General Osteopathic Council

Council
25 November 2021
Investment portfolio: Environment, Social Governance (ESG)

Classification	Public
Purpose	For decision
Issue	The existing GOsC investment framework requires transparency around environmental and social governance (ESG). This paper starts to provide that transparency and commits to reporting annually to Council on the ESG performance. There is still significant cash holdings within the portfolio and it was suggested at the July 2021 meeting that a decision would be required from Council as to whether it should be invested or returned to be deposited into the GOsC account.
Recommendation	1. To continue to focus on a responsible investment approach, which will include the monitoring, reviewing, and annual reporting to Council on the ESG Portfolio Sustainability Score ratings. 2. To reinvest the cash holding within the investment portfolio.
Financial and resourcing implications	If Council elects to exclude investments that report adverse ESG Portfolio Sustainability scores, this will reduce investment opportunities.
Equality and diversity implications	Investing according to ESG principles could be an important accelerator towards equality, diversity and inclusion.
Communications implications	None arising from the paper.
Annex	None.
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Key messages from the report:

- Brewin Dolphin attended Council in July 2021 and spoke about current best practise which included Environmental, Social Governance (ESG). Council requested a paper in November.

- ESG already forms part of the investment decisions made by Brewin Dolphin; however, we have not previously made that explicit to Council.

- We will be providing more transparency on our investments by monitoring the ESG scoring, which we will report to Council on an annual basis, as part of the investment update paper.

- Our existing portfolio is performing very well in terms of those funds which have been scored as part of ESG.

- The reinvestment of the cash held in the portfolio is recommended, as much of the uncertainty around the financial position during the pandemic has eased.

Background

1. Brewin Dolphin and Fairstone Asset Management reported to Council in July 2021, on the GOsC investment portfolio. They discussed current best practise, agreeing to deliver guidance and advice on ESG.

2. There was an undertaking to assist the GOsC in the development of a paper for the November 2021 Council meeting.

3. Fairstone Asset Management also advised that there remained a significant cash holding within the portfolio, suggesting a decision would be required from Council as to whether it should be reinvested or returned, to be deposited into the GOsC account. It was agreed this would be discussed in November.

Discussion

Environmental, Social Governance:

4. The use of performance factors to evaluate how advanced an organisation is with sustainable investment is defined as Environmental, Social and Governance (ESG). The acquired data can then be integrated into the investment process when deciding what equities or bonds to buy.

5. The objective of our investment is to produce real return exceeding the prevailing rate of inflation and bank deposit rates over the longer term, via a combination of income and capital growth. The Portfolio is benchmarked against a Private Investor Income Index. The performance of our funds has outperformed the annual target of 4.1%, showing an average return of 14.26% (net of adviser fees and management charges).

6. The strategic alignment of investments with an organisation's core values and purpose can be defined as responsible investing. This is not a new phenomenon, however, of late there have been some significant developments in the ability to analyse investments from a responsible standpoint. There has been a rising interest in this area from charities as they become more aware of their choices and their ability to take a stance on such issues through their investment strategy.

7. One of the biggest barriers to responsible investing has been the argument that investing in this way may cause underperformance in the broader market. Although the exclusion of specific sectors or companies can mean that performance differs from the benchmark, there is growing evidence that financial returns need not be compromised when investing responsibility.

8. The existing investor framework that the GOsC employs with Brewin Dolphin defines responsible investment as a strategy and practise to incorporate ESG factors in investment decisions and active ownership.

9. There are 3 pillars of sustainability that underpin the investment activities with Brewin Dolphin:

   - Responsible Investment: Ensuring that they offer us the right responsible investment choices.

   - Stewardship: Ensuring responsible ownership of the assets that they hold for us.

   - Responsible Business: Ensuring they are a company that seeks to have a positive impact on society

10. The analysis of ESG risks and opportunities is already embedded within the investment process used on our behalf. These factors are considered when investment research is conducted, be it into a direct holding or a pooled fund.

11. In discussion with Brewin Dolphin and Fairstone Asset Management, we recognise that we have not provided sufficient transparency to Council through our previous reporting of how ESG is part of our current approach.

12. At Brewin Dolphin, in terms of their Business Development (BD) process, there is consistent engagement with managers on material ESG issues as well as having a separate socially responsible investment (SRI) list of assets and this can be broadly broken down as follows:

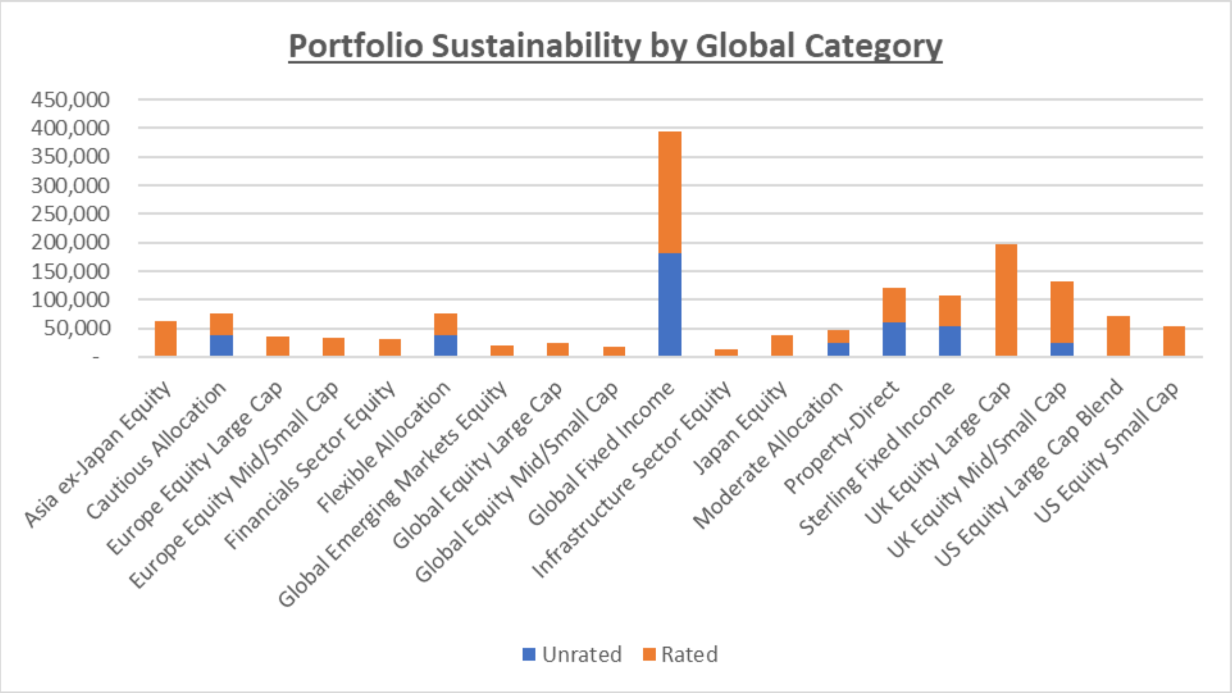
	Core BD Funds	SRI Preferred Funds
Culture	Awareness of ESG	Embedded ESG Culture
ESG Integration	ESG issues considered	ESG Fully integrated
Stewardship	Vote their shares	Industry-leading engagement
Reporting	Making efforts to report and be transpararent	Strong transparency and reporting
Exlusions	No criteria required	Aligned with BD exclusionary policy

13. The ESG Risk Rating evaluates the residual unmanaged ESG risk exposure of a company after taking into consideration its risk management strategy. The rating is presented on a 0-100 scale, the lower the score the better the management of ESG risk. The Morningstar Portfolio Sustainability score is an asset-weighted average of Sustainalytics' company-level ESG Risk Score, which measures the degree to which a company's economic value may be at risk driven by ESG factors.

14. At present 37% of our investment portfolio fund is yet to be rated, and Brewin Dolphin have advised that this will be built on in the future, but the initial data suggests that our standard investment proposition is favourable in terms of ESG, as 100% of the rated investments score below 30.

15. We are advised by Brewin Dolphin that an ESG rating of below 30 is very good and better than best practice.

16. The graph below illustrates the proportion of rated products from our investment portfolio, by global category:



Next steps:

17. Brewin Dolphin assess the risks and opportunities within the ESG framework, as the investment portfolio is solely directed towards collective investment vehicles. By remaining with our existing investment strategy with Brewin Dolphin, we can be reassured that sustainability is a priority across their business, with their board and executive management team setting and reviewing their sustainability strategy.

Cash reinvestment:

18. Due to the uncertainty last year, around our financial position because of the impact of the pandemic, we held cash in the portfolio amounting to c.£120,000. In the meeting of Council held in July 2021, Council was assured that the Audit Committee had considered information provided by the Executive and it had concluded that the GOsC remained a going concern.

19. In addition, the revenue streams continue to perform well against budget, and as such we no longer feel that the portfolio should hold such a large amount of cash and this should be invested in the portfolio.

Recommendation:

1. To continue to focus on a responsible investment approach, which will include the monitoring, reviewing, and annual reporting to Council on the ESG Portfolio Sustainability Score ratings.

2. To reinvest the cash holding within the investment portfolio.