



LOCAL PENSION BOARD – 8 NOVEMBER 2021

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RESPONSIBLE INVESTMENT UPDATE

Purpose of the Report

1. To provide the Board an overview of the 2021 Responsible Investment (RI) Plan in order to enable the Leicestershire Pension Fund (the Fund) to improve management of responsible investment risks.
2. Provide an overview of the information provided to the Pension Committee in order to manage responsible investment risks.

Background

3. 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.
4. 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."
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 has had a RI plan for two years now, the first approved by the Local Pension Committee in January 2020. The Local Pension Committee approved the current 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.
7. The Fund invests in a number of LGPS Central investment products. As at 30th June 2021, the Fund has invested in seven products with a combined value of £1.9bn. These investment mandates are subject to Central's Responsible Investment and Engagement framework (RI & E). The RI & E framework can be

found at, <https://www.lgpscentral.co.uk/wp-content/uploads/2019/03/LGPS-Central-Responsible-Investment-and-Engagement-Framework.pdf>

8. The Pension Committee endorses Central's RI beliefs which are summarised below:
- Long termism: A long term approach to investment will deliver better returns and the long term nature of LGPS liabilities allows for a long term investment horizon.
 - Responsible investment is supportive of risk adjusted returns over the long term, across all asset classes. Responsible investment should be integrated into the investment processes of the Company and its investment managers.
 - Diversification, risk management and stewardship: Diversification across investments with low correlation improves the risk return profile. A strategy of engagement, rather than exclusion, is more compatible with fiduciary duty and more supportive of responsible investment, because the opportunity to influence companies through stewardship is waived in a divestment approach. Even well diversified portfolios face systematic risk. Systematic risk can be mitigated over the long term through widespread stewardship and industry participation.

Climate reporting and voting

9. The Fund completes a climate risk report annually at present. The first such report was published and taken to the Pension Committee in November 2020. This report outlined through the analysis of portfolio holding, the climate risk held through the portfolio. It is accompanied by proposed actions the Fund could take to manage and reduce that risk.
10. A climate stewardship plan was delivered in 2021 which includes a list of companies the Fund has exposure to. These companies were highlighted within the Climate Risk Report from 2020. 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. Progress against the issues highlighted against each company will be next reported at the same time the Fund receives its second climate risk report on 26 November 2021.
11. Central provide the Fund with a quarterly update of voting activity. This is focused on listed equities. This voting activity covers the funds managed by Central and the fund's managed by Legal and General investment management (LGIM). At 30th June 2021 this covered 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.
12. Both Central and LGIM with whom the Fund has the majority of listed equities vote at company meetings in line with the RI policies. Central provide a summary of voting quarterly.
13. The update on voting activity contains information such as the number of resolutions voted on, whether votes were opposing the management, detail on what

types of votes were cast, for example board structure and remuneration. Officers summarise the voting results and present to the Pension Committee each quarter.

LGPS Central, stewardship themes and quarterly reports

14. LGPS Central publish quarterly stewardship reports (QSR) which highlight progress made against the four agreed stewardship themes. Given the long term nature of engagement with companies these themes are set to run over a three year period covering 2020 to 2023, the themes are:

- Climate change
- Plastic (including single use plastics)
- Fair tax and tax transparency
- Technology and disruptive industries

15. Stewardship reports are taken to quarterly pension committee meetings alongside an officer summary paper. Historic QSRs can be found at <https://www.lgpscentral.co.uk/responsible-investment/>

Climate related disclosures

16. 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 Pension Committee and agreed for inclusion in the Fund's Annual Report.

17. 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.

18. The TCFD recommendations are based on the financial materiality of climate change. The four elements of recommended disclosures (see illustration below) are designed so as to make TCFD-aligned disclosures comparable, but with sufficient flexibility to account for local circumstances.



19. Examples of disclosures include:

- Governance: Describing the board's oversight of climate-related risks and opportunities
- Strategy: Describing the climate-related risks and opportunities the organisation has identified over the short, medium and long term.
- Risk management: Describing the Fund's process for managing climate-related risks.
- Metrics and targets: Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

Responsible Investment Plan 2021

20. The 2021 RI builds on the progress made on the previous year's RI plan with an aim to improve RI compliance. The 2021 RI plan is shown below. The plan is reviewed annually and presented to the Pension Committee usually in the first calendar quarter.

21. Officers are investigating climate change strategies incorporating targets for the 2022 RI plan alongside inclusion of more of the Fund's assets that can be reported on.

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 Board notes the Responsible Investment update.

Equality and Human Rights Implications

23. None.

Appendix

None

Background Papers

None

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