RESPONSIBLE INVESTMENTS: STATEMENT OF BELIEFS

This following revised Statement of Beliefs on RI for the Merseyside Pension Fund (MPF) is drawn from a recent report that was commissioned in 2018 against the wider backdrop of MPF's decision to review its overall investment strategy and to safeguard the future sustainability of the scheme. The report reflects major policy and market developments, and is supported by the views of MPF Stakeholders through a stakeholder engagement exercise.

- **A strong RI policy should be seen within the context of the long-term and future-proofing the Fund.**

  Context: DCLG 2017 Guidance on Investment Strategy Statements requires LGPS to take ESG into account. Existing UK Pensions Regulator guidance recognizes that pension funds are exposed to long-term risks, which includes risks such as climate change. Leading European public sector funds and best practice LGPS place a major emphasis on a long-term investment strategy.

- **ESG factors will materially affect investment performance over the long-term.**

  Context: UK regulatory guidance highlights that ESG issues can be financially material. The European Commission Action Plan on Sustainable Finance (following up the 2018 High-Level Expert Group report) places ESG within the context of pursuing a long-term approach in respect of financial activity. Progressive European asset owners contend that responsible investing need not be at the expense of financial returns, and that investors make better investment decisions if they consider structural sustainability and responsible business factors.

- **A strong RI policy is entirely consistent with a responsible asset owner's fiduciary duty.**

  Context: Existing LGPS guidance places emphasis on the relationship between the "prudential" approach towards investment and ESG as part of its statutory responsibilities. The Commission, as part of its Action Plan, has tabled legislation relevant to "investor/fiduciary duties" which seeks to integrate sustainability risks into the investment decision-making processes of institutional investors. MPF Stakeholders strongly believe that integrating ESG is consistent with fiduciary duty.

- **A strengthened RI strategy chimes with the Fund's core philosophy about the importance of active risk management.**

  Context: The Fund's existing risk management policies state that risk is inherent in many of its activities that external advice and best practice should be used to identify and mitigate risks. There is already a dedicated MPF Governance and Risk Working Party.

- **Risk can be mitigated through diversification of the portfolio.**

  Context: Stakeholders support a diversified investment strategy, which helps not only to mitigate risks but also to identify opportunities. The value of diversification is highlighted in the UNPRI Asset Owner Strategy Guide on how to craft an investment strategy.

- **The promotion of ESG criteria (as opposed to a divestment-led approach) in decision-making supports an active engagement approach.**

  Context: The Fund's existing policy is based on engagement rather than screening companies; and that engagement means influence. This approach is in line with the policy of progressive LGPS funds. Stakeholders are united in the view that MPF should continue to be active with its engagement of investee companies.

- **The Fund's approach towards active engagement, through its various channels and membership organisations, strengthens the Fund's ability to be a capable steward of capital, and also reflects its public sector ethos.**

  Context: This is supported by the first belief in the importance of engagement. But it is also a reflection of stakeholder support for the view that the Fund should use its membership of key forums and organisations in its responsible stewardship role.

- **The exercise of voting rights is consistent with an asset owner's fiduciary duty.**

  Context: MPF's RI policy has the exercise of voting rights as one of the core components. Recent UNPRI guidance states that asset owners can be effective stewards of their assets through voting, as well as engagement.

- **Social impact investing is compatible with a strong RI policy.**

  Context: DCLG guidance for LGPS is explicit that "social impact Investments are compatible with the prudent approach, providing administering authorities have good reason to think scheme members share the concern for social impact, and there is no risk of significant financial detriment to the fund".