

**LEICESTERSHIRE PENSION FUND****MONDAY 18 NOVEMBER 2019****QUESTION TIME****Question by Mr Richard Grenfell:**

1. In the Statement of Investment Principles, section 4.2 Funding Risks, should the climate emergency be included as a systemic risk?
2. As part of the ESG principles section 7.0, given the climate emergency and the need to find more sustainable investments, is it time for the LGPS fund to divest itself of all direct and indirect exposure to fossil fuels, if not already done?

**Reply by the Chairman:**

1. The Leicestershire Pension Fund is currently in the process of consulting on the revised Investment Strategy Statement (ISS) which has replaced the mentioned Statement of Investment Principle's. Section 6.2 Asset Risk in the ISS covers this and highlights the risks and mitigation for the Pension Fund which describes systemic risk as, 'the possibility of an interlinked and simultaneous failure of several asset classes and / or investment managers, possibly compounded by financial contagion, resulting in an increase in the cost of meeting the Fund's liabilities.' The climate emergency does not neatly fall within this description and as such its importance is captured within section 8, Responsible Investing which covers our wider approach to environmental, social and governance (ESG) factors. The risk states that 'financial markets could be materially impacted by climate change and by the response of climate policymakers. Responsible investors should proactively manage this risk factor through stewardship activities, using partnerships of likeminded investors where feasible.' The Fund has committed to take responsible investment matters seriously and would not appoint an investment manager unless they could also evidence their RI considerations as an integral part of their investment decision-making process. Following the consultation period for the ISS we will look at making the linkage between the two sections (risk and RI) clearer so that the importance is apparent.
2. The overall objective of the Fund is to "provide pension and lump sum benefits as and when they fall due for members or their dependents." We aim to do this whilst maintaining our ESG principles as outlined in the Investment Strategy Statement. The Fund is part of LGPS Central, which exists to invest the pension funds of eight local authorities, which have total combined assets of over £40billion and as such has significant influence. LGPS Central has a

dedicated Responsible Investing team which is utilised in a variety of ways to influence RI matters and is a signatory to the Principles of Responsible Investing (PRI). Being a signatory requires adherence to 6 principles. Principles 2 and 3 are of particular note:

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

As a result, LGPS Central will vote and influence companies in line with the stated policy on a variety of RI matters. We feel that working with company boards to highlight RI issues is a better use of our voting rights than divesting and losing our 'seat' at the table to influence improving RI which we believe can improve risk adjusted returns in the long run to the benefit of the members in our Pension Fund.