

Stewardship Survey

Report of the Director of Finance and Public Value

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

Recommendation: that the Committee be asked:

1. To note the results of the survey of pension fund members on their views of the Fund's investment policies.
2. To consider what action is required in relation to the results of the survey.
3. To make Brunel aware of the engagement priorities resulting from the survey in order for them to be incorporated into Brunel's engagement planning.

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### 1. Introduction

- 1.1 At the June meeting of the Investment and Pension Fund Committee, it was agreed that a survey of fund members be undertaken to feed into the Fund's policies on stewardship and climate change.
- 1.2 The survey was launched at the end of June with a direct email to all Devon Pension Fund members where an email address is held, and additional publicity with the intention of reaching as many Devon Pension Fund members as possible. A further reminder was set out in early August and the survey closed on 21<sup>st</sup> August.
- 1.3 The results of the survey are set out in appendix 1 to this report.

### 2. Survey Results – Investment Views

- 2.1 The survey was answered by 4,278 fund members. This represents around 3.2% of the total fund membership. Whilst that appears to represent a relatively small percentage, the number of respondents compares well with other LGPS funds that have undertaken a similar exercise.
- 2.2 The respondents supported the Fund maintaining its fiduciary duty to maximise investment at an appropriate level of risk. Over half of all respondents rated this as very important, and over 80% rated it as very important or of significant importance. The majority of respondents rated maximising investment at an appropriate level of risk as their number one

priority. In some cases, this was supported by comments that this should be the only criteria for investment.

- 2.3 However, all the following questions, including those on taking climate change and other responsible investment criteria into account, were rated as fairly important or higher by the majority of respondents. Engaging with companies on a range of issues, investing in companies transitioning their business and reducing the Fund's carbon footprint were rated more important than divestment from fossil fuels, although that was still rated as fairly important or higher by the majority of respondents.
- 2.4 Keeping down management fees was generally seen as of higher importance than ESG considerations with over 80% rating it as very important or of significant importance. Given that keeping down fees generally requires a significant allocation to passive investment, fulfilling this objective can be inconsistent with some of the responsible investment considerations.
- 2.5 Maintaining a UK allocation was seen as fairly important or higher by the majority of respondents, but rated as the lowest priority by over half of respondents.
- 2.6 Climate change was rated as the top engagement priority by 47% of respondents, making it the highest priority subject overall, followed by human rights and employment standards. There were a large number of comments opposing investment in tobacco and arms manufacturing, although some comments on arms manufacture took the opposite view that the industry needs to be supported to ensure our country has adequate defence capabilities at a time of global instability.

### **3. Awareness and Interest**

- 3.1 45% of respondents expressed a strong or significant interest in how the Fund manages its investments. However, this needs to be set in the context that this only represents 1½% of the total Fund members.
- 3.2 A much smaller number stated that they had a strong or significant awareness of the Fund's policies on addressing climate change. This suggests that more needs to be done to communicate what the Fund is doing. Some respondents were critical of the Fund's communications. Others expressed that the survey had increased their awareness, which is a positive. There were also several who complimented the Fund on what we are doing.
- 3.3 Only around a third of respondents had seen the Fund Annual Report, but nearer two-thirds were aware of the Fund website. A third of respondents were not aware of the Annual Consultative Meeting, despite it being notified to members in the same way that the survey was notified.

### **4. Conclusions**

- 4.1 While the survey gave a clear message that maximising the investment return at the appropriate level of risk should continue to be the Fund's prime focus,

the majority of respondents are also looking for the Fund to address climate change and other responsible investment issues.

- 4.2 The Committee has committed to achieve net zero by 2050 or sooner, with the aim to make significant progress towards that by 2030. Over the last year, in support of that objective, the Committee has agreed to move around 60% of its passive equity investment to Global Paris Aligned and UK Climate Transition funds. While supporting the global transition to net zero these funds also exclude tobacco and controversial weapons. A further 10% is allocated to Brunel's active Sustainable Equities portfolio and the Fund has also committed to renewable energy funds through its Infrastructure allocation.
- 4.3 The Committee may want to consider whether it wishes to move the remaining allocation to Global Developed Passive Equities to the Global Paris Aligned Passive Fund. It would need to be assured that this supports the aim of maximising investment return at an appropriate level of risk. Over the last 6 months rising oil prices boosted the share price of oil companies, and have meant that a fund that excluded oil companies would have performed significantly worse than the wider index. However, this is unlikely to continue over the longer term.
- 4.4 The Committee may also want to review whether it wishes to retain its allocation to UK Passive. While this has moved across to the UK Climate Transition Benchmark Fund, involving divestment of the UK Passive investment in Shell, Glencore and others, some sector balances remain. Set against that is whether to maintain a specific UK allocation, which should be addressed in terms of the investment case as well as whether it is desirable from a Fund member point of view.
- 4.5 The Committee will in due course have to consider how it addresses the Government Levelling-Up white paper which calls on LGPS funds to put in place plans for how it will invest in the UK to support the levelling up agenda. The Government proposals are yet to undergo formal consultation before being enacted into regulation. The Committee may wish to consider impact investing as part of the Fund's private markets allocation, and this will be addressed through future training events.
- 4.6 In terms of awareness, there is clearly work to do. The Fund website is kept up-to-date with details of investment performance, the Fund's carbon footprint, stewardship and engagement activity and the latest policies, but more needs to be done to raise awareness of this. A regular newsletter could be issued to fund members in order to raise awareness.
- 4.7 Brunel are currently working with Hermes EoS their engagement partner to set out their engagement priorities for the year ahead. It is proposed to forward on details of the survey results to Brunel for consideration as part of their engagement planning.

Angie Sinclair  
Director of Finance and Public Value

Electoral Divisions: All

Local Government Act 1972:

List of Background Papers: Nil

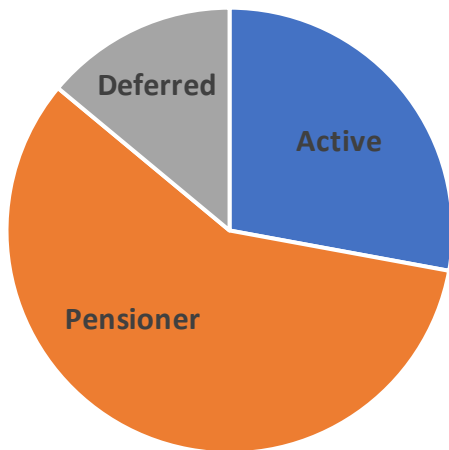
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## Stewardship Survey 2022 - Results

A total of 4,278 pension fund members responded. This equates to around 3.2% of total fund members.

### What type of member are you?

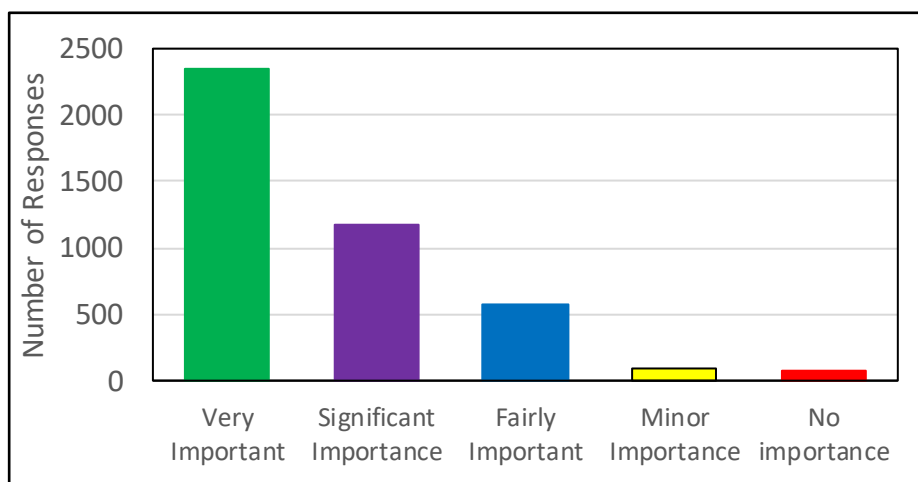


|                   |       |
|-------------------|-------|
| Active members    | 1,477 |
| Pensioner members | 2,059 |
| Deferred members  | 742   |

### Investment Strategy – Your Views

Please rate each of the following, in terms of importance to you, in how the Devon Pension Fund manages its investments (1 = No importance / Don't Know, 2 = Minor Importance, 3 = Fairly Important, 4 = Significant Importance, 5 = Very important)

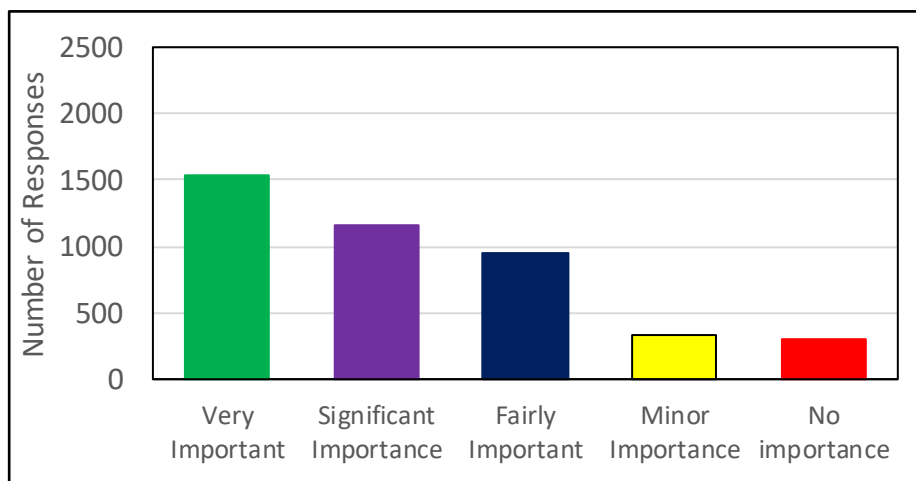
#### Maximising investment returns at an appropriate level of risk



Average Score

4.32

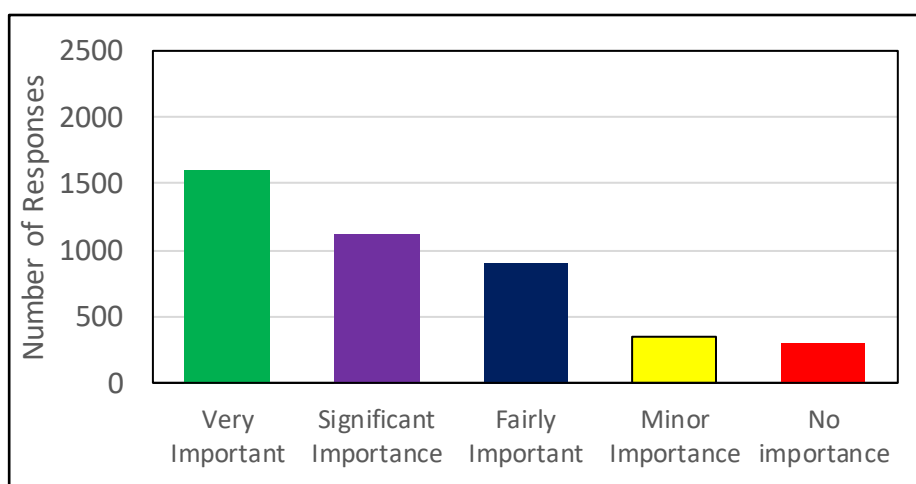
### Investing in companies that are seeking to transition their business in response to climate change



Average Score:

3.77

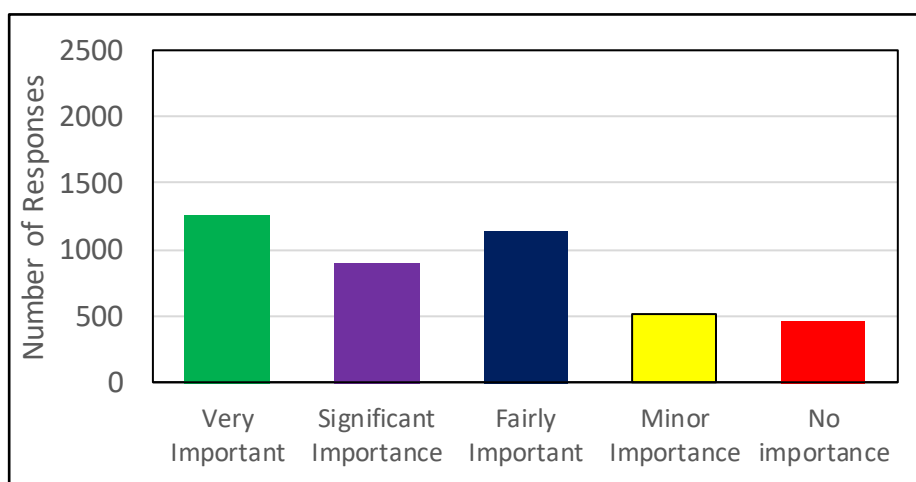
### Reducing the carbon footprint of the Fund's investments



Average Score:

3.79

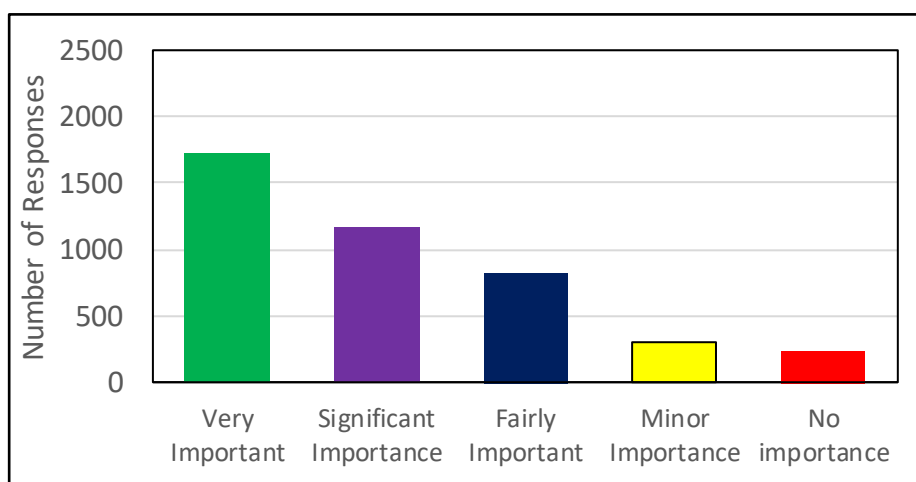
### Divesting from companies with reserves of fossil fuels



Average Score:

3.47

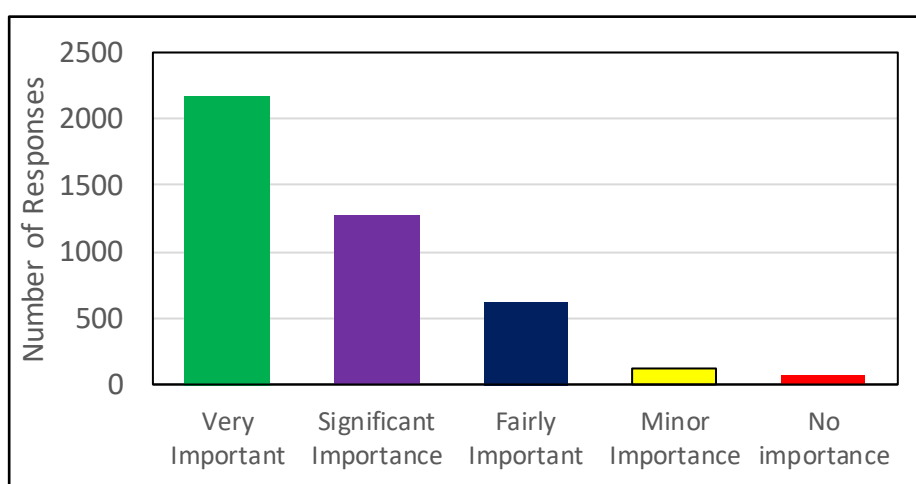
**Engaging with companies on a wide range of responsible investment issues, e.g. climate change, human rights, social impact, employment standards, diversity of company board, etc.**



Average Score:

3.90

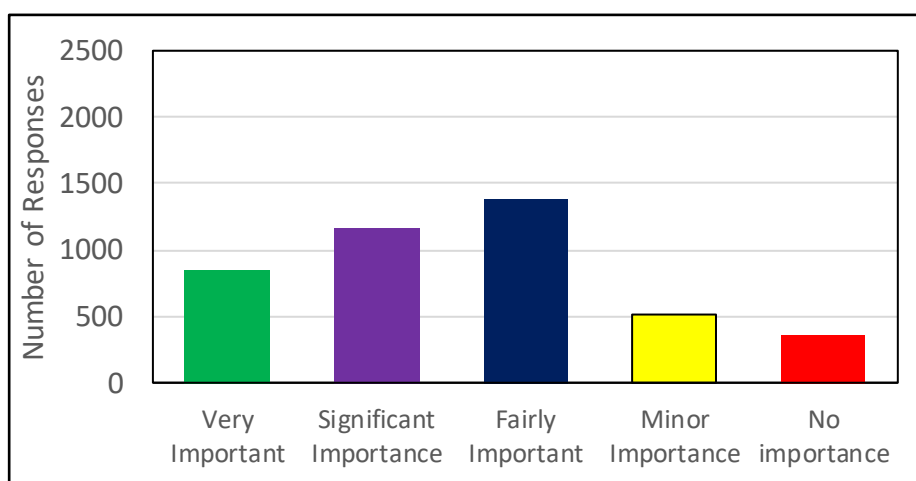
**Keeping down the management fees paid to the fund management companies who manage the Devon Pension Fund's investments**



Average Score:

4.26

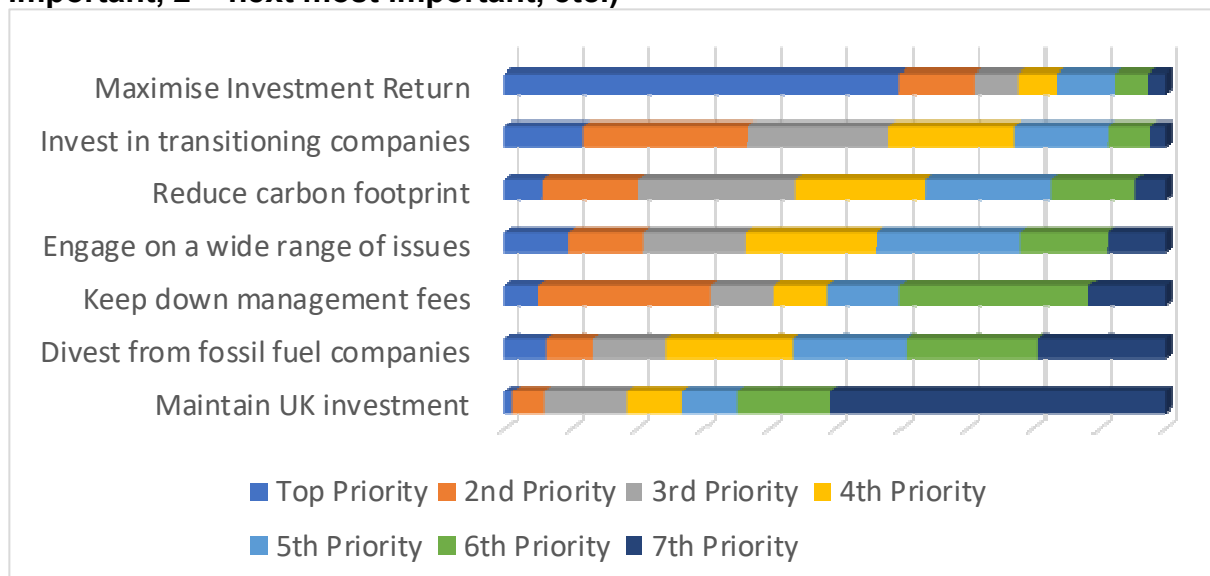
**Maintaining a specific investment allocation in the United Kingdom as opposed to global investments**



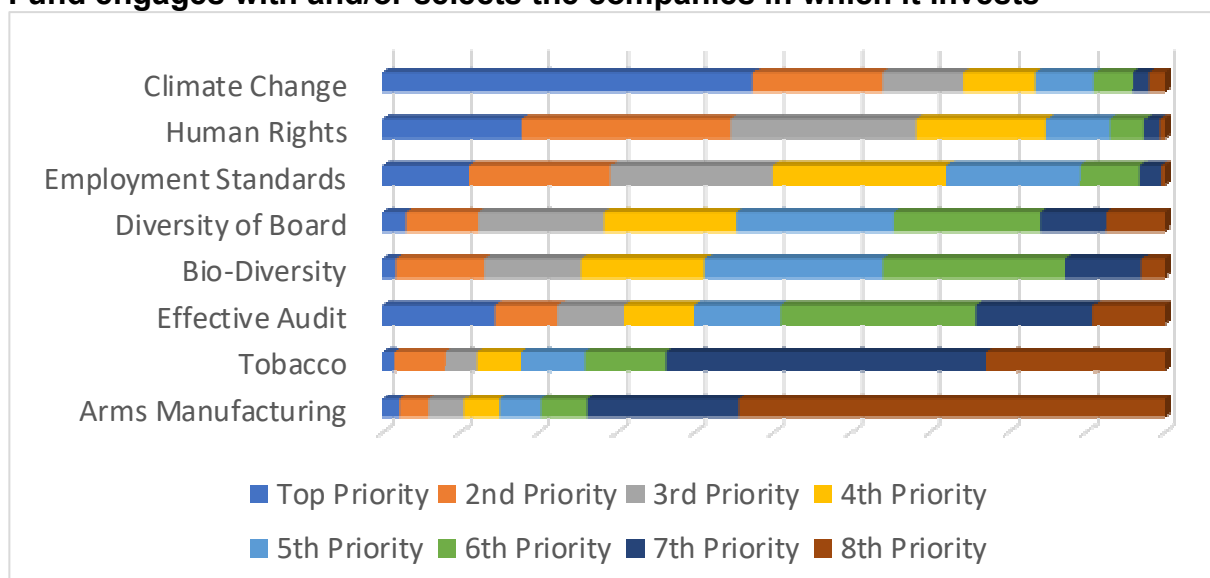
Average Score:

3.39

**Please rank the above issues in order of importance to you (1= most important, 2 = next most important, etc.)**



**Please rank the following issues in order of importance to you in how the Fund engages with and/or selects the companies in which it invests**



**Are there any other issues of concern that you would like to highlight?**

Other concerns, not included above, mentioned by more than 10 people include:

- Investment in Russia
- Animal Welfare
- Modern Slavery / Child Labour
- Gender equality
- Investment in China
- Taxation (companies paying tax appropriately)
- Political donations / impartiality

Respondents also used this question to reinforce their prioritisation or make more general comments. Some examples of comments made:



*“Climate Change has to be the absolute priority.”*

*“I am concerned that the investment is moving to far away from proven performing funds in relation to supporting climate change investments etc. The fund needs to maximise the returns for its investors and those claiming their pension and this should be its top priority rather than moving to a decision based investment for a green agenda.”*

*“I'm concerned that your policy of engagement as opposed to full divestment is not effective in securing change. Therefore I'd like you to fully divest immediately in all fossil fuel related companies.”*

*“Divest from fossil fuels places the fund "outside of the room" when decisions are being made. It is vital that the fund influence fossil fuel companies, not wash its hands of the issue. There are others who will buy any divested shares and support further fossil fuel extraction.”*

*“Tobacco and arms manufacturing should NOT appear anywhere in the portfolio, they are damaging to life.”*

*“Please, no investments which involve breaches of human rights, with poor employment standards, in arms manufacture, in tobacco or fossil fuels”.*

*“Arms manufacturers are eminently important at this time. As long as we are investing in properly vetted companies that do not endanger our national interest or security, I am in favour of supporting them raise capital and impact the defence of my home country the UK.”*

*“Please do not invest in companies that yield a high return but bring damaging consequences to our world and society.”*

*“Pensions should be administered for pensioners' hard nosed financial security and NOT political purposes.”*

*“Your job is to maximise my pension fund and only that. Nothing is more important.”*

*“Pension funds such as the LGPS make significant investments and have a big influence on companies, and by extension the wider economy, so it is important that all decisions are ethical and transparent regarding investments.”*

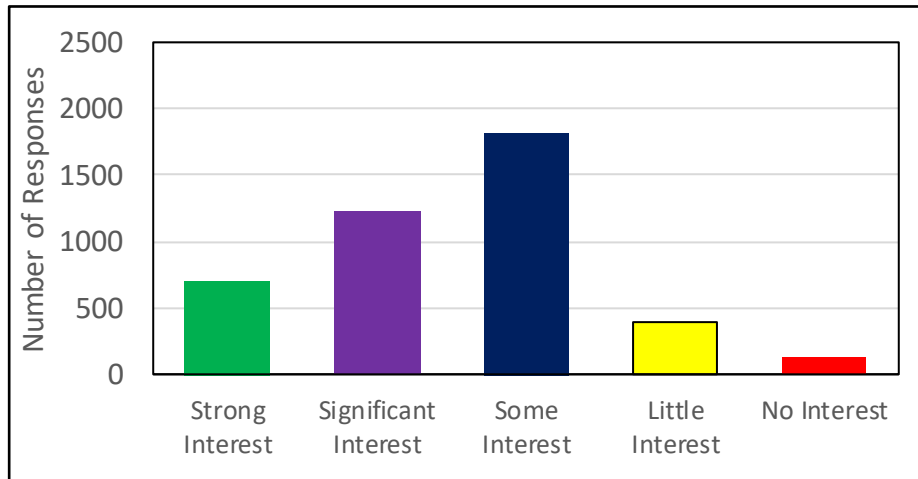
*“Too much wokism and not enough maximizing of income.”*

*“It is vital that the above are actioned soon as it is only big groups such as yourselves who are able to force businesses to change.”*

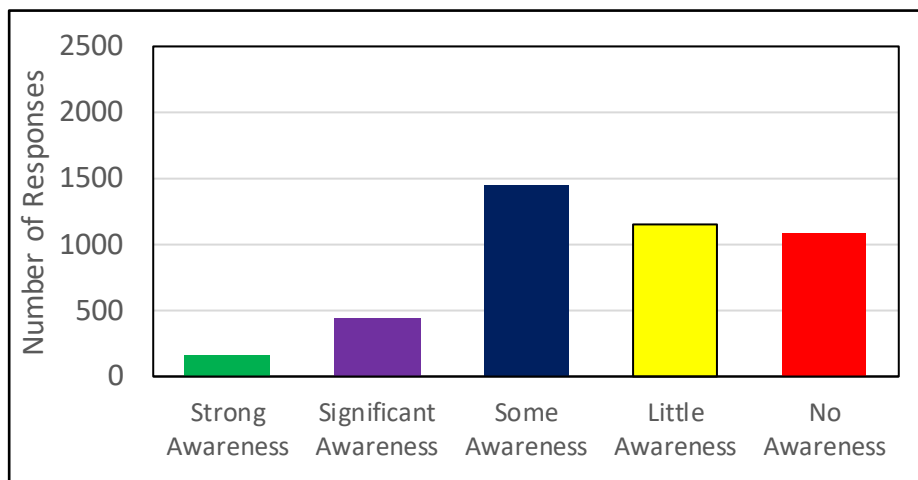
## Awareness and Interest

Please rate each of the following, in terms of your awareness and interest (1 = No interest/awareness, 2 = Little interest/awareness, 3 = Some interest/awareness, 4 = Significant interest/awareness, 5 = Strong interest/awareness)

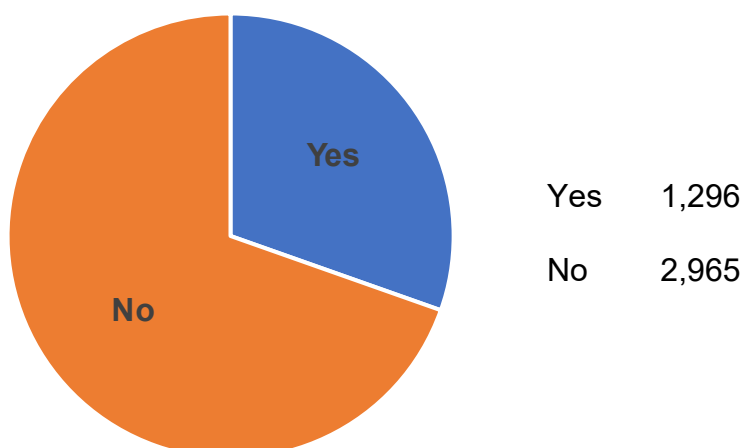
**What level of interest do you have in how the Pension Fund invests the money held to pay pensions?**



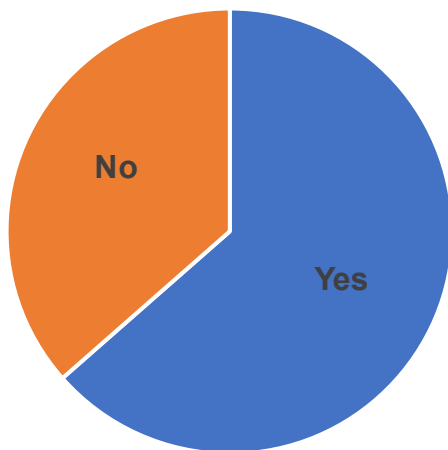
**Are you aware of the Fund's policies on addressing climate change through its investments?**



**Have you seen the Devon Pension Fund Annual Report 2020/21, including the sections on investment performance, stewardship and climate change?**

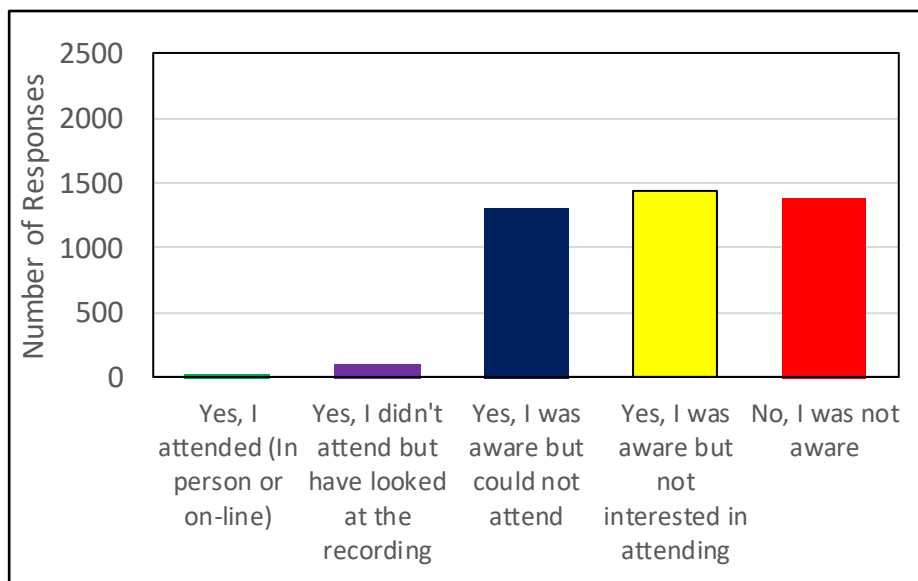


Prior to this survey, were you aware of the Fund's website - [www.devonpensionfund.org.uk](http://www.devonpensionfund.org.uk)?



Yes 2,706  
No 1,555

Were you aware of the Devon Pension Fund Annual Consultative Meeting for pension fund members, held in February?



Do you have any further comments you wish to make on the Devon Pension Fund's investment policies?

Examples of further comments provided:

*"The policies have to find a balance between ensuring pensions are enough to live on in the future whilst, at the same time, ensuring that there is a future."*

*"Thank you for carrying out this survey. It has made me aware I should take more interest in investment policies."*

*"Investment must work for a better society and address the great problems that we face: global warming, mass migration, global poverty, undemocratic government."*

*"I think, as a mother and grandmother that we should look to the future of our children and their health in all the decisions we make. Therefore, climate change should be uppermost in the choices of where our money is spent and invested."*

*"I am pleased you are consulting members and that you are considering climate change seriously when investing."*

*"I strongly support a divestment from fossil fuel investments and investing in companies that demonstrate sustainable policies. I would accept a lesser return if this is achieved."*

*"Concentrate on pensioner welfare and needs rather than ecological issues, which can change like the weather and are costing the country money that it cannot afford."*

*"Maximising the fund's return, with an appropriate level of risk, should be the only criteria considered. Diversity and other social concerns are not matters with which the Fund's managers should be concerned."*

*"I have always trusted your judgement and have to say that today's questionnaire has actually educated me and confirmed that my trust was well-placed."*

*"Don't waste my money on silly time wasting Green agendas. The world is far more resilient than we are led to believe by the media & the brain washed university students etc, etc."*

*"I have attended the Annual Consultative Meeting in the past but felt very frustrated because it seemed to me that, actually, it wasn't a consultative meeting at all: it was simply a reporting meeting, and the questions from the audience were, I felt, largely fobbed off. I therefore very much welcome this questionnaire exercise and applaud you for undertaking it. It is important that feedback is given to us about the results of the survey, both in terms of its overall findings and in terms of what changes, if any, will be made to the pensions investment strategy."*

*"What is needed is the best returns for the pensioners. Wokey and political influences are not the answer."*

*"I trust the fund to do the right thing - invest sensibly and appropriately protecting funds but with due consideration to social and environmental considerations."*

*"It is important that we do everything we can to mitigate our impact on the climate and decisions on our collective investment funds will make a difference however small."*

*"I would like better communication. I would support the funds to support investments in renewable energy technologies, environmental stewardship and protection and which prioritise social/employee benefits. The fund should divest from arms and weapons manufacturers in the UK and globally."*

*"Thank you for your hard work ensuring that the pension funds are properly managed."*