



LOCAL PENSION COMMITTEE – 28 FEBRUARY 2020

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

QUARTERLY STEWARDSHIP REPORT UPDATE AND RI TRAINING

Purpose of the Report

1. The purpose of this report is to update the Committee on LGPS Central's (Central) approach to Responsible Investment and quarterly stewardship report (Appendix A).

Background

2. Leicestershire County Council Officers have developed a 2020 Responsible Investment (RI) Plan (Appendix A) with LGPS Central's in-house RI team which was agreed by the Committee on 24 January 2020. One of the items on the plan was to bring to the Committee LGPS Central's quarterly stewardship report and for Local Pension Committee members to undertake RI Training.
3. 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.
4. 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."

LGPS Central Responsible Investment

5. Central's approach to RI and Engagement carries two objectives:
 - i. Support the Company's objectives:-
 - ii. Be an exemplar for RI within the financial services industry and raise standards across the marketplace

These objectives are met through three pillars:-

- Selection of assets
- Stewardship of assets
- Commitment to transparency and disclosure

6. Central identified four Stewardship themes in conjunction with Partner Funds to target to ensure focused engagement on themes that are important to them. The presentation (Appendix B) to be delivered by Central's Stewardship manager will highlight specific examples relevant to the Fund.

LGPS Central Stewardship October – December 2019

7. During the quarter, Central, (either directly, in collaboration or via contracted stewardship provider) have engaged with 1561 companies on 2876 engagement issues. Engagement covered 754 issues and achievement of some or all objectives in 678 occasions.
8. In line with the four agreed Stewardship themes Central engaged as follows:-
 - i. **Climate change** – engagement comprised 319 companies and 377 engagement issues. Engagement activity on 175 issues with achievement on some or all objectives on 137 occasions. For example, together with ten other investors Central co-filed a shareholder resolution at Barclays Plc asking the company to disclose targets to phase out the provision of finance to energy and utility companies that are not aligned with Paris Agreement goals.
 - ii. **Single-use plastics** – the engagement set comprised 24 companies with 33 engagement issues. Engagement activity on 17 issues with achievement on some or all objectives on seven occasions. For example, Central, with a group of other investors, led by Hermes EOS, met the Head of Packaging Campaigns alongside the investor relations director at a large UK retailer. The aim was to understand the current plans to reduce packaging, including plastics packaging. A key question was if the company set clear targets for reduction. The company explained that, in principle, they would like to see 100% reduction where possible, because a lower target may not incentivise some suppliers to aim high.
 - iii. **Fair tax payment and tax transparency** - the engagement set comprised 10 companies with 13 engagement issues. Engagement activity on four issues with achievement on some or all objectives on one occasion. Responsible tax behaviour is a relatively new theme for both investors and companies. Central are therefore actively seeking collaboration with likeminded investors and have in this quarter formed a collaboration with four other European investors.
 - iv. **Technology and disruptive industries** - the engagement set comprised 43 companies with 82 engagement issues. Engagement activity on 25 issues with achievement on some or all objectives on 11 occasion. Central have this quarter continued collaborative engagement, led by the New Zealand Crown-owned investors, aiming for social media companies to strengthen controls around the live streaming and distribution of objectionable content. The engagement is targeting Alphabet, Facebook and Twitter.

9. Please note that these statistics are not specific to products that Leicestershire Pension Fund has invested with Central. In future, and as part of the Funds RI Plan the Committee will receive more detailed reporting on voting and stewardship undertaken by Central.

Recommendation

10. It is recommended that the Local Pension Committee notes the Quarterly Stewardship Report.

Equality and Human Rights Implications

11. None.

Appendix

- Appendix A: LGPS Central quarterly stewardship report, third quarter 2019-20
Appendix B: LGPS Central RI presentation

Background Papers

Responsible Investment Plan 2020 – Local Pension Committee - 24 January 2020
<http://politics.leics.gov.uk/documents/s150781/Responsible%20Investment%20Plan%202020.pdf>

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