Agenda Item No: 6

Infrastructure Fund(s) Selection

To: Commercial and Investment Committee

Meeting Date: 19th March 2021

From: Director: Business Improvement and Development
Chief Finance Officer

Electoral division(s): All

Forward Plan ref: N/a

Key decision: No

Outcome: That the Committee consider further diversification of the Council's treasury investment portfolio to include Infrastructure funds. That the Committee takes account of the risks and reward of such an investment, in view of the Council's Treasury Management Strategy and the due diligence undertaken by the appointed independent advisor.

Recommendation: The Committee is invited to:

a) Note the contents of this report

b) Endorse the diversification of the treasury investments into Infrastructure Funds

c) Consider its view on the acceptability of the volatility and sector exposure of Fund D, in particular, as detailed in section 3.2 and 6.3

d) Endorse the deployment of investment funds across Fund A, Fund C and Fund D, according with section 6.2 and 6.4, noting that the Chief Finance Officer will determine the exact timing and distribution of funds pursuant to the treasury management strategy

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Background

1.1 Guided by this Committee, since 2019, the Council has diversified the investments it holds for treasury management purposes. Traditionally the Council had either held balances as cash or cash equivalents, that is as highly liquid and highly secure with a low (currently very low) yield or to reduce the level of borrowing required as part of the capital financing requirement (known as "internal borrowing"). By taking a longer-term view over the certainty of balances available for investment and utilising external borrowing earlier, greater diversification of treasury management investments is being implemented. This has meant investment into a pooled property fund, a diversified income fund (multi-asset including equities), and a multi-class credit (MCC) fund (predominantly bonds). These investments had a longer-term outlook, with reduced liquidity or security but a more favourable yield and return on balances.

1.2 In November 2020, in line with the current Commercial Strategy, Commercial and Investment Committee's investment group identified in the region of £20m of further funds available through treasury management that could be deployed on a medium/longer term footing. It is anticipated that this will reach the upper limit of scope of funds available for treasury management purposes. The group agreed to explore investment into a Green Infrastructure and/or Clean Energy fund/s, to further diversify the portfolio. This pursues the strategy set out by the appointed investment independent advisor in 2020 as a suitable asset class to target, following on from multi-class credit.

1.3 The scope of this investigation was to assess investment options that must meet the requirements of the Council's treasury management strategy, and a financial income target whilst seeking to meet the Council's environment, social value and governance (ESG) objectives and contribute value to (our) net zero carbon strategies and approach. Earlier research during the MCC investment indicated an infrastructure-based fund with some focus on green initiatives may be the most appropriate next investment reflecting both the preference of Cambridgeshire County Council (CCC) of environmentally sustainable practices and the real possibility for a reasonable return in the current economic climate, without compromising on significant risk profiles.

1.4 Following a procurement exercise in November 2020 Arlingclose Limited were appointed as investment advisers for this specific investment selection. Arlingclose are an experienced treasury advisor and finance consultancy with a large public sector client base, and very familiar with advising local authorities.

1.5 At the end of January 2021, Arlingclose Limited presented their initial report for further consideration and due diligence to Officers. The initial fund review exercise by Arlingclose Limited gathered a long list of twenty-four funds that met the initial screen criteria – based on security, liquidity, yield, under the treasury management strategy. Further analysis and application of specific criteria including preferences for UK domicile, high ESG approaches and a preference for infrastructure and environmentally positive funds, resulted in seven of these funds recommended for initial review by CCC.

1.6 On 4th February at the C&I Investment Group meeting, Members agreed the following recommendations from Officers:

1.6.1 That four of the seven recommended funds be put forward for further due diligence investigation. (Confidential Appendix A for details of these funds)

- The Council splits the £20 million investment across two or more of the funds recommended following due diligence by Arlingclose Limited.

- The Council concentrates the majority of the funds available in the Infrastructure Funds category as yield is a significant pre-requisite (valuation gains or losses cannot be immediately accessed under the IFRS 9 disregard) and the Infrastructure universe appears to be larger in number and broader in diversification than Green Energy.

1.6.2 It was recommended by Officers and agreed by Members that the funds might be aligned as follows:

- Primary Infrastructure Fund Investment of between £12-£15 million: UK orientated, cleaner, medium volatility. This would be either Fund A or Fund B.

- Secondary Investment of between £5-£8 million: either Fund C clean energy or Fund D global infrastructure.

1.7 Arlingclose Limited were tasked to undertake detailed due diligence investigations on these four nominated funds and make recommendations for the most aligned investments to CCC requirements.

1.8 At the end of February 2021, Arlingclose Limited presented the results of the due diligence exercise on the four nominated funds and made investment recommendations to Officers (full report available in Confidential Appendix C).

2. Due Diligence Process and Findings

2.1 A desk exercise was undertaken during the first phase of shortlisting appropriate investment funds for further consideration. The following selection criteria were applied to make recommendations in line with the scope of Council investment requirements. (Appendix B for details of ESG approaches).

Criterion	
Income	o Income must be distributed and preferably on a regular basis (at least annually) o No formal income target stated but priority given to higher income levels – (informal discussions between Officers and Arlingclose indicated a 4-5% expectation)
UCITS (undertakings for collective investment in transferable securities)	o Investments must not count as capital expenditure under the local authority capital financing regulations o For pooled funds this means being structured under relevant UCITS • Relevant UCITS are either UK UCITS or EEA UCITS (post 31/12/20) the latter to be FCA authorised as UK UCITS before 31/12/23 • For detailed review during due diligence stage
UK Domicile	Preferred
GBP sterling	For funds, having a GBP share class if the base currency of the fund is not GBP and cost of hedging to be clearly understood
ESG	o To be as exclusive as possible without significant impact on income; considered acceptable for a fund to be moving towards exclusivity but not fully exclusive on day 1 of the investment

	○ No universally agreed definitions ○ UN Principles of Responsible Investment (UNPRI) – 3 Approaches • Integration (ESG factors built into product) • Thematic (contribution towards stated goals with measurable outcomes) • Screening (filters based on investors preferences)
Qualitative criteria	The themes of green energy, infrastructure etc

2.2 A further, more detailed due diligence investigation was undertaken on the four selected investment funds. This included in-depth conversations with their Fund Managers. In all twenty-seven criteria were considered during the due diligence phase including commentary by Arlingclose Limited on each fund. The due diligence criteria reviewed were as follows:

Company Overview	Company Background	Location	Overall Assets Managed	Fund Focus
Fund Details	Fees	Income Distribution	Fund Management Resource	Investment Objectives
Benchmark	Targets	Investment Philosophy & Style	Investment Instruments	Portfolio Construction
Stock Positions	Risk Analysis & Control	Fund Liquidity	Investor Concentration	Fund Turnover
Hedging	Swing Pricing/Dilution Levy	Reporting	ESG/Sustainability	Portfolio Composition
Fund Holdings	Fund Performance	Arlingclose Commentary		

For detailed Fund Manager responses see Confidential Appendix C - Arlingclose Limited Report February 2021

2.3 Arlingclose Limited believes all four funds are well run products fitting with the Council's financial objectives and likely ESG criteria.

2.4 Analysis of each of the funds are illustrated in the table below for comparison purposes:

Risk	Fund A		Fund B		Fund C		Fund D	
UCITS*	✓		✓		✓		✓	
Domicile	UK		UK		UK		UK	
Fund Inception	Dec 2017		Jan 2016		Dec 2017		July 2016	
Fund AUM	£532m		£700m		£247m		£775m	
Asset Class	Equities (Investment Trusts)		Equities (Investment Trusts)		Equities (Investment Trusts)		Equities	
Base Currency	£ Sterling		£ Sterling		£ Sterling		£ Sterling	
Fees	0.65% p.a. (charged to capital)		0.65% p.a. (from income)		0.70% p.a. (charged to capital) [+]		0.87% p.a. (including management fee, charged to capital)	
Income distribution	Quarterly/ex-dividend		Quarterly/ex-dividend		Quarterly/ex-dividend		Quarterly/ex-dividend	
Benchmark annual income target	5% through dividends		Aims for 5% however no formal target (MSCI UK Index illustrative)		Aims for 4.5% however no formal target (S&P Clean Energy Total Return Index illustrative).		Outperform OECD G7 Inflation Index +5.5% over 5 years.	
ESG credentials	UN PRI, UN Global Compact, UN SDG's, UK SIFA		UN PRI, UN Global Compact, UK Stewardship Code 2020 (aspiration), TCFD		UN PRI, UN Global Compact, UK Stewardship Code 2020 (aspiration), TCFD		UN PRI (2010), ESG factors incorporated into processes and applied consistently. Engagement with boards on ESG issues, monitors and votes at meetings	
Hedging	Non-GBP holdings non-hedged at fund level		N/A		Non-GBP holdings in alternative currencies ($ and €) which may use tactical hedging to manage volatility		Non-GBP holdings in alternative currencies. Costs of hedging borne by relevant hedged share class	
Return – Total (£ return per £1m)	1 yr.	-1.09% (-£10,900)	1 yr.	-3.48% (-£34,800)	1 yr.	26.34% (£263,400)	1 yr.	7.27% (£72,700)
	3 yrs.	8.01% (£81,000)	3 yrs.	5.29% (£52,900)	3 yrs.	19.88% (£198,800)	3 yrs.	10.39% (£103,900)
	5 yrs.	N/A	5 yrs.	6.32% (£63,200)	5 yrs.	N/A	4.3 yrs.	8.17% (£81,700)
Volatility	1 yr.	20.6%	1 yr.	19.5%	1 yr.	22.6%	1 yr.	25.2%
	3 yrs.	7.6%	3 yrs.	7.4%	3 yrs.	11.6%	3 yrs.	12.7%
	5 yrs.	N/A	5 yrs.	5.6%	5 yrs.	N/A	4.3 yrs.	11.8%
Liquidity	Good		Good		Good		Good	

Other		Co-manager structure, potential "soft close"	Co-manager structure, if continued strong growth in 2021 income yield estimated at +/- 3%, 6% holding in gas	Broad global portfolio with holdings of 13.4% in gas and 16.1% in renewables

*UCITS – complies with the EU UCITS Directive and on gaining FCA approval before 31/12/2023 will devolve to UK UCITS
+ The minimum investment at this rate (re-negotiated by Arlingclose) is £8m

Past performance does not guarantee future results and the Committee is cautioned that it should not rely on past performance as a guarantee of future investment performance.

2.5 Fund pairings were identified to enable effective comparison for both a primary and a secondary investment. Further, the primary and secondary funds approach enables deeper comparison and consideration of diversification and risk.

2.6 Fund comparisons to enable investment decision:

2.6.1 Primary Investment - Fund A vs. Fund B: These are similar funds and they are the most obvious competitors of the four funds. Fund B invests in a slightly wider range of assets while Fund A's performance has been stronger over the past three years. However, risks in Fund B are the lack of co-manager structure (as the secondary advisor does not appear to be as active in the fund on further questioning) and the potential for a soft closure of the fund in the relatively near future.

2.6.2 Secondary Investment - Fund C vs. Fund D: These funds are not direct competitors, and their strategies are distinct given Fund C's thematic focus on majority clean energy. They are both global funds but Fund C is weighted towards the UK whereas Fund D is the more globally diversified. From an income perspective, Fund D aims for a higher level of income, and on the capital side Fund C has seen particularly strong growth in the past one year (however, the Fund Manager commented that recent growth may not be as rapid going forward but they believe the long-term outlook remains good overall).

3.0 Risk and Treasury Management Strategy

3.1 The Treasury Management Strategy adopted by Full Council in February lists investment in Infrastructure funds as non-specified investments. This means that whilst the Council has decided they are an authorised form of investment that can form part of the portfolio, additional care, caution and due diligence is required relative to the financial investments they will be replacing. The Treasury Strategy is clear that the Council will prioritise security, liquidity and yield, *in that order.* It is important to note that risk is increasing by taking on these investments, principally that capital values can decrease (i.e. they are less secure than cash) and that the funds can be "gated" reducing liquidity. Members will want to consider that the additional potential benefits in terms of diversity and yield are commensurate with the additional risk exposure, across the whole portfolio. The following sections consider the key risk and selection factors in more detail and note the UK focus and solid regards to ESG as mitigations.

3.2 Volatility: Across all four funds volatility is within normal parameters for the Equities share class. It is worth noting that volatility is greater in this share class than in the Bond market where the MCC investment is positioned, or any other category of treasury investment that the Council is so far exposed to. Fund D has slightly higher volatility than the other funds. This is due to the underlying nature of its investments. Infrastructure investments in this class function as underlying assets not equities and Fund D comprises a mix of both Infrastructure and Equities. In a wider portfolio however, Fund D volatility is within normal parameters especially when taking a longer-term view.

3.3 Diversity of Funds: Three of the funds are explicitly focused on Infrastructure and the fourth includes renewable energy infrastructure (a sub class of infrastructure) indicating significant overlap in Fund holdings. Fund D has the least overlap in comparison because of its global rather than UK specific focus. The uncertainty of the Covid 19 pandemic has impacted the market with a higher degree of correlation than would be usual in non-Covid 19 times. 2020 represents around 30% of the data from the four funds. In the longer term it is anticipated that the funds will display greater divergence with one another. When compared with current Council investments the level of diversity was slightly more.[1] Therefore some consideration should be given to the mix between the primary and secondary investments.

3.4 Yield and ESG link: While the ESG credentials of the selected funds are important, income is an important consideration in recommending this investment. A high level of ESG would mean less choice and less diversification of funds, impacting the risk profile of the investment and the wider Council investment portfolio. Our experience from the MCC investment and the analysis of this investment so far does indicate the more exclusive the ESG, the lower returns in the current climate (see Confidential Appendix D); this will need to be monitored over the medium to long term. To expand opportunity and mitigate risk it was necessary to broaden the ESG requirements of the Council in the scope of this investment.

3.4.1 All four funds have strong ESG credentials with Fund D being the only one to report the impact of its investing activities to the UN Principles of Responsible Investment annually. Funds C and D both invest in natural gas (average 9.7%), viewed as a "bridging" energy source in the medium term, while more green energy infrastructure is developed. In recent years Fund Managers have been working together in a stewardship capacity to influence and impact their investments to become "greener". By investing, CCC could help to further influence. However, should a small percentage of the funds remain invested in natural gas in the medium term we could, through the liquidity afforded due to using Treasury Management rules, divest from these funds so as to not negatively impact our organisational ambition for net zero.

3.4.2 It is understood that we are unable to eliminate the use of natural gas for some delivery, and in some sectors some production of carbon will remain in these earlier years of our net zero ambition by 2050. This is relevant to investments when considering infrastructure funds.

3.5 Net Zero Carbon Investment: It is very difficult to take a view on this measurement in part because everything we do has a carbon impact on the environment. Currently carbon disclosures for the investment world is under consideration with some Funds developing their own ratings underpinned by EU Directives[2]. At this time, the focus of these activities is on agreeing the data sets that will be used as reporting criteria by investment funds globally. The expectation is that a taxonomy will be developed and harmonised across all investment classes in the near future in order to standardise information.

4.0 Comparison of Funds alongside current Council portfolio and "do nothing" scenario.

Please note, that funds' historic performance is outlined here and is no predictor or guarantee of future returns but can provide an indication of funds' success in achieving their income targets over time.

[1] Correlation Analysis that includes the MCC investment is not possible at this time as the Fund is newly constituted and relevant annual figures are not available.
[2] MiFID II

Under a “do nothing” scenario the Council would not reduce its internal borrowing and would instead utilise the long-term available working capital balances to finance the capital programme. For comparison purposes, a reasonable baseline is the cost of the additional borrowing that will be required as a result of the diversion of these funds to treasury investment. Using a 5-year PWLB maturity loan interest rate as a proxy, the additional cost to the Council is 1.1%. The income returns below can be compared to this when considering relative return.

Name		**Capital Return**	**Income Return**	**Total Return**	**£ yield per £1m**	**Volatility**
Fund A	1 year	-5.81%	4.72%	-1.09%	-£10,900	20.6%
	3 years % p.a.	2.87%	5.14%	8.01%	£81,000	7.6%
Fund B	1 year	-7.88%	4.40%	-3.48%	-£34,800	19.5%
	3 years % p.a.	0.45%	4.83%	5.29%	£52,900	7.4%
	5 years % p.a.	1.45%	4.87%	6.32%	£63,200	5.6%
Fund C	1 year	22.71%	3.63%	26.34%	£263,400	22.6%
	3 years % p.a.	15.74%	4.14%	19.88%	£198,800	11.6%
Fund D	1 year	2.03%	5.24%	7.27%	£72,700	25.2%
	3 years %p.a.	4.81%	5.59%	10.39%	£103,900	12.7%
	4.3 years % p.a.	3.41%	4.76%	8.17%	£81,700	11.8%
Existing CCC investments						
Diversified Income Fund	1 year	-4.93%	3.19%	-1.77%	-£17,700	13.6%
	3 years % p.a.	-0.30%	3.17%	2.87%	£28,700	7.1%
Property Fund	1 year	-4.88%	4.32%	-0.56%	-£5,600	3.1%
	3 years % p.a.	-1.32%	4.23%	2.91%	£29,100	2.0%
	5 years % p.a.	-0.41%	4.22%	3.81%	£38,100	2.6%

4.1 When considering the impact of this proposed investment on the current investment portfolio held by the Council some diversification may be gained by investing in any of the four funds in relation to the LA Property Fund. Investing in more than one fund has been recommended by Arlingclose from a diversification perspective. Fund A and Fund B, although comprised of different underlying assets have very similar objectives and exposures and do not add diversity relative to each other. Fund D, with a more global profile is differentiated from Funds A, B and C. Both Funds C and D have some exposure to natural gas.

4.2 All four funds have outperformed the current CCC portfolio, in terms of yield, over the past three years.

5.0 Summary of Findings

5.1 Based on previous performance, the highest income return would be achieved by a combination of Funds A and D, with both achieving over 5% p.a. income return (< £50,000 per £1m invested), followed by a combination of Funds B and D.

5.2 Lower income returns would be achieved if Fund C was the secondary investment to Funds A and B. However, Fund C achieved stronger capital returns than the other three funds and is the most directly aligned to “clean energy”. Investing in Funds B and C would have achieved the lowest returns over the period.

5.3 It is not recommended that Fund B and Fund C be invested in as a combination of primary and secondary investments as they share the same fund manager. It is not recommended that Fund A and Fund B be invested in combination due to their very similar investment objectives.

5.4 There is a slightly increased risk associated with the key person in Fund B and the fund is approaching a “soft close”.

5.5 While Officers proposed a primary and a secondary investment in their recommendations to Members with a view to spreading the investment across two funds, Arlingclose Limited have suggested an alternative third option.

5.5.1 The suggested secondary allocation had been to either Fund C or Fund D. Fund D has achieved strong income returns and offers diversification in the overall portfolio. Fund C is a good fit with the Councils desire for “green” investments and is well positioned to benefit from the global energy transition.

5.5.2 Arlingclose Limited have suggested that the secondary allocation be split between Fund C and Fund D. The inclusion of Fund C helps to inform the selection of the primary investment of Fund A to avoid holding investments with the same fund manager.

5.5.3 The combination of Funds C and D as the secondary investment is worth considering as while it would not offer a higher income level (a drop of 0.25% p.a. compared with the Funds A and D combination) and it has a slightly higher volatility, it still provides a strong income of over 5% p.a. combined with capital growth and an acceptable level of volatility. Importantly this combination offers the greatest diversity in the Council portfolio, reducing the risk of too much correlation, and meets the desire for “green” investments.

5.5.4 Taking account of the principles in the treasury strategy, the diversity offered by this additional investment is a key consideration. Members will appreciate that the approach outlined does heighten the risk of decreased security and liquidity, but these factors can be mitigated to some degree by the increased diversity that they bring. It is also important that the Council continues to keep under the review the wider portfolio from this perspective. The Council had planned to increase the investment in the multi-class credit fund. However, from a yield and diversity perspective, transferring £2m of the funds notionally earmarked from multi-class credit now appears to be a more optimised approach.

6.0 Conclusions and Recommendations

6.1 Following this due diligence exercise Arlingclose Limited consider that all four funds selected are suitable for consideration for investment.

6.2 Taking account of the findings in section 5, and the detailed report prepared by Arlingclose, Officers are minded to recommend an investment envelope of £22m (transferring £2m from the provisional allocation for multi-class credit), divided as follows:

Fund	Amount	Rationale
A	£10m	Strong income returns whilst being UK focused, broad infrastructure assets
C	£8m	Narrower clean energy focus, small investment in natural gas (6%)
D	£4m	Higher volatility but within normal parameters and some exposure to natural gas (13.4%), pleasing income returns and global diversity to form part of the portfolio.

6.3 It is suggested that the Committee will wish to indicate whether they are comfortable that Fund D forms part of the portfolio, taking account of its global and natural gas exposure and slightly higher volatility. If Members are not comfortable with its inclusion, this would lead to a redistribution across funds A and C.

6.4 Under the Treasury Management strategy approved by Full Council, the Chief Finance Officer is authorised to make the investments above. Clearly given this is a sensitive new area the CFO wishes to fully consult with this Committee and ensure its endorsement. The investments will also be noted at the General Purposes Committee, which supervises the Council's treasury management activities. As with other Treasury investments the exact timing and distribution between funds will be determined and varied by the Chief Finance Officer, based on advice from the treasury team, the retained treasury advisor and, with respect to these investments, Arlingclose Limited.

7. Alignment with corporate priorities

7.1 A good quality of life for everyone

There are no significant implications for this priority.

7.2 Thriving places for people to live

There are no significant implications for this priority.

7.3 The best start for Cambridgeshire's children

There are no significant implications for this priority.

7.4 Net zero carbon emissions for Cambridgeshire by 2050

There are some implications for this priority at this time due to one or more of the fund options having a small percentage invested in natural gas, however, a positive inclusion of investments focused towards green and clean energy and infrastructure helps support the approach and influence CCC are seeking. Currently the availability of ESG exclusive investment in these fund classes are limited when applying the requirements of Treasury Management and seeking financial returns with appropriate diversity and volatility to manage risk. Some discussion has been had with CCC's Energy Investment Unit to understand not all sectors can eliminate the use of natural gas in the short to medium term especially, and that an overall balance across activities will be required – not all, at this time, can be net zero and meet financial or exposure to risk standards. As described earlier, it is very difficult to take a view on this measurement in part because everything we do has a carbon impact on the environment. Currently carbon disclosures for the investment world is under consideration with some Funds developing their own ratings underpinned by EU Directives[3]. The expectation is that a taxonomy will be developed and harmonised across all investment classes in the near future in order to standardise information, however it is currently still being developed.

8. Significant Implications

8.1 Resource Implications

The report above sets out details of significant implications in section six.

The Council is contemplating this investment using its Treasury Management powers. Our assessment is that the Council has sufficient cash flow certainty over the next 3 -5 years to be able to hold funds invested rather than as cash or to require the full extent of the authorised external borrowing level. In simple terms, this £22m is available because the Council's actual level of external borrowing is less than its calculated borrowing requirement. This means that it is financing the difference through 'internal borrowing', that is to say cash sums in hand or healthy working capital balances. By investing these sums instead, the Council will need to increase its external borrowing (and apply this to the capital programme) in cash flow terms, thereby releasing the surplus cash or working capital for this investment.

8.2 Procurement/Contractual/Council Contract Procedure Rules Implications

All procurement and contract management protocols are in place and regularly monitored by Commercial Service officers.

8.3 Statutory, Legal and Risk Implications

The Council has received advice from Arlingclose Ltd as a professional investor. Under the regulatory regime this relies on the treasury management expertise, professional standing and registration of the Chief Finance Officer and CCC Treasury Team.

The Committee needs to fully consider the risk implications for security and liquidity, and assure itself that it is comfortable with the increased risk from this form of investment relative to the baseline position, that there is commensurate likelihood of return to offset those risks, and that the Council can take a sufficiently long-term view to realise that position.

As it stands, the Council adopts the statutory override from MHCLG for the accounting standard IFRS 9 which means fluctuations in capital values are not recognised through usable reserves prior to March 2023. At this time, there is no confirmation that from April 2023 downwards movements in the capital value will not need be charged to revenue in the year that they arise.

8.4 Equality and Diversity Implications

[3] MiFID II

There are no significant implications within this category.

8.5 Engagement and Communications Implications
There are no significant implications within this category.

8.6 Localism and Local Member Involvement
There are no significant implications within this category.

8.7 Public Health Implications
There are no significant implications within this category.

Have the resource implications been cleared by Finance? Yes
Name of Financial Officer: Tom Kelly

Have the procurement/contractual/ Council Contract Procedure Rules implications been cleared by the LGSS Head of Procurement? Yes
Name of Officer: Gus De Silva

Has the impact on statutory, legal and risk implications been cleared by the Council's Monitoring Officer or LGSS Law? Yes
Name of Legal Officer: Fiona McMillan

Have the equality and diversity implications been cleared by your Service Contact?
Yes or No
Name of Officer: N/A

Have any engagement and communication implications been cleared by Communications?
Yes or No
Name of Officer: N/A

Have any localism and Local Member involvement issues been cleared by your Service Contact? Yes or No
Name of Officer: N/A

Have any Public Health implications been cleared by Public Health Yes or No
Name of Officer: N/A

Appendix B

Environmental, Social and Governance Approaches

The Council desires, as part of its commitment to its net zero carbon strategy, to invest with consideration of Environmental, Social and Governance (ESG) factors. Currently there are no universally agreed and accepted set of ESG definitions and metrics. These issues are often based on personal values, conviction and perception and there is no agreed method to integrating them into investment processes. Any decision is likely to be subjective and will rely on investors own assessment of ESG factors and the risks they bring over the long term.

The United Nations has developed Principles for Responsible Investment (UN PRI) as a method for encompassing ESG in equity investments. These three approaches can be used singly or in concert:

Approach	
Integration	explicitly building the impact of ESG factors into fundamental analysis, research and security valuation and balance sheet strength
Screening	non-financial filters based on the investor's preference, values or ethics which are applied to the investable universe to determine eligible securities: o Norms based screens: these use minimum standards set by recognised bodies or frameworks, e.g. the UN's Global Compact and its Guiding Principles on Business and Human Rights, International Labour Organisation's Conventions, etc. o Negative screens: which avoid or reduce exposure to particular companies with products/services/business practices with a poor ESG record or based on the investor's criteria and parameters. o Positive screens: these include the best performers by ESG performance and/or practices relative to industry peers and may look to effect positive outcomes.
Thematic	identifying challenges and opportunities and allocating capital that will contribute towards particular goals and which have measurable outcomes o Impact investing is a subset of thematic investing with the purpose of achieving meaningful, additional environmental or social outcomes which, in the absence of that investment, would not have been achieved.