



LOCAL PENSION BOARD – 3 FEBRUARY 2020

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

DRAFT RESPONSIBLE INVESTMENT PLAN

Purpose of the Report

1. For the Board to note the Responsible Investment (RI) Plan 2020 (Appendix A) to enable the Leicestershire Pension Fund (the Fund) to improve management of responsible investment risks.

Background

2. The relevant regulations and guidance for this paper are noted below:
 - The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016
 - 7(2)(e) the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
 - 7(2)(f) the authority's policy on the exercise of the rights (including voting rights) attaching to investments.
 - Relevant statutory guidance: "Local government pension scheme: guidance on preparing and maintaining an investment strategy statement"
 - UK Stewardship Code 2020
3. Leicestershire County Council Officers have developed a 2020 RI plan (Appendix A) with LGPS Central's in-house RI team.
4. In November 2019 the Scheme Advisory Board (SAB) published a consultation on draft Responsible Investment Guidance. The draft explains the existing regulations and statutory guidance to administering authorities in order to make their current duties clear. "Part Two" of the guidance is expected to follow the SAB's meeting on 3rd February 2020. Whether the Ministry of Housing, Communities, and Local Government (MHCLG) intends to review the regulations and statutory guidance is unclear.

Responsible Investment and Stewardship Definition

5. The term 'responsible investment' refers to the integration of financially material environmental, social and corporate governance ("ESG") factors into investment processes. It has relevance both before and after the investment decision and is a core part of our fiduciary duty. It is distinct from 'ethical investment', which is an approach in which the moral persuasions of an organisation take primacy over its investment considerations.
6. The term stewardship is defined by the Financial Reporting Council's (FRC) Stewardship Code (2020 version): "Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society."

Adherence to the UK Stewardship Code 2020

7. The 2020 Stewardship Code represents a significant increase in level of ambition compared to the 2012 version. Even current signatories will need to review their approach to stewardship, and reporting thereof, in light of the new code. Were the Fund to decide to sign the Stewardship Code, reporting would not be required until 2021. The Fund currently undertakes a minority of the activities required for compliance with the 2020 code. This includes having a published policy and investment beliefs, and company engagement via LGPS Central. Many of the remaining compliance requirements including communication of stewardship activities, integration of ESG and climate change investment factors, monitoring fund managers for ESG form our recommendations below.

Responsible Investment Plan 2020

8. Central's in-house RI team have reviewed our current compliance and state that the fund, 'achieves compliance via its Investment Strategy Statement with the minimum regulatory standard.'
9. This draft plan improves on the approach and beliefs detailed in the Investment Strategy Statement.
10. The draft RI plan for 2020 is shown below.
 - It includes a number of improvements from our current reporting and sets the fund up to review its readiness for becoming a signatory to the UK Stewardship code 2020.
 - Inclusion of Climate Risk Report bought to us by LGPS Central's in-house RI Team. This report will analyse our listed equity and corporate bonds to produce a number of reports including carbon footprints and exposure to green revenues.

Timeline	Title	Description
Q4 19/20	Communicate RI Strategy	Publication of the Fund's RI plan.
	Responsible Investment Guidance	SAB expected to issue final guidance in February. Fund draft response, including update of this plan to Local Pension Board before report to Committee.
	RI Training for Local Pension Board	
Q1 20/21	Quarterly stewardship reporting	Inclusion in Committee papers of LGPS Central's Quarterly Stewardship Report
	RI Training for Local Pension Committee	
	Voting report inclusion in Committee papers	Reporting explaining the execution of shareholder voting on the Fund's listed equity investments. To include funds managed by LGPS Central and LGIM initially.
Q2-Q3 20/21	Quarterly manager reporting on ESG	The formal inclusion by external fund managers of ESG information in quarterly reporting in order to facilitate regular monitoring.
	New manager selections: integrate ESG where relevant	Include an ESG assessment in processes for appointing fund managers.
	Receive Climate Risk Report	Report comprising (i) Climate scenario analysis (ii) Carbon risk metrics (iii) Annual Climate Stewardship Plan.
Q3 20/21	Climate Strategy	Publish a climate strategy based on the key findings of the Climate Risk Report. To be done ahead of Hymans Robertson's 2021 strategic asset allocation refresh so the Fund can fully embed their RI strategy in investment decision-making.
	Climate Risk Training	Training of pension fund officers, Pension Committee and Pension Board on the risks and opportunities associated with climate change, and the Fund's Climate Strategy.
	TCFD Report (Taskforce on Climate related Financial Disclosures)	Public-facing report of the Fund's approach to climate risk, set out in alignment with the recommendations of the Taskforce on Climate-related Financial Disclosures
	Mid-year review	Assess preparedness for UK Stewardship Code Review RI Strategy and capture any developments in the regulations, statutory guidance, or RI Guidance from the Scheme Advisory Board.
	Annual Report	Revised report including new RI content, review by Board before approval at Committee.

Recommendation

- It is recommended that the Local Pension Board notes the Responsible Investment Plan 2020.

Equality and Human Rights Implications

9. None.

Appendix

Appendix A: Draft Responsible Investment Strategy

Background Papers

None

Officers to Contact

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