



## **LOCAL PENSION COMMITTEE – 11 SEPTEMBER 2020**

### **REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

### **GOVERNANCE UPDATE, EXTERNAL DEVELOPMENTS AND RESPONSIBLE INVESTING**

#### **Purpose of the Report**

1. The purpose of this report is to advise the Committee on additional topics concerning the Fund and pensions in general.
2. 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.
3. To update the quarterly voting report (Appendix A) and quarterly stewardship report (QSR) (Appendix B) written by LGPS Central.

#### **Background**

4. The Local Pension Committee approved the RI plan at the January 2020 meeting and was developed with LGPS Central's in-house RI team. The Fund has a continual focus on raising RI standards.
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 Fund's approach, as stated within the Investment Strategy Statement (ISS) is to ensure RI through engagement of companies to forward responsible investing aims rather than divest our holdings.
7. Following on from the production of the Good Governance Report to the national Scheme Advisory Board (SAB) on 8th July 2019, which was presented to the Board on 16th September 2019, the SAB agreed to constitute two working groups to take forward the proposals included in the report. Hymans Robertson were appointed to assist the working groups in this next phase of the good governance project.
8. A report, 'Good governance in the LGPS Phase 2' has been prepared for the SAB and includes detailed implementation proposals for their workstream including a list

of the changes required to guidance to implement this framework. Phase 3 of the project, which should detail how the recommendations will be implemented, has been temporarily halted due to Covid-19.

### **LGPS employer funding flexibility**

9. On the 27 August 2020 Government laid before Parliament, The Local Government Pension Scheme (Amendment) (No. 2) Regulations 2020. These come into force on the 23 September 2020. This follows a consultation with in 2019, which 97 responses fully supported plans to allow a more flexible review of employer contributions between valuations, with 26 indicating support with reservations. Only four responses were opposed.
10. These new Regulations strengthen or introduce new powers;
  - a. Funds can choose to review contribution rates between formal valuations if there are significant changes to the liabilities, significant changes in employer covenants or if an employer requests it. Funds will be required to have a policy on this.
  - b. Funds will be given the power to agree payment plans when employers have a debt when their last employee leaves to Fund. Many Funds already allow this, including the Leicestershire Fund, but this provides Funds greater support in this area.
  - c. Deferred employer status will be introduced. Broadly, an employer can stay in their respective fund even if their last active member leaves, rather than making payment of the cessation termination value and leaving (as they currently do). The employer would still be included in the actuarial statement as they retain Fund liabilities but could then leave at any time triggering a cessation termination. Funds will be required to have a policy on this.
11. Officers broadly support these changes and will work on the policies over the coming weeks. The proposed changes will then be made in the Fund's Funding Strategy Statement (FSS) and sent to the Fund's employers for consultation. After the consultation replies are received and evaluated, final changes will then be made to the FSS and brought to Committee for approval.
12. As of 1 September 2020, the Fund has not had any requests to consider a review of employer funding rates.

### **Supreme Court judgement on LGPS Statutory Guidance and the Palestine Solidarity Campaign (PSC) case**

13. On 29 April 2020 the UK Supreme Court found that the Government's attempt to use the 2016 LGPS Statutory Guidance to prevent LGPS funds from pursuing boycotts was not lawful.
14. The Supreme Court's judgement clarifies the extent to which non-financial factors may influence investment decisions within the LGPS.

15. As a result of the Supreme Court's judgement, the Guidance will remain in the state it has been since June 2017 when the Ministry of Housing, Communities and Local Government (MHCLG) removed certain paragraphs purporting to direct LGPS funds in respect of boycotts, divestments, and sanctions.
16. The Supreme Court's judgement provides clarity and further reassurance around the extent to which non-financial factors may influence investment decisions within the LGPS. The Guidance will not change as a result of the judgement, as the relevant paragraphs were removed in 2017. LGPS funds that have RI policies compliant with the post-2017 Guidance will, therefore, not require updating as a result of the Supreme Court judgement.
17. Our Fund will adhere to its current policy which expresses a preference for engagement over divestment via the Fund's investment managers including LGPS Central and membership of bodies such as the Local Authority Pension Fund Forum (LAPFF).

### **Good Governance Phase 2**

18. The Fund's current position with regards to implementing the proposals can be found under Appendix C which was presented to the Pensions Board in August. The Fund is progressing with proposals, but significant areas are awaiting further guidance. Whilst preparing for guidance the Fund has commenced review of terms of reference (ToR) and have asked for an independent advisor to perform a high level governance review which will be reported at the November committee.

### **Quarterly Voting Report**

19. Per the 2020/21 RI plan approved in January 2020 the first Leicestershire Pension Fund voting report is included as an Appendix to this report.
20. The report covers voting over the period April to June 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 c44% of all fund assets. Around 22% of fund assets reside within debt and property and have no voting rights.
21. The Fund made voting recommendations at 3,333 separate company meetings, containing 44,306 resolutions in the quarter. This quarter contains far more meetings than the previous quarter when voting recommendations were made at 738 company meetings. At 2,441 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 the Fund's investments.
22. The Fund voted against management or abstained on over 33,000 separate resolutions. The majority of these were board structure related at 53%, followed by remuneration at 12, where issues such as variable executive pay packages could lead to excessive compensation. A full breakdown is contained within the appendix along with a geographical breakdown.
23. The appendix provides a measure of voting activity, showing 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 LGPS Central's Quarterly Stewardship Report.

24. The Fund has requested voting information from Adam Street Partners, Pictet and Ruffer, who between them contain c13% of fund assets, the Q2 records will be available at the next Committee meeting .

### **Quarterly stakeholder report**

25. In line with the RI plan the second quarterly stewardship report (QSR) is included as Appendix B to this report. Historic QSRs can be found at LGPS Central's website, within the responsible investment section, <https://www.lgpscentral.co.uk/responsible-investment/>
26. The QSR covers the quarters engagement activity. There is a continued 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.
27. An example, contained within the report is engagement with 15 companies over 17 issues regarding single use plastics. There was engagement activity on 16 issues and achievement of some or all engagement objectives on six occasions. The Fund will follow up with Central regarding activity on the remaining issues.
28. LGPS Central is collaborating with Investor Forum and peer investors, Marine Scotland, the British Plastics Federation and the British Standards Institute to create the first industry specification to prevent plastic pellet pollution. The new specification will set out measures to prevent plastic pellet leakage, which poses serious threat to the ecosystem and to people's health, and to help companies demonstrate good practice in pellet loss prevention measures across their supply chains.

### **Responsible Investment Plan 2020**

29. An update to 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 now commenced, and is scheduled for delivery at the November committee meeting. This report will analyse the Fund's 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.	✓ Training from Central with examples
	Receive Climate Risk Report	Report comprising (i) Climate scenario analysis (ii) Carbon risk metrics (iii) Annual Climate Stewardship Plan.	Due Nov 2020 LPC
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**

30. It is recommended that the Local Pension Committee notes the report.

### **Equality and Human Rights Implications**

31. None.

**Appendix**

Appendix A: Quarterly voting report  
Appendix B: Quarterly stewardship report  
Appendix C: Good Governance Phase 2 Update

**Background Papers**

None

**Officers to Contact**

Mr C Tambini, Director of Corporate Resources  
Tel: 0116 305 6199      Email: [Chris.Tambini@leics.gov.uk](mailto:Chris.Tambini@leics.gov.uk)

Mr D Keegan, Assistant Director Strategic Finance and Property  
Tel: 0116 305 7668      Email: [Declan.Keegan@leics.gov.uk](mailto:Declan.Keegan@leics.gov.uk)

Mr I Howe, Pensions Manager  
Tel: 0116 305 6945      Email: [Ian.Howe@leics.gov.uk](mailto:Ian.Howe@leics.gov.uk)

Mr B Kachra, Senior Finance Analyst - Investments  
Tel: 0116 305 1449      Email: [Bhulesh.Kachra@leics.gov.uk](mailto:Bhulesh.Kachra@leics.gov.uk)