



## **LOCAL PENSION COMMITTEE – 22 JANUARY 2021**

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

#### **DRAFT RESPONSIBLE INVESTMENT PLAN**

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

1. For the Committee to approve the Responsible Investment (RI) Plan 2021 to enable the Leicestershire Pension Fund (the Fund) to further improve management of responsible investment risks.

##### **Background**

2. 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.
3. 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."
4. RI is an essential part of the Fund's approach to investing. This is reflected in the Investment Strategy Statement [say how and that it is a key part of manager selection and review]
5. The first Responsible Investing plan was approved at the January 2020 Local Pension Committee meeting and a progress updated is attached as Appendix B.
6. Leicestershire County Council Officers have developed a 2021 RI plan with LGPS Central's in-house RI team. Outputs and recommendations from the Leicestershire Climate Risk Report delivered to the Local Pension Committee in November 2020 have been incorporated into the 2021 draft plan.

##### **The UK Stewardship Code 2020**

7. The UK Stewardship Code sets out expectations for those responsible for investing money to help them better to exercise their stewardship responsibilities. Compliance with the code is not mandatory for LGPS funds but they have the support of the UK Government and Local Authority Pension Fund Forum (LAPFF).

8. The 2020 Stewardship Code represents a significant increase in level of ambition compared to the 2012 version. 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 2022.
9. There are 12 principles that apply to asset owners such as the Fund which are extracted from a briefing note sent from LGPS Central and included in full within Appendix A. The Fund currently undertakes some of the activities required for compliance with the 2020 code. Part of the 2021 RI plan involves assessing the work involved to become compliant.

Principles of UK Stewardship Code 2020	
1.	Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society
2.	Signatories' governance, resources and incentives support stewardship
3.	Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first
4.	Signatories identify and respond to market-wide and systemic risks to promote well-functioning financial systems
5.	Signatories review their policies, assure their processes and assess the effectiveness of their activities
6.	Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them
7.	Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities
8.	Signatories monitor and hold to account managers and/or service providers
9.	Signatories engage with issuers to maintain or enhance the value of assets
10.	Signatories, where necessary, participate in collaborative engagement to influence issuers
11.	Signatories, where necessary, escalate stewardship activities to influence issuers
12.	Signatories actively exercise their rights and responsibilities

### **Responsible Investment Plan 2021**

10. The draft 2021 plan builds on the 2020 plan and improves on the approach and beliefs detailed in the Investment Strategy Statement.
11. The draft RI plan for 2021 is shown below, some highlights below:

- Carry over of any delayed actions from the 2020 plan.
- Embeds quarterly reporting of the stewardship report and inclusion of voting metrics from listed equity investments. (not shown on table below)
- Includes several improvements from the Fund's current reporting and sets the Fund up to review its readiness for becoming a signatory to the UK Stewardship Code 2020.
- Inclusion of the 2021 Climate Risk Report (CRR) bought to us by LGPS Central's in-house RI Team.

<b>Timeline</b>	<b>Title</b>	<b>Description</b>
Q4 20/21	Communicate draft RI Plan to Pension Committee	Publication of the Fund's 2021 RI plan.
	Climate Stewardship Plan	Formulate a Climate Stewardship Plan of companies for prioritised engagement and monitoring. To be based on the companies identified in the Fund's 2020 Climate Risk Report.
Q1 21/22	RI Training for Local Pensions Committee	Content TBC
	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
	Review of ext manager ESG approach	To be conducted via presentations from selected managers during each quarterly Pension Committee meeting.
Q2-Q3 21/22	Governance Review	Review of the Fund's Governance arrangements in conjunction with LGPS Central to identify areas where the management of RI risks could be further embedded in the Fund's policies and reporting. Revised policies to be approved by the Committee.
	Stewardship Code Review	Review of the Fund's compliance status with the UK Stewardship Code. To address any remaining gaps in preparation for reporting against the code in 2022.
Q3 21/22	Receive Climate Risk Report (CRR)	CRR 2021 containing updated carbon risk metrics results measured against the 2020 baseline.
	Climate Risk Training	Further training of pension fund officers, Pension Committee and possibly Pension Board on the risks and opportunities associated with climate change.
	Strategy review	Conduct a review of the Fund's current approach to managing climate risk, with a view to drafting a Climate Strategy in 2022.
	Annual Report	Revised report including new RI content (summary of annual voting activity; summary of Climate Risk Report in a manner consistent with the TCFD Recommendations) , review by board before approval at Committee
Q4 21/22	Investment Strategy Statement Review	Annual review
TBC	Review of Good Governance Review findings & SAB guidance on RI	Review findings and recommendations into annual RI plan where appropriate

### **Recommendation**

- It is recommended that the Local Pension Committee approves the Responsible Investment Plan 2021.

**Equality and Human Rights Implications**

9. None.

**Appendix**

Appendix A: UK Stewardship code 2020 – briefing to partner funds

Appendix B: Progress against 2020 RI Plan

**Background Papers**

None

**Officers to Contact**

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