



## **LOCAL PENSION COMMITTEE – 4 JUNE 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 (Appendix A) to enable the Leicestershire Pension Fund (the Fund) to improve management of responsible investment risks.
2. To update the quarterly voting report (Appendix B) and quarterly stewardship report (QSR) (Appendix C) written by LGPS Central.
3. To update the Committee on delivery of the Fund's Taskforce on Climate Financial Disclosure (TCFD) report included within Appendix D and climate stewardship plan included within Appendix E.

##### **Background**

4. The Local Pension Committee approved the 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.
5. The term 'responsible investment' refers to the integration of financially material Environmental, Social and 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 to this report.
8. The report covers voting over the period January to March 2021 and the equity investments the Fund holds within LGIM's passive funds and LGPS Central sub funds, namely the Climate Balanced fund, Global Emerging Markets fund and the Global Active Equity fund. This incorporates c45% 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 880 company meetings, containing 9,133 resolutions in the quarter. At 505 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 880 meetings the Fund voted against management or abstained on over 5,600 separate resolutions. The majority of these were board structure related at 47% which has increased from 44% at the last quarter. Remuneration resolutions were voted against on 14% of all resolutions, 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.

### **Quarterly Stewardship report**

12. In line with the RI plan LGPS Central's 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/>
13. The QSR covers the quarters (January to March 2021) engagement activity. There is a continued focus over the three year period of 2020-2023 on four stewardship themes which are, climate change, 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 allows readers to review the approaches taken regarding RI and ensure the Fund is taking acceptable actions in line with our stated strategy.
14. During this quarter Central's engagement set comprised of 605 companies with engagement activity on 1563 engagement issues and objectives. The majority of these engagements were carried out by Central's stewardship provider EOS. Against 579 specific engagement objectives set by EOS, there was achievement of some or all on 137 occasions. Most engagements were conducted through letter issuance or remote company meetings.
15. Focusing on Climate engagements in the quarter, 252 companies were contacted with 324 issues identified, on 102 occasions achievement of some or all issues was noted. The majority of these engagements are undertaken via Climate Action 100+ (CA100+).
16. In the quarter CA100+ released its Net Zero Company Benchmark which assesses the world's largest corporate greenhouse gas emitters on their progress in the transition to a net zero future. The report notes that only a quarter of the companies reported on scope 3 emissions (the emissions the companies indirectly impacts and form those emissions that are from assets not owned or controlled by the company). They also note a need for companies to set shorter term targets which

are consistent with longer term ambitions or order to avoid backloading the decarbonisation effort.

17. An example of investor engagement pressure was recently highlighted at Shell's annual meeting where a number of investment managers voted against the company's carbon reduction plans. The number of votes cast against the resolution means Shell will be forced to consult shareholders and report on their views within six months.
18. The report attached as an appendix covers examples of engagement across the four themes.

### **Climate related disclosures**

19. The Fund's first report on climate related disclosures, in line with the recommendations from the Taskforce on Climate Financial Disclosures (TCFD), is included within Appendix D.
20. The guidance issued aims to improve transparency by companies, asset managers, asset owners, banks, and insurance companies with respect to how climate-related risks and opportunities are being managed. Official supporters of the TCFD total 930 organisations representing a market capital of over \$11trillion.
21. The Fund supports the TCFD recommended disclosure and has worked with Central to agree a timeline when the Fund's first report would be published and builds on the climate risk report (CRR) delivered in 2020 to the Pension Committee. The Fund intends to publish its second climate risk report later in 2021 per the 2021 RI plan. The Fund's responses against the TCFD recommended disclosures are included within the appendix

### **Climate Stewardship Plan**

22. Per the Fund's 2021 RI plan a climate stewardship plan was agreed to be delivered to include a list of companies the Fund has exposure to. The nine companies included within the plan are those which face a high level of climate risk and are of particular significance to the Fund's portfolio. Eight of these companies are captured by the Climate Action 100+ (CA100+) engagement project, in which our pooling company LGPS Central is an active participant.
23. Climate Action 100+ (CA100+) was initiated in December 2017 and is supported by more than 500 investors. The project builds on a relatively simple but powerful logic, engage and influence the highest emitters (80% of global industrial emissions) you influencing whole sectors, markets and the global economy with a view to assisting an orderly transition to a low-carbon economy.
24. Progress against the issues highlighted against each company will be next reported at the same time the Fund receives its second climate risk report in Q4 of 2021. The list of companies, issues identified, and the objective of the engagement is included within Appendix E.

## **Responsible Investment Plan 2021/22**

An update to the Fund's 2021 RI plan is shown below.

<b>Timeline</b>	<b>Title</b>	<b>Description</b>	<b>Quarterly Update</b>
Q4 20/21	Communicate draft RI Plan to Pension Committee	Publication of the Fund's 2021 RI plan.	Complete Jan 2021
	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.	Complete, next update delivered with Climate risk report in Q3 21/22
Q1 21/22	RI Training for Local Pensions Committee	Content TBC	Ongoing. Q1, Central's approach to RI within manager selection
	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	Complete Q1 21/22
	Review of ext manager ESG approach	To be conducted via presentations from selected managers during each quarterly Pension Committee meeting.	Feb 21 – Aegon Jun 21 – LGPS Central
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.	Expected at November committee
	Climate Risk Training	Further training of pension fund officers, Pension Committee and possibly Pension Board on the risks and opportunities associated with climate change.	Expected at November committee
	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	Update from independent consultant Jun 21

**Recommendation**

25. It is recommended that the Local Pension Committee agree to include the TCFD report as part of the Pension Fund annual report.

**Equality and Human Rights Implications**

26. None.

**Appendix**

Appendix A: Update to 2021 RI plan  
Appendix B: Quarterly voting report Central  
Appendix C: Quarterly stewardship report  
Appendix D: TCFD report  
Appendix E: Climate Stewardship plan

**Background Papers**

None

**Officers to Contact**

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