



Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

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Item 7(b)

25th November 2020

Appointment: Responsible Investment Engagement Services

Purpose of Report:

To conclude a tendering exercise for a responsible investment engagement service provider.

Recommendation:

The Committee is asked to **APPROVE** the appointment of **GES International / Sustainalytics** to provide responsible investment engagement services.

Ward No(s):

Citywide: ✓

Local member(s) advised: Yes No consulted: Yes No

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1 Background

Responsible investment engagement services use the influence provided through stewardship of clients' combined holdings to encourage investee companies to enhance their business performance by adopting better environmental, social, and corporate governance (ESG) practices. The service is provided as an overlay that does not interfere with the investment manager's portfolio construction or selection. Most engagement services entail some level of interaction with their clients and encourage client initiative regarding engagement activities.

The current provider for responsible investment engagement services, GES International, was appointed in January 2015. A tendering exercise to review this arrangement was included in the 2020/21 Business plan. This is described below.

2 Tendering Process

In line with the efficiency and effectiveness aim of the Council's Corporate Procurement and Commercial Improvement Strategy 2018 - 2022 (which promoted consideration of National and Collaborative Frameworks), it was agreed that the most appropriate procurement route to deliver this contract would be a mini-competition process under the National Local Government Pension Scheme (LGPS) Stewardship Advisory Services Framework Agreement Lot 2 ("the Framework") reference NCCT40936.

3 Mini-Competition

The tendering exercise commenced on 19th September 2020 when an Invitation to Mini-Competition was issued to all 6 suppliers appointed to the Framework.

The 6 suppliers who received the mini-competition documentation were:

- BMO Asset Management Limited (trading as BMO Global Asset Management)
- Hermes Equity Ownership Services Limited (EOS at Federated Hermes)
- Robeco UK
- GES International AB Sweden (trading as Sustainalytics)
- Ethical Investment Research Services Ltd (EIRIS or Vigeo Eiris)
- Pensions & Investment Research Consultants Limited (PIRC)

Of the 6 suppliers appointed to the Framework, 4 suppliers submitted a tender by 15th October 2020, the deadline for submissions. Of the 2 suppliers which did not submit a tender: 1 indicated that it could not deliver all the requirements outlined in the scope; and the other failed to confirm why the organisation did not bid.

The mini-competition documentation included a detailed scope of the services required by the Fund and requested responses to 12 technical questions designed to assess the quality of each of the supplier's proposals, as well as seeking detailed pricing information for commercial and value for money assessment. Fair work practices were also assessed, and details of voluntary community benefits were requested. The mini-competition award criteria were divided as follows:

- | | |
|---------------------------------|-----|
| ▪ Quality - Service Fit | 65% |
| ▪ Quality - Fair Work Practices | 5% |
| ▪ Price | 30% |

The evaluation panel comprising officers of the Fund and the Corporate Procurement Unit (CPU) assessed the tender responses and allocated a score to each candidate. CPU assessed the pricing and fair work practices submissions and allocated a score to each candidate. The final scores for each candidate were as follows.

▪ GES International / Sustainalytics	75.4%
▪ BMO Asset Management Limited	72.8%
▪ Hermes Equity Ownership Services Limited	68.0%
▪ Robeco UK	63.7%

On the basis of the award criteria GES International / Sustainalytics tendered the most advantageous proposal for the Fund.

4 **GES International / Sustainalytics**

In January 2019 GES International was acquired by Netherlands based Sustainalytics. The acquisition combined Sustainalytics' market leading environmental social and governance research and ratings with GES' engagement and screening services. Following the integration, Sustainalytics manages over 700 clients from 17 offices worldwide, with more than 600 team members, including over 200 analysts with multidisciplinary expertise across more than 40 sectors. The company's security-level ESG Risk Ratings are well-known among institutional asset managers and pension funds integrating ESG factors into their investment processes and decision-making. Sustainalytics' ESG research and ratings also underpin numerous indexes and sustainable investment products. Sustainalytics offers data on 40,000 companies in 172 countries and provides an engagement universe covering more than 23,000 companies which includes listed equity, fixed income, and private equity issuers. The engagement with companies on material ESG issues aims to raise sector standards in alignment with the UN Sustainable Development Goals (SDG) agenda.

5 **Implementation**

Appendix A provides a summary of scope of service required by the Fund.

Subject to conclusion of contract the appointment will be effective from 1st January 2021 and will run until 31st December 2026. There is also an option to extend the contract for a further 12 months.

6 **Policy and Resource Implications**

Resource Implications:

Financial: Total cost of the contract will depend on the specific service required including additional consultancy and client directed work. Net total cost of the contract is expected to be in the region of £120,000 per annum. This is in line with current expenditure for this service. Prices are fixed for the duration of the contract.

Legal: Standard call-off terms are agreed with suppliers when the framework is put in place, allowing only for minor amendments by clients. These terms have already been reviewed by a GCC solicitor.

Personnel: No direct personnel implications

Procurement: The framework and call off process are described in sections 2 and 3 above. The process was conducted in accordance with European procurement rules.

Council Strategic Plan: Strathclyde Pension Fund aligns with the theme of a well governed city.

Equality and Socio-Economic Impacts:

Does the proposal support the Council's Equality Outcomes 2017-22

The procurement supports best practice in the procurement of services. Equalities issues were addressed in the tender process within the Fair Work Practices assessment. Sustainalytics is committed to fair work practices and maintains comprehensive policies on diversity and inclusion, wellbeing, and equality.

What are the potential equality impacts as a result of this report?

No specific impact from this proposal.

Please highlight if the policy/proposal will help address socio economic disadvantage:

Sustainability Impacts:

Environmental:

Sustainalytics is a member of the UN Global Compact and follows its ten principles, which include risk assessments in fundamental business processes to minimize the negative impact on the environment. Sustainalytics offsets emissions associated with business and commuter travel and has recycling across all offices.

Social, including opportunities under Article 20 of the European Union Procurement Directive:

Sustainalytics is committed to fair work practices and maintains comprehensive policies on diversity and inclusion, wellbeing, and equality.

Economic:

n/a

Privacy and Data Protection impacts:

To be provided for in the legal documentation for the proposed service.

7 Recommendation

The Committee is asked to approve the appointment of **GES International / Sustainalytics** to provide responsible investment engagement services.

Scope of Service

Core Deliverables

- Develop and undertake an engagement programme with the scope and emphasis of the programme agreed with SPF. Priority themes for SPF currently include climate change, human rights, labour standards, the environment, public health, business conduct and corporate governance.
- Undertake ESG analysis across multiple asset classes ensuring due consideration of the UN Sustainable Development Goals (SDGs) and provide written updates on work undertaken and associated outcomes or recommendations.
- Identify suitable opportunities and undertake collaborative engagement initiatives with other investors, responsible investment organisations and networks on behalf of SPF. SPF may from time to time instigate an initiative which the supplier will then take forward on SPF's behalf.
- Advice and support on developing and implementing a climate change strategy.
- Appraisal and benchmarking of external investment manager engagement and voting activity. This includes but is not limited to, equities, bonds, real estate, private markets, and alternatives.
- Provision of quarterly and annual reporting on all activity undertaken on behalf of SPF.
- Provision of advice and input to annual reporting for the Principles of Responsible Investment (PRI) survey, the UK Stewardship Code 2020, and the Task Force on Climate-Related Financial Disclosures (TCFD). Including quantitative and qualitative data. Provision of information for SPF's Annual Report.
- Create and deliver high quality presentations on a range of ESG topics and provide internal ESG briefing notes and position papers.
- Support SPF in the process of the measuring and reporting of sustainability and impact.
- Real time access to a web based online portal containing all ongoing and recently completed engagement activities in order that SPF can utilise the information for research and company engagement on an as needs basis.

Ad hoc requirements

- Advice on the development of an optimal responsible investment policy and setting suitable responsible investment objectives and strategy.
- Advice on incorporating ESG issues into ownership policies and practice.
- Supporting the successful integration of engagement best practice into SPF's investment processes and decision-making
- Assistance with ongoing training for Fund officers, committee, and board members.
- SPF may also seek advice and bespoke research on other related areas.

GES International / Sustainalytics will ensure the services are delivered in an environmentally sustainable manner and seek opportunities to minimise the environmental impact of their operation throughout the life of the contract.