytics Initiative (EAI) they have access to research facilities that are equal if not greater to those available to the members of the EAI.</p>	<p>Fidelity has stated there research analyst has become fully integrated into the mainstream research team, makes distinct comparisons between companies on environmental and social issues and covers all Pan European stocks in the universe in which Fidelity managers invest. This is in line with three of the baseline criteria of the Enhanced Analytics Initiative.</p>	<p>Alliance Bernstein has stated they have a team of analysts who as well as conducting extensive financial analysis meetings, also undertake research to develop a view on corporate strategy and to determine the skill and expertise of the management teams.</p>
<p>Capital International has pointed out that their analysts are in frequent contact with company management. Where a Socially Responsible Investment concern is identified which may be relevant to the financial well-being of a company they will engage with management on the issue.</p>	<p>Fidelity have pointed out that they believe that high standards of Corporate Social Responsibility generally make good business sense and have the potential to protect and enhance investment returns. Social, Environmental and Ethical best practice is encouraged provided it enhances long term financial return.</p>	<p>Alliance Bernstein have pointed out that there position is founded on the principle that they are a fiduciary, and as such have an obligation to manage client assets in accordance with the objectives and risk tolerances specified by the client in the interest of the ultimate beneficiaries of those assets.</p>