

LGPS Investment Guidance: Responsible Investment Push Welcome, But Rules Still Too Prescriptive

The Government says:

- LGPS funds should have a policy to consider financially material factors, including where these arise from environmental, social and corporate governance factors.
- Funds should explain the extent to which non-financial factors are considered.
- The fund's approach to social investments should be explained.
- Funds should not pursue policies that are contrary to UK foreign policy.
- The Secretary of State has a new power of Direction to intervene in funds' investment policies.

London, 16 September 2016 – The Department for Communities and Local Government today outlined its new guidance on preparing and maintaining an investment strategy statement (ISS). This statement will replace the statement of investment principles (SIP) and requires that funds have a policy on social environmental and corporate governance factors. In formulating and maintaining this policy, administering authorities:

- Must take proper advice
- Should explain the extent to which the views of their local pension board and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors
- Must explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments
- Should not pursue policies that are contrary to UK foreign policy or UK defence policy
- Should explain their approach to social investments

The rules contain provision for the Secretary of State to issue a Direction, where he or she deems an administering authority not to have followed the new guidance. UKSIF has previously called for this power to be used only where an authority has breached its fiduciary duty. The power of Direction can be used:

- a) To require an administering authority to make changes to its investment strategy in a given timescale;
- b) To require an administering authority to invest assets as specified in the Direction;
- c) To transfer the investment functions of an administering authority to the Secretary of State or a person nominated by the Secretary of State; and
- d) To require an administering authority to comply with any instructions from either the Secretary of State or the appointed person in circumstances when the investment function has been transferred.

Simon Howard, UKSIF Chief Executive and GSIA member, said:

“The Department for Communities and Local Government has rightly acknowledged the value in responsible investment and we welcome the requirement for funds to have a policy on ESG and stewardship. We also welcome the new provision that funds should explain their approach to social investment and the extent to which non-financial factors are considered in the investment process. However, we remain concerned that funds ability to invest may be impacted by the requirement that policies are in-line with UK foreign policy. We are also very concerned with the Power of Direction, whereby the Secretary of State can direct a fund to make changes to its investment strategy, force it to invest in specific assets and transfer the investment functions of the administering authority to the Secretary of State or a nominated person.

“Once again we call on the Secretary of State to clarify this power will only ever be used where an authority has breached its fiduciary duty.”

-ENDS-

Contact

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Notes to Editor

New LGPS guidance for Investment Strategy Statement available at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/553342/LGPS_Guidance_on_Preparing_and_Maintaining_an_Investment_Strategy_Statement.pdf

About UKSIF:

UKSIF is the membership network for sustainable and responsible financial services in the UK. We promote and support responsible investment and other forms of finance that advance sustainable economic development, enhance quality of life and safeguard the environment. We also seek to ensure that individual and institutional investors can reflect their values in their investments.

UKSIF was created in 1991 and has around 240 members and affiliates include institutional and retail fund managers, pension funds, banks, research providers, financial advisers, consultants and NGOs. For more information about UKSIF, please visit www.uksif.org.