

MEETING	PENSIONS COMMITTEE
DATE	5 JULY 2010
TITLE	INVESTMENT POLICY
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- 1 The Council's Leader has received a letter from the Arfon Peace and Justice Group asking the Committee to confirm whether it has investments in arms companies and to have discussions on the possibility of disinvesting from arms companies. The letter also asks the Committee to disinvest in companies which invest in Israel.
- 2 The issue of ethical investment has been discussed by the Committee on a number of occasions and was last considered in December 2007. A copy of the appropriate minute is attached in the appendix.
- 3 Since then we have received a report from Hymans Robertson which referred to delivering effective active ownership but which did not go to the core of ethical investment.
- 4 The Committee is asked to review the current position and decide upon a way forward.

## 2. ETHICAL INVESTING

Submitted – the report of the Head of Finance, noting that questions arose regularly regarding ‘ethical investing’ or ‘responsible investing’.

He added that one of the proposed ‘improvements’ in the Council’s business plan was that the strategy pertaining to ethical investing be explained fully. Therefore, the Head of Finance wished members to consider which direction should be followed.

Considerable research work was done in the field, and consequently, the report explained the main considerations.

The officer referred to different means of ethical investing:

- Negative Criteria (Screening) (*avoiding investments which were considered unethical, such as tobacco, alcohol and arms*)
- Positive Criteria (*Target investments which operated for the benefit of the environment, such as sustainable energy, recycling etc*)
- Engagement (*Discuss with the companies invested in with a view to challenging and recognising their ethical credibility, and using the contact to influence counterparties*)

The Head of Finance reported further on the difficulties with the negative and positive criteria. In addition, he submitted information pertaining to the recent trends in the field of Engagement in order to place emphasis on engagement, namely to discuss (via investment managers) with companies about concerns, welcoming good practice and promoting better disclosure. Should the response be unsatisfactorily, it would be possible to vote against approving the company’s annual report.

The officer reported that questions could be asked of investment managers on a more regular basis, so that an ethical discussion could be created. He added that it would be possible for Hymans to investigate in order to show whether some of the Council’s current investment managers had ethical or socially-responsible policies.

The Strategic Director – Resources referred to the difficulty of meeting everybody’s “ethics” and that criticism could be faced should ethical investing substantially affect investment growth.

A member noted that too much intervention should not take place, as a decision not to invest in some fields, such as tobacco, would have a detrimental affect on poor workers in some countries. It was also suggested that a percentage of the Fund could be invested ethically, but it was warned that this could also create difficulties should the percentage of ethical investments perform poorly.

Serious consideration was given to adopting the following social, environmental and ethical procedure:

- The prime objective of the Fund would be to achieve the best financial return consistent with an acceptable degree of risk.
- However, the Fund recognised that the adoption by companies of positive social, environmental and ethical principles in planning their activities could enhance their long-term performance and financial returns.
- The Fund had delegated to the fund managers responsibility for taking social, environmental and ethical considerations into account when assessing the financial potential and suitability of investments. The investment managers must work positively with companies to promote forward-looking social, environmental and ethical standards, rather than adopting a policy of negative screening of stocks.

**RESOLVED to be cautious before taking formal steps to this direction, to ask the Hymans Company to report on the latest situation regarding ethical investment, and specifically whether there is any evidence regarding the returns of 'ethical' investment funds, and that the report be submitted to this Committee.**