



## **LOCAL PENSION COMMITTEE – 27 NOVEMBER 2020**

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

#### **RESPONSIBLE INVESTING UPDATE**

##### **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 update the quarterly voting report (Appendix A) and quarterly stewardship report (QSR) (Appendix B) written by LGPS Central.
3. To update the Committee regarding the membership benefits of the Local Authority Pension Fund Forum.

##### **Background**

4. The Local Pension Committee approved the RI plan at the January 2020 meeting which 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.

##### **Quarterly Voting Report**

7. Per the 2020/21 RI plan the Leicestershire Pension Fund voting report is included as Appendix A to this report.
8. The report covers voting over the period July to September 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 20% of fund assets reside within debt and property and have no voting rights.

9. The Fund made voting recommendations at 864 company meetings, containing 8,891 resolutions in the quarter. At 480 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.
10. At those 480 meetings the Fund voted against management or abstained on over 5,600 separate resolutions. The majority of these were board structure related at 44%, followed by remuneration at 14%, 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.
11. 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.
12. Appendix C contains Pictet's Responsible Investment report with whom the Fund have c£170m invested. The report includes their policy on ESG factors affecting their investment process as well as the holdings environmental performance versus a MSCI benchmark.
13. Pictet are able to provide the following ESG indicators with regard to their portfolio holdings:
  - a. Carbon footprint
  - b. ESG controversies
  - c. Corporate governance

They cover equity and corporate credit holdings and exclude ETF (exchange traded funds) and external funds, as a result these indicators cover 31% of the total fund and 55% of equity and credit holdings in total.
14. The report contained within Appendix C shows good favourable performance versus the relevant benchmark on for the two carbon footprint measures, direct greenhouse gas emissions and potential emissions from fossil fuel reserves,

### **Quarterly Stewardship report**

15. In line with the RI plan LGPS Central's third 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/>
16. 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, Central will continue to focus on these themes during the period 2020-2023. 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.

17. During this quarter Central's engagement set comprised of 390 companies with 866 engagement issues. There was engagement activity on 779 engagement issues and objectives, and achievement of some or all specific engagement objectives on 180 occasions. Most engagements were conducted through letter issuance or remote company meetings.
18. During September letters were sent to all Climate Action 100+ (CA100+) companies asking them to commit to a net zero carbon emissions target by 2050 for their operations, products and services to end users. LGPS Central is co-leading or in the focus groups of engagements with 9 CA100+ companies, the majority are oil and gas and mining companies. Central met with the Chair of the Board and senior management of a diversified mining company to discuss progress of its climate commitment across a number of parameters including emission reductions and remuneration to reflect climate ambitions.
19. 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.
20. The report attached as an appendix covers examples of engagement across the four themes.

### **Responsible Investment Plan 2020**

21. An update to the Fund's 2020 RI plan is shown below. The climate risk report is being presented during today's meeting. This will take place during private session as owing to the nature of the some of the content cannot be reproduced due to the contract Central have with data provider of the climate metrics MSCI.
22. In summary the Climate Risk report compares our asset allocation as at 31/12/2019 to the benchmarks for each investment being analysed. Some parts of the portfolio, mainly the non equity portions cannot be analysed and as such are excluded from the analysis. 49% of the fund is analysed with a favourable verdict being presented versus the benchmarks the investments are compared to.
23. The analysis looks at various metrics such as carbon footprint (measured in tonnes of CO<sub>2</sub> per unit revenue), exposure to fossil fuel reserves (measured in weight in companies with reserves and generation of power from coal) as a way of illustrating the exposure. The details are broken out in the private report in more detail including specific areas where focus could produce improvement in the measured metrics.
24. Officers are working with LGPS Central's RI team to deliver a TCFD (taskforce on climate financial disclosure) report in the first half of 2021 and will incorporate comments and views from the Committee. Training to further understand the report is planned together with LGPS Central.

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 (CRR)	Report comprising (i) Climate scenario analysis (ii) Carbon risk metrics (iii) Annual Climate Stewardship Plan.	✓
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.	Hymans to incorporate CRR thinking into annual strategy due in Jan 2021.
	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.	Officers propose training in Q1 2021 with Central providing support.
	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	TCFD to be delivered in H1 2021 post comments from Committee. Central to provide this service with Officers in line with service contract.
	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.	Fund not prepared as yet, climate training, TCFD report and RI guidance from SAB to inform decision in 2021.
	Annual Report	Revised report including new RI content, review by Board before approval at Committee.	✓

### **Local Authority Pension Fund Forum (LAPFF)**

25. The Local Authority Pension Fund Forum (LAPFF) is an association of local authority pension funds. The Forum:

- Seeks to protect and enhance the value of members shareholdings by optimising local authority pension funds' influence as shareholders on ESG (environmental, social and governance) issues and thereby to promote Corporate Social Responsibility and high standards of Corporate Governance

- Facilitates commissioning of research and policy analysis of issues more effectively than individual members
- Provides a forum for consultation on shareholder initiatives
- Provides a forum for information exchange and discussion about any investment issues
- Provides a forum to consider issues of common interest to all pension fund administrators and trustees

26. Benefits of membership include:

- Supporting shareholder value through engagement and activism on issues relating to ESG issues.
- Supporting members in dealing with pressure from outside bodies to divest from certain asset classes. The Forum believes that engagement with companies is more effective than divestment.
- Strength in numbers when engaging with companies at the highest level
- Collective and more cost-effective approach to research
- Saving of officer time and cost in researching issues
- Sharing research costs with over 80 Forum member funds and 6 Pools
- Providing a Forum for discussion of any related local government pension fund issue
- Opportunities for networking with colleagues from all parts of UK and all types of authority
- Facilitating collaboration with other major institutional investor groups both nationally and internationally.

27. The Forum holds four business meetings a year (currently via Zoom) plus an AGM and annual conference. LAPFF contracts PIRC (Pensions Investment Research Consultants) as its Research and Engagement Partner.

28. The Fund is a member of the Forum and pays £10k per annum for the benefits described above. The Forum has over 80 LGPS funds as members and 7 of the LGPS pools as members. The Funds pooling partners are members of the Forum. The value of funds from the members is around £300bn. We propose to continue membership of LAPFF for £10k pa on the basis of the wide range of benefits mentioned above including support with Freedom of Information (FOI) requests and ability to demonstrate the Fund's engagement on ESG issues.

### **Recommendation**

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

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

30. None.

### **Appendix**

Appendix A: Quarterly voting report Central

Appendix B: Quarterly stewardship report

Appendix C: Pictet Responsible investment

### **Background Papers**

None

**Officers to Contact**

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