



Appendix A

Investor beliefs – discussion evening

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Pensions for Purpose

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Agenda

- **Implementing responsible investment - the UNPRI's "seven steps for asset owners"**
- Financial-focused investment beliefs (non-ESG related) – examples
- Discussion around Camden's financially focused investment beliefs
- ESG and the Spectrum of Capital – refresh, where you stand at present
- The UN SDGs – which are suitable for a pension fund?
- Articulate an investment thesis for the SDG groups which the committee feel are priorities.
- Agree the ESG investment beliefs and have a preliminary discussion on how best to reflect this in the investment strategy
- Next steps

Implementing Responsible Investment – the seven steps for asset owners

Appendix A



Source: UNPRI



Understand the investment environment

Appendix A



Source: UNPRI

For example:

- The fund's legal requirements
- Industry codes of practice
- The council's obligations
- Requirements to publish public policies, investment strategy statement etc.

Define investment goals

For example:

- Meeting pension payments over the next 40+ years
- Reducing the fund's deficit
- Stabilising the contribution rate
- The fund's approach to risk



- All considered as part of the actuarial valuation and investment strategy review



Source: UNPRI

Define investment beliefs

The focus of tonight's session

- “To develop and codify a formal statement of investment beliefs, which focuses on the issues that are the most important drivers of the investment decisions.
- These beliefs serve as a lens for an institution on how to add value to, and how to navigate, the financial markets.
- These beliefs are lenses that differ from institution to institution and lead respective trustees, CEOs, CIOs and ultimately all investment staff to different investment approaches.” *UNPRI.*



Source: UNPRI

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Camden's Financial Investment Beliefs

Include?

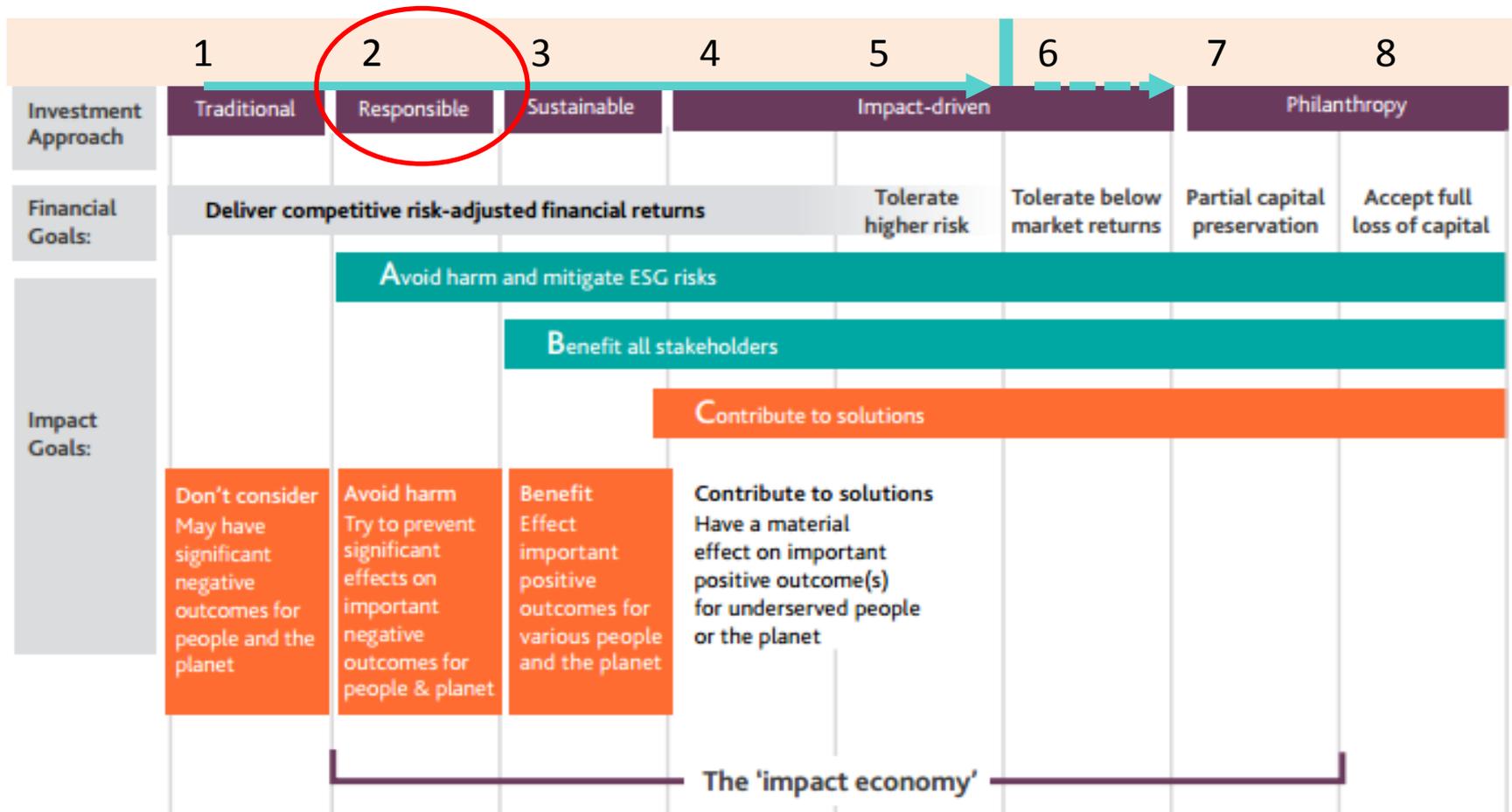
- A statement about long term return expectations (equities vs bonds)
- A statement about the importance of asset allocation
- A statement about diversification/risk
- A statement about alternative/illiquid assets
- A statement about costs and fees
- A statement about active vs. passive

We will come back to these later, to add in ESG/responsible investment beliefs

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- Articulate an investment thesis for the SDG groups which the committee feel are priorities.
- Discussion on how best to reflect this in the investment strategy and the investment beliefs
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Appendix A The spectrum of capital



Source: *The rise of Impact: Five steps towards an inclusive and sustainable economy. UK National Advisory Board on impact investing 2017 & Impact Management Project 2017*



Camden and other LGPS

How does Camden compare?

- **The majority** of LGPS – including Camden - are in the “responsible investment” part of the spectrum of capital
 - Analysis e.g. carbon footprint, gender diversity statistics, living wages
 - Engagement with management (also via LAPFF)
 - Voting (PIRC)
 - **Purpose:** to get the maximum risk adjusted return on the portfolio
 - No values expressed on whether ESG issues are morally right or wrong
- **Some** LGPS are now moving to sustainable investment (column 3 on the spectrum of capital)
 - Some are divesting from fossil fuels
 - Some are “decarbonising” (see later slide)
- **A few** are beginning to allocate to impact investments (column 4)
 - Renewable energy a popular infrastructure impact investment
 - London CIV infrastructure sub fund has min 25% allocated to infrastructure

ESG Investment beliefs

How can you embed ESG-related investment beliefs into an investment strategy?

- Consider the UN Sustainable Development Goals (SDGs)
- Target which goals you feel need to be prioritised (wearing an 'investment' hat)
- Articulate an investment thesis around these SDGs
 - i.e. why you feel they need to be reflected in the investment strategy
- Set out your investment beliefs
- Agree how to implement your beliefs in your investment strategy

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- **The UN SDGs – which are most suitable for the Camden pension fund?**
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The UN SDGs

What are they?

- The blueprint to achieve a better and more sustainable future for all
- They address the global challenges we face, including those related to poverty, inequality, climate, environmental degradation, prosperity, and peace and justice
- The Goals interconnect and in order to leave no one behind, the aim being to achieve each Goal and target by 2030 (source UN)
- Require an estimated \$2.5 trillion per year to achieve all 17 goals



The UN SDGs

Which are most relevant for your pension fund? *

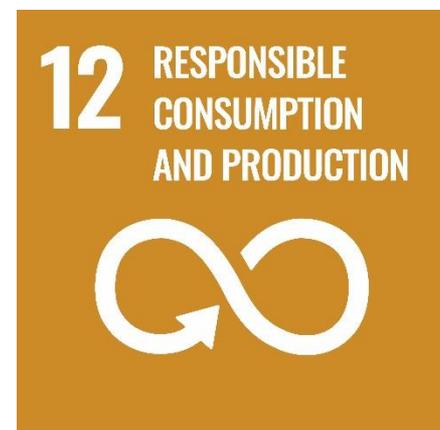
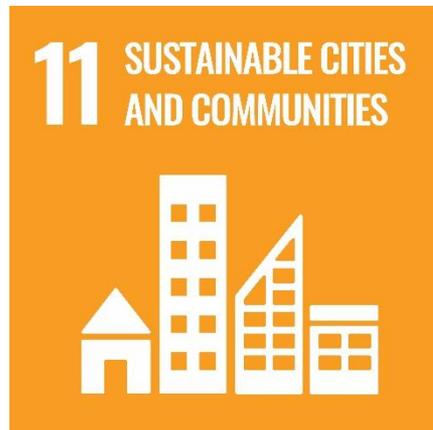
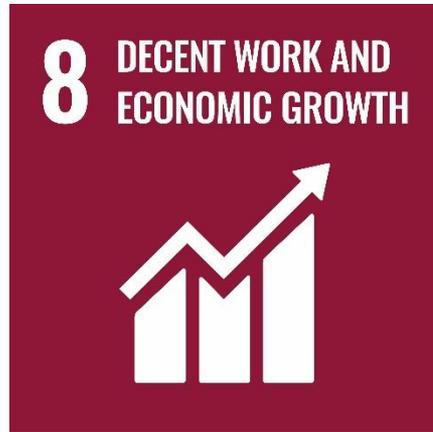


* Is there an investment thesis to support this SDG?



The UN SDGs

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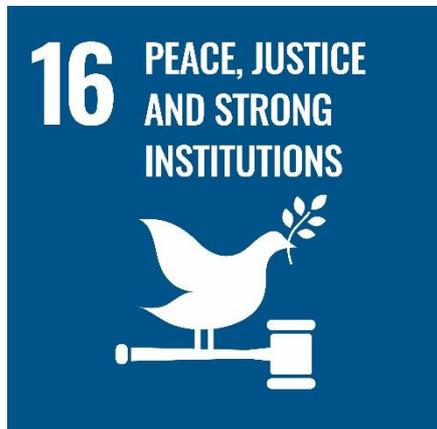
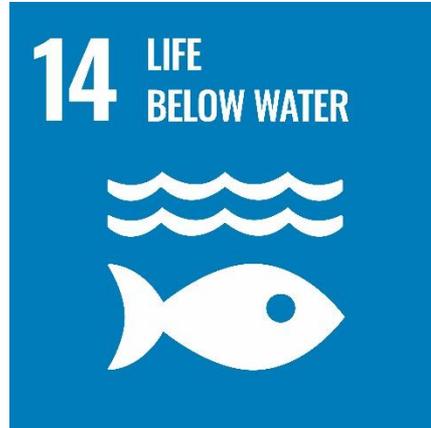


* Is there an investment thesis to support this SDG?



The UN SDGs

Which are most relevant for your pension fund? *



* Is there an investment thesis to support this SDG?

Camden's Preferred SDGs - Discussion

Appendix A

The goal

- Identify the 3-5 SDGs that the committee agrees are long term priorities for the pension fund
- Articulate a strong and clear investment thesis to support each of these priorities

Example:

SDG 13 – Climate Action

Investment thesis: climate change and the response of policy makers has the potential to have a serious impact on financial markets.

Supportive evidence: Mercer's report "Investing in a Time of Climate Change".

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Investment Beliefs - Discussion

To consider

- Discuss the sample ESG investment beliefs handed out in the papers
 - Are there any that accurately reflect your views based on our discussion this evening?

Include?

- A statement about the impact of ESG on returns?
- A statement about active ownership?
- A statement about your SDG priorities?

Investment Strategy – Next Steps

Based on your agreed investment beliefs...

- You will need to discuss how each of your SDG priorities might best be reflected in the investment strategy
 - Consider how you have been working towards these to date
 - What progress have you made?
 - Do you want to shift further along the spectrum of capital to sustainable and/or impact investment?

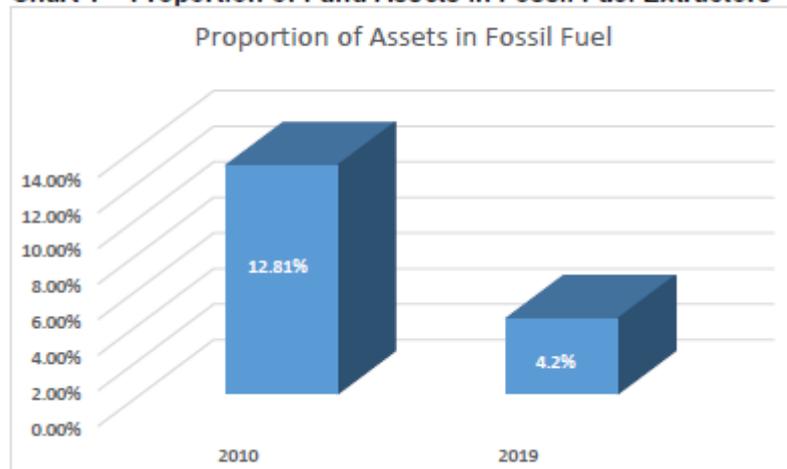
Example – SDG 13 (Climate Action)

Investment Belief

Climate change and the response of policy makers has the potential to have a serious impact on financial markets.

How have you responded to date?

Chart 1 – Proportion of Fund Assets in Fossil Fuel Extractors



Source: Camden pensions committee papers Sep 19

- Analysis (see Chart 1) – annual update on equity portfolios
- Engagement (by and with managers, LAPFF)
- Voting (PIRC)

Example SDG 13 - Do you want to move along the spectrum of capital?

Sustainable investment options

- Low carbon index funds
- Active sustainable funds (LCIV – RBC)
- “Divest from fossil fuel” funds (active or passive)

Impact investment options

- Renewable energy funds
- Transition investments in companies responding to climate change
- Green bonds that fund projects with positive environmental/climate benefits

Appendix A **Example SDG 13 - divesting vs decarbonising – which is best?**

- **The case for divesting**

- Completely eliminates exposure to fossil fuels (for example)
- If investors move in bulk, share price falling should force the company to act

[Evidence: School of Environment, Enterprise and Development, University of Waterloo conducted an analysis that suggests divestment announcements have a statistically significant negative impact on the price of fossil fuel shares]

- Avoids the risk of stranded assets
- Low governance to implement and monitor

- **The case for decarbonising**

- It considers the carbon footprint of all of the fund's investments, not just equities
- It considers the portfolio's current carbon emissions (e.g. from shipping companies)
- It takes into account all greenhouses gases which contain carbon, such as methane, not just carbon dioxide
- It allows the fund to continue to have 'a seat at the table' for engaging on environmental issues



Example SDG 13 – do you want to set some pension fund goals?

- **Example:** London Borough of Islington pension fund's goals:
 - Reduce future CO2 emissions
 - Reduce exposure to carbon intensive companies across asset classes and industry sectors in the public equity allocation by 40% percent
 - Invest 15% per cent of the Fund in sustainability-themed investment
 - Measure every six months to show progress

Some of this will take time to think about and will need to be decided at committee with supporting papers duly received

Next steps



Source: UNPRI

The next step is to agree the investment strategy to reflect your investment beliefs

- “Agree a clear and comprehensive investment strategy that sets in motion **investment environment, goals and beliefs**, as well as informs other organisational activities, such as asset class strategies, risk management decisions and reporting considerations.”
UNPRI
- This will require input from officers and the consultant/adviser as to how best to move forward
- A committee decision



For more information about ESG, sustainable and impact investment...



A collaborative initiative between impact managers, pension funds, social enterprises and others involved or interested in impact investment



Risk warning

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