



LOCAL PENSION BOARD – 4 MAY 2022

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RESPONSIBLE INVESTING UPDATE

Purpose of the Report

1. To update the Board regarding the Fund's position with respect to direct Russian exposure.
2. To update the Board on progress versus the Responsible Investment (RI) Plan 2022, specifically in relation to Net Zero Climate Strategy (NZCS).

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 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. This policy is reviewed annually with any proposed changes consulted upon and approved by the Pension Committee.
5. The Local Pension Committee approved the current RI plan at the January 2022 meeting which was developed with LGPS Central's in-house RI team. The Fund has a continual focus on raising RI standards. The current annual RI plan is the third such plan, with the first being approved by the Pension Committee in January 2020.
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 in 2021, with any references to portfolio holdings based on the Fund as at 31st December 2019 and presented to the Local Pension Committee. Summary information was included 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.
8. At the November 2021 Local Pension Committee the Fund's second Climate risk report was delivered which when compared to the associated benchmarks carbon metrics showed the Leicestershire Fund is circa 17% more carbon efficient at total equity level and circa 52% more carbon efficient at total active equities level.
9. At the November 2021 Local Pension Committee meeting members approved officers commence work on delivering the Fund's first Climate Strategy. A progress update was provided to Pension Committee members in March 2022.

The Fund's position with respect to Russian investments

10. The Russian invasion of Ukraine prompted the Fund to identify investments in Russian (and Belarus) companies. Officers contacted the investment managers, in March, and estimated the total value of holdings to be c£10m or 0.15% of the total Fund.
11. As with many investing decisions the Fund needs to consider short and long term financial considerations, incorporating Environmental, Social and Governance factors, as well as the moral outrage felt by many.
12. The Fund's Russia exposure is largely as a result of Russia being a constituent of the main index providers emerging markets (EM) index. However, as the conflict has continued the providers have removed Russia from their indexes. As a result, Russia does not have a weighting in popular EM indexes, and it is not usual for a manager to invest outside developed and EM markets given Russian investments will fall outside many investable mandates and will be subject to wide ranging sanctions.
13. Looking through the Environment, Social and Governance lens further highlights the unattractiveness with free press suppression, the heightened risks of owning local physical assets, uncertainty of economic performance, foreign exchange risk or currency in Russian banks subject to capital controls will not be appealing to many managers.
14. Consequently, the Fund has spoken to managers and asked when possible and appropriate the Fund would like positions to be sold. This is a similar message to that sent from other LGPS funds within the Central pool. At this point where governance and access to Company boards has broken down the Fund see's little benefit from maintaining positions with responsible investing and financial considerations in mind, which in line with fiduciary duty.

15. The timing of exiting positions will depend upon the restrictions that the Russian government has in place to prevent withdrawal of funds held by foreign clients (both legal entities and Individuals), and residents of the countries who issued sanctions against the Russian Federation. For holdings that are not listed (private equity for example) there could be an extended period of time before divestment could be achieved.
16. The Funds position is in line with the public statements of most other LGPS funds and in line with correspondence from the Secretary of State for Levelling Up, Housing and Communities to LGPS Committee Chairs. The letter reminded Chairs to decide, “how best to manage your investments in the best interests of your members and within your legal and fiduciary duties”.
17. An update outlining the exposure has been sent to employers. An update has also been posted to the employee section of the Leicestershire LGPS website. Both Pension Committee and Board members received an email update from officers.
18. The speed of developments in Russia’s economic position is without precedent. Even during the Cold War, Russian exports of oil and gas continued. Swift and co-ordinated action by global Governments as well as Russia’s own actions made the decisions regarding Russian investment reasonably straight forward.
19. Future decisions for the Fund may not be as straight forward, where there is public concern, but a less coherent response by global governments.. The Fund will need to consider the changing geopolitical landscape over the course of the year.

Responsible Investment Plan 2022/23

20. The Pension Committee are given an update to the current years RI plan at each quarterly meeting. The quarterly update from March 2022 is shown below.

Financial Quarter	Title	Description	Quarterly update
Q4 21/22	Communicate draft RI Plan to Pension Committee	Publication of the Fund’s 2022 RI plan.	Complete
	Manager review	ESG approach alongside presentation to Committee	Complete IFM infrastructure
	Climate Change Strategy	Begin work on the production of a LCCPF Climate Change Strategy with a view to publication in late-2022.	Commenced, update in March 2022 to members of LPC
	Climate Strategy Workshop	Meeting of the Fund’s Officers and Pension Fund Committee to discuss and plan the Fund’s Climate Change Strategy.	Due March 2022
Q1 22/23	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	
	Manager review	ESG approach alongside presentation to Committee	TBC - LGPS Central equity / private markets
Q2 22/23	Climate Strategy Update	Pension Fund Committee meeting to discuss progress of Climate Change Strategy.	
	Manager review	ESG approach alongside presentation to Committee	TBC – Stafford Timberland
Q3 22/23	Receive Climate Risk Report (CRR)	CRR 2022 containing updated carbon risk metrics results measured against the baseline from the previous two reports.	
	Climate Risk Training	Further training of pension fund officers, Pension Committee and possibly Pension Board on the risks and opportunities associated with climate change.	
	Climate Change Strategy Publication	Publish the Fund’s draft Climate Change Strategy. This should be consistent with the TCFD Recommendations and be monitored regularly by the Pension Fund Committee.	
	Governance Review	Publish updated draft Funding Strategy Statement and Investment Strategy Statements for consultation in line with the Fund’s new Climate Change Strategy. Final approval in Q4 22/23.	
	Manager review	ESG approach alongside presentation to Committee	TBC – LGIM passive equity
TBC	Review of company engagements and TCFD / CRR recommendations	<p>Schedule time at LPC for discussion of climate related risks and strategy.</p> <p>Schedule one training session on general RI matters and one climate specific training per year.</p> <p>Develop climate change strategy.</p> <p>Integrate comms on climate risk into communications strategy.</p> <p>Update governance policy statement to explain how</p>	<p>Ongoing, progress to date:</p> <p>20/21 Pension accounts included summary of climate risk report</p> <p>Stewardship code reporting pushed to 2023 to accommodate NZCS work</p> <p>NZCS work commenced</p>

		<p>climate risks are governed. Review as part of the FSS the extent to which climate risks could affect other risks noted in the FSS. Make clear the roles of key governance committees in the ISS</p>	
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Net Zero Climate Strategy update

21. Local Pension Committee members have had the opportunity to shape the Net Zero Climate Strategy (NZCS) and will continue to have the opportunity to do while the NZCS is being developed. There are a number of activities identified by officers that will need to be completed and included in a comprehensive NZCS.
22. The Fund is using a broad and thorough framework developed by the institutional investors group on climate change (IIGCC) to base the Fund's first NZCS upon. This framework allows the Fund to publish a NZCS that meets best practice.
23. Members of the Committee were also able to share thoughts on which targets criteria should be included within the NZCS for the Fund based on the IIGCC framework.
24. Fund officers are currently developing the plan to deliver the NZCS workstreams alongside internal and external bodies such LGPS Central and Hymans Robertson, the Fund's investment advisor.
25. At present the Fund has plans to run an engagement exercise and will further update on the scope and timing of this exercise when finalised. The Fund intends to bring to the Committee later in 2022 a NZCS proposal for approval.
26. There will be additional work once a NZCS is approved which will depend on the outcome of the strategy. This could include updates to Fund's policies such as the investment strategy statement (ISS), communication and publishing of the NZCS, setting expectations for external investment managers that the Fund has invested with and review of the strategic asset allocation (SAA) for example.

Supplementary Information

27. None

Recommendation

28. That the Pension Board note the report.

Equality and Human Rights Implications

None.

Background Papers

None

Officers to Contact

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