



LOCAL PENSION COMMITTEE – 10 SEPTEMBER 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 improve management of the Leicestershire Pension Fund (the Fund).
2. To update the quarterly voting report (Appendix A) and quarterly stewardship report (QSR) (Appendix B) written by LGPS Central.

Background

3. 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.
4. 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.
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, thus forgoing any influence.
6. The Fund's first report on climate related disclosures, in line with the recommendations from the Taskforce on Climate Financial Disclosures (TCFD), was completed earlier in 2021 and presented to the Local Pension Committee and agreed for inclusion in the Fund's Annual Report. The TCFD guidance 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.
7. A climate stewardship plan was delivered in 2021 and included 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 the Fund's pooling company LGPS Central is an active participant. 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.

8. LGPS Central are focusing on 4 stewardship themes over a three year period covering 2020 to 2023, these are:
 - a. Climate change
 - b. Plastic
 - c. Fair tax and tax transparency
 - d. Technology and disruptive industries

Quarterly Voting Report

9. Per the 2020/21 RI plan the Leicestershire Pension Fund voting report is included as Appendix A to this report.
10. The report covers voting over the period April to June 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 c46% of all fund assets. Around 24% of fund assets reside within commodity futures, currency forwards, derivative contracts, debt, property and cash and have no voting rights.
11. The Fund made voting recommendations at 3580 company meetings, containing over 49,000 resolutions in the quarter. At 2612 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.
12. At those 2612 meetings the Fund voted against management or abstained on over 31,000 resolutions. The majority of these were board structure related at 51% which has increased from 47% at the last quarter. Remuneration resolutions were voted against on 13% of all resolutions, where issues such as variable executive pay packages could lead to excessive compensation. A full breakdown is contained within Appendix A along with a geographical breakdown.
13. 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

14. 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/>
15. The QSR covers the quarters (April to June 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.

16. During this quarter Central's engagement set comprised of 679 companies with engagement activity on 1578 engagement issues and objectives. The majority of these engagements were carried out by Central's stewardship provider EOS. Against 510 specific engagement objectives set by EOS, there was achievement of some or all on 138 occasions. Most engagements were conducted through letter issuance or remote company meetings at Chair, Board or senior management levels.
17. LGPS Central co signed a letter to the COP26 (Conference of the Parties) President asking for support to investors by seeking publication of key underlying assumptions tied to a 1.5C scenario.
18. Focusing on Climate engagements in the quarter, 247 companies were contacted on 310 issues, on 109 occasions achievement of some or all issues was noted. The majority of these engagements are undertaken via Climate Action 100+ (CA100+).
19. It is worth noting that through Climate Action 100+ LGPS Central have engaged an oil and gas major that has recently outlined its proposal to become a net zero business by 2050 or sooner. The company put forward an Energy Transition Plan for investors to vote on at their AGM during the quarter. The resolution passed with 88.7% support from shareholders and will allow shareholders an annual advisory vote to express whether sufficient progress has been made in delivering the plan. The company considers that their net-zero target aligns with a 1.5°C degree trajectory and that scope 3 emissions are included.
20. Regarding fair tax and tax transparency, the G7 economies have struck a new agreement on taxing multinationals, designed to pave the way for a global accord at the next G20 meeting in November 2021. The G7 countries have all agreed a global minimum corporate tax rate of at least 15%, designed to reduce the incentive of large multinationals to shift profits to low-tax offshore havens. The immediate consequences of this change may mean lower profitability of large corporates who engage in these practices and possibly a change in their valuation and share price all other things being equal. The opposite side of the equation could include increased government ability to spend and the effects on the economy may partially be felt through public and private markets.
21. The report attached as Appendix B covers examples of engagement across the four themes.

Responsible Investment Plan 2021/22

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

Timeline	Title	Description	Quarterly Update
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 Sep 21 – Pictet
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.	Update alongside CRR at Nov committee
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

Recommendation

22. It is recommended that the Local Pension Committee note the report..

Equality and Human Rights Implications

23. None.

Appendices

Appendix A: Quarterly voting report Central

Appendix B: Quarterly stewardship report

Background Papers

None

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