



## **LOCAL PENSION COMMITTEE – 26 FEBRUARY 2021**

### **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 2021 to enable the Leicestershire Pension Fund (the Fund) to improve management of responsible investment risks.
2. To update the committee on quarterly voting report (Appendix A).

##### **Background**

3. The Local Pension Committee approved a revised RI plan at the January 2021 meeting which was developed with LGPS Central's in-house RI team. The Fund has a continual focus on raising RI standards.
4. 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.
5. 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**

6. Per the 2021 RI plan the Leicestershire Pension Fund voting report is included as Appendix A to this report.
7. The report covers voting over the period October to December 2020 and the equity investments the Fund holds within LGIM passives and LGPS Central sub funds, namely the Climate Multi Factor Fund, Global Emerging Markets fund and the Global Active Equity fund. This is c45% of all fund assets. Around 20% of fund assets reside within debt and property and have no voting rights.
8. The Fund made voting recommendations at 737 company meetings, containing 5,874 resolutions in the quarter. At 350 meetings (47% of all company meetings), the Fund, via its managers recommended opposing one or more resolutions. The

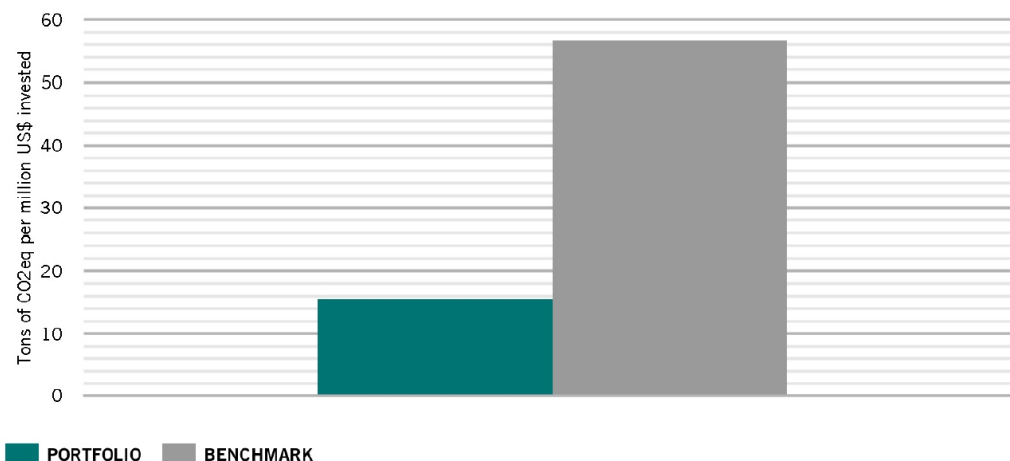
report further breaks down this percentage by geography given the global nature of the Fund's investments.

9. At those 350 meetings the Fund voted against management or abstained on over 3,700 separate resolutions. The majority of these were again board structure related at 38%, followed by remuneration at 21%, 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.
10. 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.
11. Appendix B contains Pictet's Responsible Investment report with whom the Fund have c£178m (3.6% of Fund) invested. The report includes their policy on ESG factors affecting their investment process as well as the holdings environmental performance versus a MSCI benchmark.
12. Pictet are able to provide the following ESG indicators with regard to their portfolio holdings:
  - a. Carbon footprint
  - b. ESG controversies
  - c. Corporate governance

As at the quarter end the indicators above cover equity and corporate credit holdings and exclude ETF (exchange traded funds) and external funds, as a result these indicators cover 39% of the total Pictet holding and 64% of equity and credit holdings.

13. The report contained within the appendix shows favourable performance versus the relevant benchmark on the two carbon footprint measures, direct greenhouse gas emissions and potential emissions from fossil fuel reserves,
14. Versus the benchmark the direct greenhouse gas emissions for the Pictet portfolio are far lower when calculated as tons or CO<sub>2</sub> per million of US dollars invested as shown in the figure below.

## Direct Emissions: Dynamic Asset Allocation



Note that these indicators cover our equity and corporate credit holdings only and exclude ETFs as well as external funds. Portfolio: PS II Dynamic Asset Allocation Fund, Benchmark: MSCI AC World. Data coverage for the portfolio and benchmark is respectively 89% and 91%. Source: S&P, Trucost, Pictet Asset Management as of 31 December 2020

## Quarterly Stewardship report

15. LGPS Central have a new reporting cycle with the next quarterly stewardship report due in April, as such there is no report to attach in this quarters RI update. Historic QSRs can be found at LGPS Central's website, within the responsible investment section, <https://www.lgpscentral.co.uk/responsible-investment/>

## Responsible Investment Plan 2021

16. The Fund's 2021 RI plan approved at last month's committee is shown below alongside updates.

Timeline	Title	Description	Update
Q4 20/21	Communicate draft RI Plan to Pension Committee	Publication of the Fund's 2021 RI plan.	Complete
	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.	In progress
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	In progress, officers liaising with Central
	Review of ext manager ESG approach	To be conducted via presentations from selected managers during each quarterly Pension Committee meeting.	March ISC Adams Street Partners, June manager TBC
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.	Agreed to be delivered earlier than 2020 to further incorporate into 2022 SAA
	Climate Risk Training	Further training of pension fund officers, Pension Committee and possibly Pension Board on the risks and opportunities associated with climate change.	Scheduled for the Sep committee initially
	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	2021 review complete in Feb, next one due in Jan 2022
TBC	Review of Good Governance Review findings & SAB guidance on RI	Review findings and recommendations into annual RI plan where appropriate	

### **Recommendation**

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

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

18. None.

### **Appendix**

Appendix A: Quarterly voting report Central  
Appendix B: Pictet Responsible investment

### **Background Papers**

None

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