



LOCAL PENSION COMMITTEE – 19 JUNE 2020

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RI UPDATE, VOTING REPORT AND QUARTERLEY STEWARDSHIP REPORT

Purpose of the Report

1. To update the Committee on progress versus the Responsible Investment (RI) Plan 2020 to enable the Leicestershire Pension Fund (the Fund) to improve management of responsible investment risks.
2. To introduce the quarterly voting report (Appendix A) and quarterly stewardship report (QSR) (Appendix B) written by LGPS Central.

Background

3. The Local Pension Committee approved the RI plan at the January 2020 meeting.
4. The Leicestershire County Council's RI plan was developed with LGPS Central's in-house RI team. The Fund has a continual focus on raising standards around RI.
5. The Fund's over-riding aim, as stated within the Investment Strategy Statement (ISS) February 2020 is to engage companies to forward responsible investing aims rather than divest our holdings.
6. 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.
7. 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."

Quarterly Voting Report

8. Per the 2020/21 RI plan approved in January the first Leicestershire County Council Pension Fund voting report is included as Appendix A to this report.

9. The report covers voting over the period January to March 2020 and the equity investments the Fund holds within LGIM passives and LGPS Central sub funds, namely the Global Emerging Markets fund and the Global Active Equity fund. This is c40% of all fund assets.
10. The Fund, made voting recommendations at 728 separate company meetings over the quarter. At 310 meetings the Fund via its managers recommended opposing one or more resolutions. The report further breaks down this percentage by geography given the global nature of our investments.
11. The Fund voted against management or abstained on 3400 separate resolutions. The majority of these were board structure related at 49%, followed by remuneration at 16%, where issues such as variable executive pay packages could lead to excessive compensation. A full breakdown is contained within Appendix A along with a geographical breakdown.
12. The appendix provides a measure of voting activity, ie how many meetings have been voted at and how many resolutions have been opposed. Insight into the themes the Fund is focusing on and specific examples are included within the Quarterly Stewardship Report.
13. This report will be updated at the next committee meeting.

Quarterly stakeholder report

14. In line with the RI plan the second quarterly stewardship report (QSR) is included as Appendix B to this report. Historic QSR's can be found at LGPS Central's website, within the responsible investment section, <https://www.lgpscentral.co.uk/responsible-investment/>
15. The QSR covers the quarters engagement activity, continuation of focus on four stewardship themes which are, climate change, single use plastics, fair tax and tax transparency and technology and disruptive industries. Statistics including the number of engagements and method of engagement (either direct, via a stewardship provider or via a partnership) are disclosed as well as details regarding certain engagements. The report would allow readers to review the approaches taken regarding RI and ensure the Fund is taking acceptable actions in line with our stated strategy.
16. For example, "together with 10 other investors, LGPS Central co-filed a shareholder resolution at Barclays Plc asking the company to disclose targets to phase out the provision of finance to companies, starting with those in the energy and utility sectors, that are not aligned with the Paris climate change goals. The resolution aligns with LGPS Central's responsible investment beliefs on climate change as a materially financial risk. During the last quarter the investors continued engagement with Barclays. Following multiple meetings with investors, Barclays recently announced an ambition to become a "net-zero bank" covering emissions across Barclays' own operations and those of its clients."

Responsible Investment Plan 2020

17. A reminder of our 2020 RI plan is shown below. The Fund's Q4 19/20 and Q1 20/21 outputs are on time. The climate risk report which is scheduled to be delivered in Q2 – Q3 has not yet commenced with Central, the Leicestershire Pension Fund is the next tranche for Central to get started on. 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	Complete / new date
Q4 19/20	Communicate RI plan	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.	Delayed update from SAB
	RI Training for Local Pension Board		Ongoing
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.	Possibly delayed
Q3 20/21	Climate Plan	Publish a climate plan for 2021 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 plan 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 plan.	
	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 plan 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

18. It is recommended that the Local Pension Committee notes the update, voting report and QSR.

Equality and Human Rights Implications

19. None.

Appendices

Appendix A: Quarterly voting report

Appendix B: Quarterly stewardship report

Background Papers

Local Pension Committee –24 January 2020 – Responsible Investment Plan

<http://politics.leics.gov.uk/ieListDocuments.aspx?CIId=740&MIId=6085>

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