committee on workers' capital

trustee profile
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About:
Ircantec

Ircantec (a pension fund for non-tenured employees of the state, territorial authorities and public bodies) is a supplementary pension scheme managed by a joint board of trustees with 34 members (16 employer representatives, 16 beneficiary representatives and two qualified members). The scheme has a pay-as-you-go and a statutory reserve component.

In 2016, the scheme had 9.8 billion euros invested in bonds, shares, real estate and alternative investments (including private equity and impact investing). The board of trustees holds a fiduciary duty and delegates 90 % of its assets to external managers.

Ircantec's mission is "to provide information, manage the contributions and individual retirement accounts, pay the retirement pensions, and propose - under certain conditions - individual or collective social assistance."

Préfon

Préfon established an individual, optional supplementary pension scheme for civil service employees, former employees and their spouses in 1967. It is managed by a board of trustees composed of a maximum of 40 members. The members of Préfon's governance structures are from the four founding trade union federations – FO, CFDT, CFTC and CGC – or official representatives of the civil service.

Préfon does not directly manage the Préfon-Retraite pension scheme fund. Instead, it holds a group insurance policy with CNP Assurances, reinsured by AXA, Groupama and Allianz, through which each insurer is responsible for the scheme's financial management.

Préfon's mission is to offer civil servants and employees working for state-owned enterprises social security, notably in the form of supplementary retirement pension schemes. It represents members in dealings with the public authorities and the funds' investment managers. It ensures respect for the principles of solidarity, social progress and equality in the management of the funds through the selection of socially responsible investments.

An Interview with Philippe Soubirous

Philippe Soubirous is Vice-President of Préfon and a board member at Ircantec, where he represents plan members as a representative of French union Force Ouvrière. He is also the co-founder of the Réseau d'administrateurs pour l'investissement responsable (Trustee Network for Responsible Investment), known as RAIR, in France.

1. Why were you interested in becoming a pension trustee?

My interest developed through my work in the trade union movement, which began with work on legal issues such as pension law. Over time, I was asked to take part in boards of trustees and I developed an interest in pensions. I am trained as a lawyer and I worked in the courts for 7-10 years. During the pension reforms implemented in France in the 2000s, I worked on the legislation regulating pensions. I have always carried out this work within Force Ouvrière, the French trade union.

2. How are the values of the beneficiaries you represent reflected in the funds you manage? And how has this changed over time?

First of all, we should note that the issue of financial and extra-financial pension reserves management is a very recent one. Up until the 2008 crisis, no substantial questions were asked. The emergence of the ERAFP (Établissement de Retraite Additionnelle de la Fonction Publique Pension Scheme) was a game changer, since its trustees opted for a very robust socially responsible investment (SRI) policy as soon as the plan was established.

The beneficiaries' values are reflected in two different ways. Firstly, in terms of the plan governance structure, which brings together employer and worker representatives. The trade union representatives clearly contribute social values, such as the principles of solidarity and respect for rights. These values have been formalized and articulated in the form of SRI charters. The charters were drawn by bringing principles and strategies - such as security

The CWC Trustee Profile Series features interviews with union-nominated pension fund trustees and touches on the role of individual board members in driving innovation around responsible investment at their funds.

selection and shareholder engagement - to the table. Universal values and principles such as those enshrined in international conventions are given priority.

Ircantec was quick to adopt a very well-structured SRI charter. Under this plan, the board of trustees has a fiduciary duty that requires this approach. Préfon, on the other hand, has completely delegated its asset management and it endeavours to share its SRI approach with the insurers who have fiduciary responsibility over the assets and their management. The growing global overall awareness of the issues at stake assists us in setting extra-financial guidelines for the plan.

3. How do you strike a balance between the organisation's/ employees' common values, your own values and the need to generate financial yields in your decision making as a trustee?

The balance is achieved by bringing neutrality and objective elements into the debate between the stakeholders on the board of trustees. We do this by setting a primary goal of securing pension rights, which creates an obligation for prudent financial management of the assets. There was a debate, at one point, in which some argued that by doing good, we risked earning less money, or none at all. That is no longer an issue. Returns are, and will always be, the primary goal.

The second way is to share the idea that we have a social responsibility when we invest pension contributions in capital markets. That is, assets can be put to work, but not at any price. Everyone agrees with this - some out of conviction and others out of fear of reputational risk. This gives rise to an ethical and responsible approach that translates into a collectively accepted framework. The key is to refer to external and undisputable factors, such as the international conventions signed by France. No one can argue that we shouldn't respect the law by which everyone must abide. The same applies to more flexible legal instruments, such as those of international organisations like the OECD.

It is, therefore, by defusing the debate, and being very professional in our approach, without losing sight of our fiduciary duty, that we find a balance in SRI.

4. What are the key elements that empower you to consider ESG/responsible investment in the development of board policies?

There are several elements. The first is the choice of the fund. I would argue that SRI is subjective, and therefore a matter of choice. SRI in Islamic finance is not the same as in Nordic countries, which is not the same as what is practised in France. Accordingly, the board of trustees has to make a number of ethical choices. In our retirement schemes for public employees, this has translated into the adoption of SRI charters (e.g. Préfon, Ircantec).

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Regulations and public policies also have to be taken into account. The first is the obligation to respect legal obligations. Investing in a company that manufactures prohibited goods is inconceivable. In terms of policy, we have an obligation to disclose measures taken to calculate our carbon footprint or to ensure that our choices and actions support the transition to a low-carbon future (e.g. Préfon, Ircantec).

Then there are the shared beliefs, such as the values of solidarity between workers and between countries that trade unions bring.

We have not heard much from our beneficiaries regarding the issue of SRI. That said, we know they are interested inethical and responsible asset management. We often come under pressure following controversies such as Rana Plaza, Dieselgate or executive pay at Nissan-Renault. It goes without saying that reputational risk and controversies compel us to take action and impact our SRI policy choices.

Finally, fiduciary networks – such as the network of trustees for responsible investment, the RAIR, which is very close to the CWC – constitute a very strong lever that enable us to share information and practices or even organise shareholder coalitions.

5. What are the key elements that limit your ability to incorporate ESG/responsible investment factors into the policies of the board of trustees?

The first limit is our fiduciary duty, which is to ensure that the pensions are safe and that they prosper.

If we implemented a large-scale exclusion policy, the risk would not be spread over industrial sectors or geographical zones, and our portfolios would be weakened by the lack of diversification. So we are obliged to constantly strike a balance between the need to be rigorous in our responsible investment choices and the need to ensure the fund generates returns.

Then there are the less formal obstacles and limitations linked to the domestic context in France. If we implemented large-scale exclusions of sectors such as the nuclear industry in France, a country where 80 per cent of the electricity produced is from nuclear power plants, we would be faced with a serious social problem in the very short term.

Let's not forget that we are representatives of trade union organisations, which defend the material and moral interests of workers in all sectors. So we can't say to a group of them, "sorry but we're going to destroy your industry and make you lose your jobs because the world has to change." The ultimate goal of SRI cannot be separated from the immediate impact.

That's why at Ircantec we have opted for an approach balancing best-in-class and exclusion, which allows us to maintain sectoral, geographical and asset class diversification. In this way, aside from fundamental exceptions, if we invest in an industry that pollutes, such as cement, we will try to select the best (in terms of ESG) in the sector and endeavour to encourage them move towards energy or industrial transition technologies.

6. As a trade union nominated trustee, what consideration do you give to trade unions calls for action around ESG issues?

I am a trade unionist. The ESG approach is clearly oriented towards social issues. When a controversy arises involving trade union related issues, workers' rights, working conditions, etc., we try to deal with them as best possible. It's not that I ignore environmental controversies, but as a trade unionist, I am obviously more mindful of social issues.

7. What is your most memorable instance discussing and debating an ESG issue at your board?

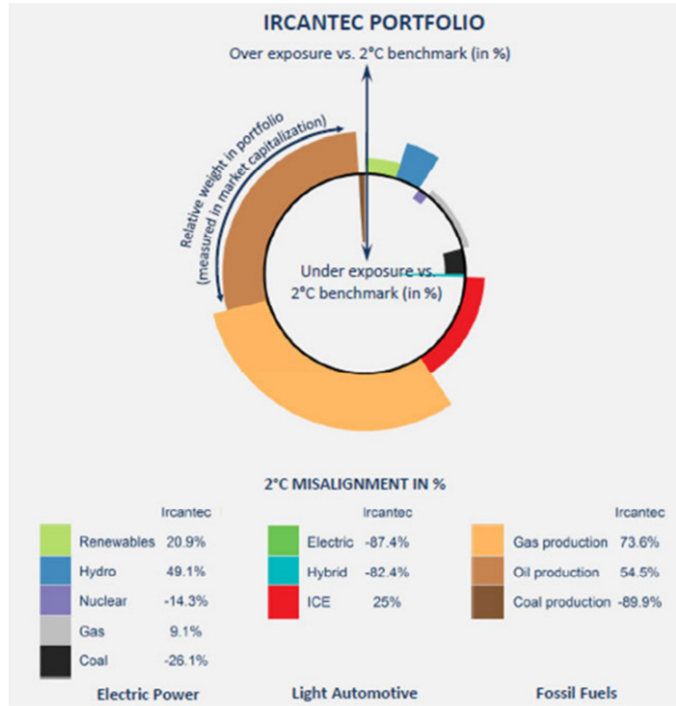
The environment is the least controversial issue on the board of trustees. Social issues are sometimes difficult, and corporate governance even more so. But everyone agrees when it comes to fighting global warming. The main topic at most of the funds I speak with is the carbon footprint.

One significant event was when pioneering funds such as ERAFP managed to play an influential role in the adoption of Article 173 of the Law on the energy and environmental transition. The article requires all financial institutions to report on the carbon footprint of their portfolios. The PRI's Montreal Carbon Pledge was also decisive in encouraging funds to clearly commit to a policy of portfolio decarbonisation.

For once, the finance sector, which is accustomed to being criticized for destroying the planet, proved itself capable of taking measures designed to protect global interests.

This law is just starting to be applied. Retirement funds, with their SRI approach, are clearly one step ahead of the law. They conceptualise and prepare, through their practices, the laws to come. What we are observing is a posteriori regulation: it is the practices already in place that are giving rise to legislation concerning SRI.

Estimate of Ircantec's portfolio's alignment with a 2 degree scenario in 2020.



Source: https://www.ircantec.retraites.fr/sites/default/files/public/dossier_ircantec_prix_climats2.pdf

8. What were some of the challenges you encountered when trying to make progress on the issue?

The challenge has been the method: how were we going to link carbon footprint to our best-in-class approach?

First of all, we had to understand what we were talking about. Coal is used in many technological applications. We could easily produce electricity without using coal, but steel cannot be made without coal!

The method we use distinguishes between two types of coal: thermal coal used in the production of electricity and coking coal used in the production of steel. At Ircantec, we set a 30 per cent threshold on the use of coal in the energy mix of a company for it to be considered for inclusion within our portfolio.

The analysis then involves examining, on a company-by-company and mechanical basis, whether to retain or remove companies that exceed this threshold.

Determining what constitutes an acceptable level of use is complex. We cannot say to a large company like ENGIE (formerly GDF-Suez), which uses 20 per cent coal in its energy production, that "it has to be zero per cent or we're not buying shares!" As part of our best-in-class approach, we have a duty to understand ENGIE's strategy, which is to gradually phase out the use of coal.

But we nonetheless maintain a critical outlook: what proportion of coal does it use in Australia to produce electricity, for example? A recent TV documentary showed how entire communities in Australia were frustrated with ENGIE's coal-fired power plants. It cannot be said that all is well with France's rivers if there is one that is completely polluted and nine that are healthy.

To summarize, we were in agreement on the principle but we had to be very cautious about how we set the criteria within the framework of our best-in-class approach.

"We are not looking to create difficulties with our SRI approach. We are working to build awareness and push companies to improve their practices."

As a responsible investor, can we agree to invest in a company that uses upwards of 30 per cent coal in electricity production?

Yes, we can, if phasing out fossil fuels is clearly part of the company's business strategy. It has to be recognised that the current thresholds correspond to domestic economic and industrial realities. It's part of the game to understand that and to encourage a transition.

We are not looking to create difficulties with our SRI approach. We are working to build awareness and push companies to improve their practices.

9. How did you resolve the issue? What helped you to resolve the problem?

Historically, it is clear that trade union side trustees have been the driving force behind the SRI approach and the reason is ideological: in France, we don't like the stock market. It's a cultural trait. The prerequisite for administering pension funds was that an SRI approach had to be taken. The consensus we reached with the employers was built on the validity of the approach in order to avoid any ideological debate.

With regards to our carbon footprint, we didn't have to turn to outside experts simply because there was a relative consensus. There is no disagreement over our commitment to SRI because the times we live in make it essential.

The problem is when we get to the nuts and bolts, that is, measuring the impact. Shareholder engagement is what causes the most controversy between the trade union and employer-appointed trustees. The employer side argues that it isn't up to shareholders to interfere in the management of companies, while the trade union side maintains that executives have to be held accountable in their management of a company.

In the case of public pension funds, it is difficult for the employer representatives to allow a pension plan to criticise a French company given that they represent the public authorities. As a result, the trustees representing the employers, barring a few individuals, often remain very discreet and silent because they represent the public authorities. The side acting in the area of SRI on most pension trustee boards are the trade union representatives.

10. What are some of the emerging ESG issues facing pension trustees?

SRI has become an accepted and established approach; it is in the process of being organised by the market and the public authorities. I personally, however, would advocate for autonomy in the approach to SRI. Major investors must be able to maintain control over their SRI approach. That's why I'm not in favour of systematic SRI labelling for the big pension funds; they can use labelled products but it will not help in terms of leveraging the social transformation and defending workers' rights. We shouldn't sit back and leave it up to the service providers to tell us "don't worry, we're SRI, we're able to supply clean, green products...champagne and whatever else is needed!"

We also need to work more on the impact of SRI policies. The method is there now, tailored to the specificities of each fund. But impact is more complicated. First, there's the impact of the investment and the impact of social responsibility, such as when companies are criticised through shareholder engagement. Measuring impact is going to be the main SRI objective in the next 15 years. The RAIR is holding a conference on the subject in October 2017.

The notion of impact is variable and multifaceted: when I decarbonise, am I contributing to the social transition brought about by the energy transition? Where are workers in the nuclear industry going to work in the future?

When I invest, I have to consider every aspect of these impacts.

11. What is one piece of advice you would give to individual trustees who are interested in improving the ESG policies at their fund?

Strive to assess and deepen the impact of your work, organise within peer networks (trustee, trade union, national and international networks), but also on a wider scale, fully understand the environmental, social and governance stakes. It is a position that requires you to read the newspaper every day.

2600-1055 West Georgia Street, Vancouver, BC V6E 3R5 Canada **T:** +1 604.695.2023 **E:** info@workerscapital.org