



# A commitment to a better tomorrow

✓ **Lothian Pension Fund CEO, Doug Heron, discusses the fund's recent responsible investment (RI) commitments and how the fund has been guided by all its stakeholders**

**E**nvironmental, social and governance (ESG) issues have been rising up the agenda for pension scheme trustees, with an increasing number of campaigns working to specifically raise awareness with members. However, with research by the Society of Pension Professionals revealing earlier this year that nearly all (95 per cent) schemes have made no ESG portfolio changes, it can be encouraging to see some schemes publicly committing to these issues.

The Lothian Pension Fund (LPF), Scotland's second largest Local Government Pension Scheme (LGPS) fund with over £8 billion assets under management (AUM), is one such fund. It recently publicly upped its commitment to responsible investment, with the launch of its new statement of responsible investment principles.

The scheme's statement focused on six principles, broadly focusing on ESG factors, and the UN Principles for Responsible Investment (PRI). It emphasised that it would act "as an agent for positive change", as well as working with other like-minded partner funds to enhance the effectiveness of implementing PRI and achieving industry best practice.

But what exactly does all this mean and what will the impact be for members? LPF CEO, Doug Heron, sits down with *Pensions Age* reporter, Sophie Smith, to discuss what these principles and promises truly mean for members

and what the next steps may look like in a post-Covid-19 world.

## ➤ What does the launch of the statement of responsible investment principles mean for the scheme and its members?

The launch hasn't heralded a new way of thinking within the fund, we've always had responsible investment embedded in our investment process, but it has given us a way to more publicly declare our commitments and to create a more transparent mechanism for setting targets and reporting our progress against them.

We're active on a number of RI fronts at the moment but just one example is looking more closely at how we measure the carbon intensity within our portfolio as a way of ensuring the companies we invest in are heading in the right direction.

## ➤ What encouraged the LPF to establish the new statement of RI principles?

It's clear to us that our stakeholders – not just members, but our sponsoring employers and our board and committee members – have an interest in how we invest and how we act as an investor.

Creating a clear set of principles helps with transparency and communication and allows our oversight bodies to hold us accountable for delivering against those principles. It's been well received and we've been commended on it, but it's not a PR move – it provides a framework

for our engagement efforts and our actions here lead to companies making improvements in their ESG performance.

## ➤ A key point within your statement of responsible investment principles was that you wanted to ensure that you invested in a way that the average member would see as "fair and responsible". Considering this, how do you balance individual member views, and the broader idea of responsible investment?

We have more than 90,000 members so the reality is that there will always be individual members who have expectations we're unable to meet for a variety of reasons, beyond the fact it's impractical to canvass views across such a diverse population. But we do interact with members often enough to get a feel for what's important to them and we operate under a board that includes member representatives, so we're well connected to member views.

In practice there isn't a great deal of balancing required – members want to know that the fund's assets are secure and that our investment activities are responsible with direct or collaborative engagements where we have concerns, rather than disinvestment.

## ➤ Can you tell us a bit about how the scheme uses engagement, rather than divestment, to encourage change, and how you incorporate ESG into ownership policies?

In practical terms, we can be invested in several hundred companies at any time and so we must rely on specialist research firms to provide us with ESG monitoring reports, to supplement our own analysis.

When concerns are identified in our analysis, we will form a view as to the best course for achieving the outcome we seek. Often that's working with other investors, for example as part of Climate 100+ or through the Local Authority Pension Fund Forum (LAPFF), which is the body for local authority pension funds, or in some cases we'll seek to meet with management directly and share our views. We come to such interactions well-informed and clear on the response we expect from management.

We never take a table-thumping approach and we're willing to be patient, so it's often a steady dialogue in a supportive relationship that best serves progress.

➤ **What has the scheme undertaken to address climate change issues in**

**particular?**

We're an active member of Climate Action 100+ and, together with others, we've successfully filed resolutions to annual general meetings (AGMs) of major firms.

Beyond that, a key part of our statement of RI principles is that we will not deploy capital to debt or primary capital issuance for companies who are not Paris-aligned. That's a clear signal to corporates that such a position will become increasingly untenable.

➤ **How has the pandemic impacted the fund's investment strategies, and its objectives in relation to responsible investment?**

We're an open fund that takes on several thousand new members each year and must plan to pay pension benefits well into the next century. As a result our investment horizon is very long term and even something like a pandemic doesn't cause us to shed our investment beliefs and take a series of short-term actions. So

you might say we've held a steady course and as others took action to limit losses in late February, we remained invested and participated in the recovery.

Our objectives on RI remained in place throughout and we were pleased to see many examples of our investee companies protect the wellbeing of their employees, make resources available to public pandemic response efforts. An extension of this now will be to look closely at whether companies who've taken advantage of public funds really had to do so and I expect to see high profile repayments to the Treasury taking place instead of dividend raises.

➤ **What are the next steps amid a post-Covid recovery, for responsible investment and the LPPF?**

Global events in the past nine months have to some extent been a distraction from ESG as companies have battled with other challenges and governments have taken steps to avoid corporate failure and a resulting spike in unemployment.

There's also been a practical consideration when it comes to things like single-use plastics (which we've previously lobbied against) and the need for strict standards of hygiene in PPE production.

When we put the pandemic behind us, I think companies will be cut much less slack and investors will look again at ESG and ask whether management teams are making enough progress. For us, we continue to believe a partnership approach works best and so we'll keep engaging with our investee companies in a meaningful and supportive way and I hope we continue to make a difference.

➤ **Written by Sophie Smith**

