



Report of: Corporate Director of Finance and Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	9 November 2015		

Delete as appropriate	Exempt	Non-exempt

SUBJECT: RESPONSIBLE INVESTMENT IN EQUITIES- DISINVESTMENT FROM SOCO INTERNATIONAL

1. Synopsis

- 1.1 A report on the background to Islington Fund's investment policy on social and responsible investment and discuss the options available to exclude unethical investments in particular SOCO International taking due regard to its fiduciary duty and legal position.

2. Recommendations

- 2.1 To consider the extent to which social, ethical or environmental implications can be taken into account in investment decisions as per the agreed Statemnet of Investment Principles
- 2.2 To authorise the Corporate Director of Finance to disinvest the pension fund from its investment in Soco International and reinvest the provceeds in other FTSE All Share Companies as part of the In House Tracker Fund as far as it is legal and adhering to its fiduciary duty.

3. Background

3.1 The Company- SOCO International

SOCO International plc is a United Kingdom-based oil and gas exploration and production company. The Company has oil and gas interests in Vietnam, which includes Block 9-2 and Block 16-1; Republic of Congo (Brazzaville), which includes Marine XI Block and Nanga II A; the Democratic Republic of Congo (Kinshasa), consisting of Block V and the Virunga National Park, and Angola, consisting of Cabinda Onshore North Block. The Company's operations are located in South East Asia and Africa. It holds its interests in Marine XI and the Nanga II A Blocks in Congo (Brazzaville) through its 85%-owned subsidiary, SOCO Exploration and Production Congo SA (SOCO EPC). It holds its interests in the Democratic Republic of Congo (Kinshasa) through its 85%-owned subsidiary

SOCO Exploration. It also holds a 60% working interest in the Mer Profonde Sud Block, offshore Congo (Brazzaville) through its wholly owned subsidiary, SOCO Congo BEX Limited.

- 3.2 London-listed Soco International has been criticised in the past two years by conservationists including WWF and Sir David Attenborough for its attempt to drill in Virunga in the Democratic Republic of Congo (DRC), which is a world heritage site and home to around half the world's mountain gorillas.
- 3.3 Soco reached an agreement last summer with WWF to rule out exploration within the park, but critics have since raised concerns that the company has not ruled out exploration if the boundary changes. The DRC's prime minister has said he wants to allow oil exploration in the park and has said, "Soco had brought the issue of the boundary to the government's attention."
- 3.4 The Church Commissioners responsible for the Church of England investment fund disinvested from Soco in 2015 after consideration by their ethics committee for the following reasons the failure to publish an independent inquiry into the human rights abuse allegations or adopt best practice environmental and social standards; concerns over the independence of the board and chairman; and a failure to explicitly rule out future drilling if the park's boundaries changed .
- 3.5 **Statement of investment principle(SIP)policy**
Members reviewed and agreed its social and responsible investment considerations after seeking legal advice from Counsel in November 2014
- 3.6 The current SIP policy on social ethical and environmental considerations states that:
- 24 The Pensions Sub-Committee, as the administering authority, is aware of its fiduciary responsibility to obtain the best possible financial return on investments over appropriate investment periods, within acceptable levels of risk and will apply this principle when making investment decisions on behalf of the Islington pension fund.
- 25 The Pensions Sub-Committee takes the view that well-managed companies that evaluate and assess their social and environmental impacts are likely to add shareholder value in the long term more successfully than companies that do not manage these impacts. In considering its choice of investments in **segregated funds**, priority will be given to achieving a wide variety of suitable investments that is best for the financial position of the Fund. It will encourage its Fund managers to work positively with companies to promote forward- looking social, environmental and ethical standards and integrate **Environmental, Social and Governance (ESG)** into their investment decisions.
- 26 The Fund will use its position as shareholder to actively engage with companies by appropriate means collectively or individually, to ensure best practice in the management of these impacts and in line with the Council's 'Fairer Islington' corporate approach, and in particular the key policy objectives of promoting fairness and sustainability.
- 3.7 **Islington's Pension Fund Investment**
The Islington Fund currently holds 37,000 shares in SOCO international valued at £58,367 the end of September and this is 0.03% of the index. It is owned as part of the In House Passive Fund which tracks the FTSE All Share Index within a +/-0.5% range per annum. As a tracker fund it operates under a buy and hold policy. The stock selection and % of institutions is determined with a Barra software using the optimisation method. The software therefore replicates the characteristics of the full index and determines which stocks and what percentage within the risk parameters and tracking errors. As such the index holds 644 institutions by market capital value but the In House fund only holds 296 .

- 3.8 The size of the SOCO holdings is small and as such a sale to disinvest will not impact on the tracking error. The stock can be sold immediately if it is so wished or can be part of sales and purchases the next time the Fund rebalances.

4. Implications

4.1 Financial implications:

- 4.1.1 Policies which restrict the range of investments available in the universe of possibilities carry a potential cost as there is a risk that the Fund will become less diversified and the volatility of returns could increase, without accompanying additional reward.

- 4.1.2 Fees for advice and engagement services are chargeable to the Pension Fund

4.2 Legal implications

- 4.2.1 As the administering authority for the pension fund, the Council owes a fiduciary duty both to the scheme employers and scheme members. The Council must exercise its discretionary powers rationally for a proper purpose and by reference to legally relevant considerations.

- 4.2.2 This means that in exercising its powers to invest fund monies it must make its choice of investments for investment purposes and not for some other purpose. Investment decisions must therefore be directed towards achieving a wide variety of suitable investments and to what is best for the financial position of the fund (balancing risk and return in the normal way). Further, investment decisions must be consistent with the Council's investment policy formulated under regulation 11 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

- 4.2.3 The precise choice of investment may be influenced by wider social, ethical or environmental considerations so long as that does not risk material financial detriment to the fund and the Council's Statement of Investment Principles provides for such considerations to be taken into account in the selection and realisations of investments. The SIP was amended in November 2014 to permit this. In taking account of such considerations the Council, as administering authority should not seek to impose its particular views where those would not be shared by other scheme employers and members in the fund.

- 4.2.4 The power to invest includes the power to realise investments for the purposes of reinvestment.

- 4.2.5 The Council's shareholding in SOCO international is held as part of the in house tracker fund. It would be lawful to reach a decision to sell those shares and reinvest the proceeds in other companies in the FTSE All Share Index provided that such sale and reinvestment will not materially adversely affect the performance of that fund (taking into account any transaction costs) or the ongoing tracking error

4.3 Resident Impact Assessment:

- 4.3.1 The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding."

- 4.3.2 A resident impact assessment has not been conducted because the investment is already in place and the sale being proposed will not have any sizeable impact on the Fund.

4.4 Environmental Implications

- 4.4.1 These are set out in this report.

5. Conclusion and reasons for recommendations

- 5.1 SOCO International is a UK listed mining company that has received a lot of criticism because of exploratory work in a world heritage site and the alleged bribery, human rights violation and corruption, though there is no evidence directly linked to the company. It has a strong financial position, with no debt on the balance sheet and attractive Vietnam production economics providing strategic flexibility.

Our current SIP takes the view that well-managed companies that evaluate and assess their social and environmental impacts are likely to add shareholder value in the long term more successfully than companies that do not manage these impacts. It will encourage its Fund managers to work positively with companies to promote forward-looking social, environmental and ethical standards and integrate **Environmental, Social and Governance (ESG)** into their investment decisions.

The passive fund is run on a buy and hold policy. Sale of our holdings will not have any financial impact on the tracking error of the passive fund.

Appendices

Background papers:

Final report clearance:

Signed by:

Received by: Corporate Director for Finance and Resources Date

Head of Democratic Services Date

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