Leicestershire County Council

LOCAL PENSION COMMITTEE – 10 JUNE 2022

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RESPONSIBLE INVESTING UPDATE

Purpose of the Report

1. The purpose of this report is to:

   a. Update the Committee on the progress made with respect to areas of the Net Zero Climate Strategy (NZCS), in particular, Hymans Robertson's feedback report on the considerations for net zero targets and their view on the engagement versus divestment of company shares as part of a Responsible Investment approach, see Appendix D and Appendix E.

   b. Seek approval to commence an engagement exercise with Employers, Scheme Members, and large investment managers with respect to beliefs and targets proposed for the NZCS. The questions being proposed are appended to this report, see Appendix F.

   c. Update the Committee on the Fund's quarterly voting report (Appendix A).

   d. Update the Committee on progress versus the Responsible Investment (RI) Plan 2022 to improve management of the Leicestershire Pension Fund (the Fund).

   e. Update the Committee on delivery of the Fund's Taskforce on Climate Financial Disclosure (TCFD) report included within Appendix B and LGPS Central's quarterly stewardship report included within Appendix C.

Background

2. The Local Pension Committee approved the Responsible Investment (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.

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.

5. 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 will be 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.

6. 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.

7. At the November 2021 Local Pension Committee meeting the Committee agreed to commence work on delivering the Fund's first Climate Strategy.

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.

<u>Summary Hymans Robertson engagement versus divestment</u>

9. Hymans Robertson have written a report on engagement versus divestment with respect to climate strategy and the Fund (Appendix D). The scope of the full report covers the following:

    a. Importance of stewardship in delivering the Fund's climate strategy
    b. Role of engagement and divestment and the pros and cons of each
    c. Characteristics of effective engagement
    d. Circumstances in which divestment and exclusion are appropriate
    e. Areas for future development

10. The full report is appended to this report, some highlights and recommendations for the Fund are included below:

    - Hymans see both engagement and divestment are proven and necessary elements of an effective approach to stewardship; they should not be seen as mutually exclusive.

    - Engagement has the potential to add value to portfolio companies and promote real world change. It is the recommended approach for long-term asset owners providing the circumstances are conducive to engagement.

11. Hymans recommend the following are considered as part of the NZCS:

    - Incorporates both engagement and divestment/exclusion as necessary elements of into its stewardship programme, not as mutually exclusive alternatives.
    - Defines the limits of engagement and an escalation strategy incorporating divestment and seeks to agrees these with its investment managers wherever possible.
    - Consider that the four stewardship themes/priorities recently agreed with LGPS Central, of which climate change is considered the most important, remain relevant and focuses on them when engaging with all its investment managers including LGPS Central
    - Works with LGPS Central to expand the scope of its climate risk reporting and to advocate for the introduction of mandatory corporate emissions disclosure standards across all sectors of the economy.
    - Aims over time to increase the frequency and depth of its oversight of stewardship activities undertaken by LGPS Central and its other investment managers.

<u>Hymans Robertson review and recommendations of the NZCS proposed targets</u>

12. Hymans Robertson's report on recommendations on the goals, metrics and targets the Fund should adopt in its Climate Strategy is appended to this report (Appendix E), the highlights are included below:

    - Hymans believe the proposed Net Zero target date 2050 or sooner is an appropriate goal for the Fund. A target date of 2050 is ambitious given most major economies are not on track to achieve Net Zero by then based on current pledges/policies. Targeting a date marginally ahead of most major economies (e.g., 2045) is also realistic and may enable the Fund to mitigate climate risk and capture climate-related investment opportunities more effectively. But it would require a more proactive Climate Strategy and additional changes to the investment portfolio, potentially increasing execution costs and risk.
    - Other target dates, such as 2030 or 2060, could be considered. But Hymans believe these would expose the Fund to an increased risk of adverse investment outcomes.
    - A Net Zero target set materially earlier than the main economies in which the Fund invests would be very challenging to deliver. A target date of 2030 in particular would likely require major changes to investment strategy to focus on a restricted universe of low emissions asset classes and stocks, thereby increasing portfolio concentration and the volatility of investment returns. 2060 would entail fewer changes in the short-term, but increased exposure to climate transition risk in the longer term.

- Hymans recommend the Fund adopts a balanced set of medium-term objectives which could realistically be delivered over the next 5-10 years given the investment solutions expected to become available from LGPS Central (“LGPSC”) and third-party managers over the period. The focus should be on bringing about actual emissions reductions in portfolio companies over time, rather than simply divesting from high emissions holdings. The Fund should also follow best practice and avoid material reliance on offsetting strategies.

- The Fund should reflect these objectives in the formulation of its investment strategy (strategic asset allocation) and in structuring its investment management arrangements. The objectives, underpinned by robust climate metrics, should guide investment decision making and engagement activity much of which is undertaken on behalf of the Fund by its investment managers.

- Hymans have reviewed the nine proposed net zero targets and believe they are generally appropriate with a summary against each of the proposed targets / measures shown below.

Metric/Target	Metric Robust	Target Realistic	Comment
Net Zero by [2050, with an ambition for sooner]	✓	✓	We believe this is an appropriate, ambitious goal
Absolute net carbon emissions to be reduced by [40%] from 2019 reported levels by 2030	✓	**?**	Further analysis recommended to provide reassurance that the target is realistic
Reduce the Carbon intensity (WACI) of the Fund by [50%] from the 31st December 2019 levels for the Equity portfolio by 2030. This target will extend to other asset classes as common methodology is agreed	✓	✓	Emissions intensity provides a complementary perspective on the progress the Fund is making in reducing climate risk
Reduce the proportion of the Fund with Fossil Fuel exposure within the equity portfolio (was 8.5% at 31st Dec 2019) by 31st March 2030	✓	**No target**	Fossil fuel companies create stranded asset risk, so exposure should be measured. LGPSC are refining the metric they use, so no target recommended at this stage.
Increase the asset coverage to [90%] by 2030 (currently at 45% 2022 est) to be analysed for WACI	✓	✓	Comprehensive climate risk reporting is required to guide investment decisions and engagement activity
Increase allocation to climate solutions (use EU taxonomy) as defined by weight in clean technology from the base 2019	✓	**No target**	Climate solution providers offer potentially attractive investment opportunities. LGPSC are refining the metric they use, so no target

weight of 34.1% by 2030			recommended at this stage.
Increase our percentage of portfolio underlying companies in material sectors with net zero targets to over [90%] by [2030]. Includes listed equities, corporate bonds, and sovereign bonds at present	✓	**?**	Setting a Net Zero target is the first step in implementing the changes required to decarbonise operations. Further analysis recommended to provide reassurance that the target is realistic.
By [2030], [90%] of the Fund's financed emissions to be either net zero, aligned to a net zero pathway or subject to engagement programme to bring that about. Includes equities, corporate bonds, and sovereign bonds at present	✓	**?**	Achieving alignment with Net Zero pathway is critical to delivering the emissions reductions required in the future. Further analysis recommended to provide reassurance that the target is realistic
The Fund's, LGPS Central's and Investment manager's net zero attainment relating to their direct emissions	✓	**No target**	Decarbonising own operations should be relatively straightforward for LGPS Central and other investment managers but should not be used as a criterion for manager selection.

13. The outputs from Hymans Robertson's papers alongside any additional work undertaken will be considered during the preparation of the Net Zero Climate Strategy for the Leicestershire County Council Pension Fund.

<u>NZCS update</u>

14. In line with the plan for the Net Zero Climate Strategy (NZCS) it is recommended that the Fund undertakes an engagement exercise to run from July to mid-September. Officers have looked at other local authority funds climate engagement strategies to understand the method and time to run an engagement exercise. It was deemed most appropriate to run an engagement exercise for at least six weeks and to utilise a web-based approach from a value for money perspective. The full list of targets and measures is included within appendix E.

15. The engagement exercise will be conducted with Leicestershire County Councils in house resource and be hosted on the web. This is deemed to be the most cost-effective solution.

16. The questions which are appended to this report (Appendix F) seek views on the proposed NZCS primary and secondary measures and interim targets. These targets are based on the IIGCC (institutional investors group on climate change) framework which identifies how investors should approach writing a comprehensive net zero climate strategy. As part of the engagement, responders will also be asked about their views on company engagement versus divestment. There are several supplementary questions which will allow officers to ascertain responders' knowledge to the complexities involved in writing a NZCS. This information will

prove useful when writing the NZCS with regard to the right level of detail and background information to include.

17. The engagement exercise will run for around three months to allow for as many interested parties to respond. By extending the engagement past the end of August it can be publicised, for free, using the Annual Benefit Statement that is sent to all scheme members. Employers in the Fund will be asked to respond from their perspective, given the impact of investment returns directly impacts them financially through employers’ contributions. Members of the Fund (employees, deferred members, and pensioners) will be notified via the fund website, their employers and via the annual benefit statements. Large investment managers will also be contacted for their views also and it is proposed to contact Legal and General, LGPS Central, JP Morgan, IFM and LaSalle. The remaining cohort of possible responders, ‘other’ will also be allowed to express their views.

18. Responses and information to the engagement will be fed back to the Committee for discussion in advance of the NZCS being presented for approval for consultation at the November 2022 Committee.

Proposed Leicestershire NZCS targets

19. A summary of the Fund’s proposed targets are shown below and have been benchmarked versus other pension funds including local authorities and others which are described further in this paper. As previously advised the targets proposed are in line with IIGCC guidance and after reviewing other scheme targets. Officers believe the proposed targets and inclusion of a strategy to achieve targets (including interim 2030 targets) represent a comprehensive set of measures to be engaged on and which are intended to align to Paris goals.

Fund	Leicestershire
Climate Strategy	Yes, how the Fund see's journey to NZ, thoughts on climate change, how to approach the transition, monitor and track managers
Net Zero Target	Net zero by 2050 with ambition for sooner.
Carbon Reduction Target	Yes, 50% absolute carbon reduction by 2030 from 31/12/19 50% reduction in weighted average carbon intensity (WACI) from 31/12/19 (secondary)
Sustainable Investment Target	Increase percentage allocated to climate solutions as defined by weight in clean technology from the base 2019 weight of 34.1% to 40% by 2030.
Fossil Fuel Reduction Target	Reduce the proportion of the Fund with Fossil Fuel exposure within the equity portfolio (was 8.5% at 31st Dec 2019) by 31st March 2030

20. The Leicestershire Fund is proposing to engage on the primary target of, “net zero by 2050 with an ambition for sooner”. When the NZCS is formally approved the proposal will include annual monitoring of progress versus agreed targets. The reassessment of targets will take place on a periodic basis based on the risks and opportunities the Fund has at the time of making the decision and in line with best practice guidance.

Further review of Pension Schemes with Climate strategies

21. Officers have undertaken a review of climate and net zero strategies and policies for a number of local authorities and other pension funds such as the EA (Environment Agency), USS (Universities Superannuation scheme) and ABP (the Netherlands pension scheme for government and education sectors). The additional schemes were chosen for several reasons including member interest or general climate friendly communications.

22. The EA scheme includes a net zero target by 2045 and to halve emissions by 2030. There are several reasons that may make a 2045 target for the EA prudent from a risk perspective and are described below.

Fund	**Environment Agency**
Climate Strategy	Yes - Policy Getting to Net Zero and Building Resilience as part of Investment Strategy
Net Zero Target	Net Zero by 2045 and halve emissions by 2030.
Carbon Reduction Target	Reduce emissions in listed equites by 87% by 2025 and 95% by 2030 versus 2010 baseline
Sustainable Investment Target	One third across all portfolios in sustainable assets. By 2025 17% of its investments across the portfolio would directly tackle climate change.
Fossil Fuel Reduction Target	Reduced exposure to fossil fuel reserves and exposure to future emissions by 99% for coal and 95% for oil and gas compared to 2015.

23. The EA is well funded with a 31st March 2019 funding level of 106% reported. This compares with an 89% funding level for the Leicestershire Fund. This high level of funding allows the fund options regarding investment return objectives and employer contributions. The EA scheme benefits from the fact it is a single employer scheme and as such engagement wouldn’t play as large a part when agreeing next zero and associated targets.

24. The EA’s last actuarial valuation stated that their fund needed to achieve 2.9% returns per annum over the 20 years to still be 100% funded. The Leicestershire Fund would need a 4.5% per annum return to be 100% funded over the same timeframe.

25. The EA have presented information regarding carbon emission reduction for listed equities between 2010 and 2020 of 74%. Similarly, the Leicestershire Fund first started measuring carbon metrics as at the 31st December 2019 with a reduction shown within the climate risk report (CRR) dated as at 31st March 2021 where a 25% reduction was shown in the carbon intensity of the listed equity portfolio. It is worth noting that although a 25% reduction was achieved over the period it is likely that the journey to 2030 could be less linear with increases some years in carbon intensity offset by larger decreases in others as illustrated above.

	31/12/2019			31/03/2021			% DIFFERENCE BETWEEN 2019 AND 2020	
	PF	BM	% DIFF	PF	BM	% DIFF	PF	BM
Portfolio Carbon Footprint (tCO_2e/ $m)	160.20	193.22	-17.09%	120.21	143.88	-16.45%	-24.96%	-25.53%

26. Regarding 'sustainable investments' both the Fund and the EA scheme have similar goals, both currently reporting around one third of assets invested in this space with the Fund proposing to increase this allocation to this metric over time.

27. The EA scheme reports 'fossil fuel' exposure in a different way to the Leicestershire Fund. They have reported reductions to fossil fuel exposure versus a 2015 baseline. This 2015 baseline provides the EA scheme the benefit of the decarbonisation of their underlying portfolio as well as any active management whereas the Leicestershire Fund via the Climate Risk Report reports weight in fossil fuel reserves, thermal coal reserves and coal power. Both metrics are different and shouldn't be directly compared. The Fund reported lower than 10% weights for each of the three metrics noted above with an ambition to further reduce these and continually monitor progress annually.

28. The USS scheme is another scheme which announced their ambition to be net zero for greenhouse gas emissions by 2050 or sooner in 2021. A similar table showing their ambitions and targets is shown below.

Fund	**USS**
Climate Strategy	Statement on responsible investment
Net Zero Target	Net zero by 2050 with ambition for sooner.
Carbon Reduction Target	Reducing carbon emissions generated by its portfolio by 25% by 2025 and 50% 2030 from 2019 baseline. Initial 30% reduction and 7% every year following £5bn transition to LGIM climate transition index.
Sustainable Investment Target	Divestment of Thermal Coal mining where it makes up more than 25% of revenues. (Along with tobacco manufacturing and companies with ties to Cluster munitions, white phosphorus, and landmines.
Fossil Fuel Reduction Target	£5bn equities into an index to avoid worst polluters to LGIM.

29. The USS have a similar overall net zero target of 2050 or sooner and a 50% reduction by 2030 from a 2019 baseline as the Leicestershire Fund's proposal. Their fossil fuel reduction target is based on a £5bn (total fund over £80bn) investment into a Legal and General index fund that will track companies that remove or tilt away from certain companies. In comparison the Leicestershire Fund made a similar investment into the LGPS Central Climate fund in 2020 to rebalance factor weightings whilst also improving the overall ESG metrics of the Fund. This investment represented c15% of the overall fund.

30. Whilst the USS scheme states divestment of thermal coal mining companies where it makes up more than 25% of revenue many companies included in large indexes like the FTSE 100 have exposures this high. Glencore, one of the world's largest producers and exporters of thermal and coking coal reported revenues in 2021 of c$12bn from total revenue of c$204bn (6%).

31. Of all the pension funds that officers reviewed versus the Fund's proposed targets the South Yorkshire Pension fund (SYPF) had communicated the most ambitious net zero target of 2030 in September 2020. SYPF have since published an action plan to deliver an investment strategy in 2023. Within their Action Plan SYPF quote they 'do not know the distance they have to travel in order to achieve they net zero commitment' given the lack of visibility of carbon intensity on areas of their portfolio. This is a common problem across the industry which is being addressed as more asset classes develop common metrics to calculate intensity. SYPF note that they have a current 50% allocation to listed equities and their total investment strategy will be revised following the 2022 fund valuation by March 2023. This would leave SYPF around seven years to achieve net zero.

32. At a recent March 2022 meeting it was stated within a public report that, 'it needs to be recognised that there is a high risk that it [2030 net zero] will not be achieved'.

33. Net zero targets at the following pension funds have been communicated but officers have not seen evidence of strategies or plans that support delivery similar to SYPF.

    a. Lambeth – net zero target of 2040, however no public climate strategy to support, noting climate change scenario analysis was held in private session at the October 2021 meeting.

    b. ABP – have a target to reduce emissions by 40% compared to 2015 baseline by 2025 and be a climate neutral investment portfolio by 2050

    c. Hammersmith and Fulham – have communicated a net zero target of 2030 but have not yet communicated a strategy.

    d. Waltham Forest – have not set a net zero but have stated their ambition to divest from fossil fuels with £3.5m held in fossil fuels in 2021 from a fund worth around £1bn. This approach does not feature in their latest Investment Strategy Statement. In the latest GAD Section 13 report, it is stated "Five funds have a "white" flag in relation to their SAB funding level as these are the poorest funded on the SAB basis…", Waltham Forest is one of these funds.

34. The above four examples have communicated various positive messages either regarding earlier than 2050 net zero targets and or reductions from fossil fuels however on closer inspection, strategies on how to achieve these ambitions are not available, at least publicly.

35. ABP for example stated selling holdings in fossil fuels by 2023 however based on information available on their website they, "also invest in futures contracts on oil and gas. With this we buy the right to buy or deliver a quantity of oil or gas at a certain price on a certain date. Our goal is to take advantage of fluctuations in the price of oil and/or gas. We do not own oil or gas and do not provide financing for its production. We therefore do not include these contracts in the calculation of our total investments in fossil fuels." Futures contracts require a buyer to purchase shares and a seller to sell them on a specific future date unless the holder's position is closed before the expiration date.

36. There will be some schemes who do embark on earlier net zero target dates and have plans that seem to back up the ambitions. Each of these plans would need to be scrutinised in detail taking into account a multitude of factors before coming to a conclusion as to the risks being undertaken. Factors that could be considered include (in no particular order):

    a. current funding level,
    b. required future investment return,
    c. likelihood assumed of reaching target investment returns,
    d. percentage of fund being included in net zero calculations,
    e. current employer contribution rates,
    f. longevity assumptions for the fund
    g. mix of active and deferred / pensioners
    h. committee appetite for taking ‘first mover’ risk / opportunity and effect on employer contributions.

37. One such fund has a 2037 net zero target, Swansea Pension Fund (SPF) who following a workshop in October 2021 between officers and pension committee members suggested adopting a 2037 target net zero date. The consultants employed noted several changes that would need to occur to meet interim 2030 targets. Of the changes needed it was noted that not all current positions were known, for example, the proportion of investments in sectors aligned with relevant transition pathways or are subject to engagement action.

38. Communication of SPF 2037 target came as result of work undertaken stretching back to 2017 when their Pension Committee approved their first responsible investing policy and have since identified a 50% carbon reduction in their listed equity portfolio by 2022. The SPF still has a number of actions to understand how to reach a 2037 net zero goal including:

    a. Developing carbon and other ESG metrics
    b. Identifying investment opportunities that will benefit from a transition to a lower carbon economy

<u>Quarterly Voting Report</u>

39. Per the 2021/22 RI plan the Leicestershire Pension Fund voting report is included as Appendix A to this report.

40. The report covers voting over the period January to March 2022 and the equity investments the Fund holds within LGIM’s passive funds and LGPS Central’s 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 23% of fund assets reside within commodity futures, currency forwards, derivative contracts, debt, property, and cash and have no voting rights.

41. The Fund made voting recommendations at 902 company meetings, containing around 9,800 resolutions in the quarter. At 565 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.

42. At those 565 meetings the Fund voted against management or abstained on over 6,000 resolutions. The majority of these were board structure related at 47%. Remuneration resolutions were voted against on 11% 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.

43. 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.

Responsible Investment Plan 2022/23

44. A progress update to the Fund's 2022 RI plan 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.	Workshop held in 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	Complete for June Committee
	Manager review	ESG approach alongside presentation to Committee	LGPS private markets June Committee
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	Schedule time at LPC for discussion of climate related risks and strategy. Schedule one training session on general RI matters and one climate specific training per year. Develop climate change strategy. Integrate comms on climate risk into communications strategy. Update governance policy statement to explain how 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	Ongoing, progress to date: 20/21 Pension accounts included summary of climate risk report Stewardship code reporting pushed to 2023 to accommodate NZCS work NZCS work commenced

<u>Leicestershire Pension Fund Climate Related Disclosures and Climate Risk Report 2022 update</u>

45. This is the Fund's second Climate Related Disclosures report and follows the recommendations of the taskforce on climate financial disclosures (TCFD) which

was commissioned in 2015 by Mark Carney in his remit as Chair of the Financial Stability Board. In 2017 the TCFD released its recommendations for improved transparency by companies, asset managers, asset owners, banks, and insurance companies with respect to how climate-related risks and opportunities are being managed. The report has had minor updates reflecting the Fund has commenced reporting of climate metrics on an annual basis as contained within the climate risk report and has commenced work on publishing a climate strategy incorporating net zero targets.

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

Core Elements of Recommended Climate-Related Financial Disclosures

Governance
The organization's governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management
The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

47. The Fund has received two climate risk reports (CRR) in 2020 and 2021 with a third planned for November 2022. These CRR's provide the Fund with an in-depth review of the Fund's climate risks under different climate change scenarios across all asset classes.

48. Improvements to the CRR for 2022, which is scheduled to be delivered at the November Pension Committee meeting include the following inclusion of the following metrics:
    - Percentage of portfolio with Net Zero targets
    - Percentage of portfolio revenue derived from fossil fuels
    - Percentage of portfolio revenue derived from clean technology

Quarterly Stewardship report (QSR) update

49. The QSR covers the quarter's (January to March 2022) engagement activity In line with the RI plan. LGPS Central's Quarterly Stewardship Report (QSR) is included as an appendix 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/

50. During this quarter Central's engagement set comprised of 493 meetings with engagement activity on 5,7327 engagement issues and objectives. The majority of these engagements were carried out by Central's stewardship provider EOS. Further 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 within the report.

51. Four stewardship themes which were collectively agreed by the Partner funds that make up the Central pool continue into 2022, these are, climate change, plastics, fair tax and tax transparency and human rights risks.

52. The report contains information on specific company engagements including the theme (one of the four listed above), the objective, the engagement details, and outcomes. Companies included in this quarters report include Glencore (climate change), Credit Suisse (climate change), Tyson Foods (plastic), Amazon (tax) and Motorola (human rights). The report also contains background regarding voting decisions at Apple, Walgreens Boots and WH Smith.

Recommendation

53. It is recommended that the Committee

a) Approve the proposed engagement process with Employers and Scheme Members with respect to beliefs and targets for the NZCS

b) Notes the latest position and next steps in the creation of the Net Zero Climate Strategy, especially in respect of Hymans Robertson the Fund's investment advisor's feedback.

c) Note the Fund's Taskforce on Climate Financial Disclosure and the quarterly voting and stewardship reports.

Equality and Human Rights Implications

54. None.

Appendices

Appendix A: Quarterly voting report Central
Appendix B: Taskforce on Climate Financial Disclosure (TCFD) report
Appendix C: LGPS Central Quarterly Stewardship report
Appendix D: Hymans Robertson, Engagement versus Divestment
Appendix E: Hymans Robertson, Net Zero Goals and Targets
Appendix F: NZCS engagement questions

Background Papers

Local Pension Committee – 21January 2022 - Responsible Investment Plan 2022
https://politics.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=6757&Ver=4

Local Pension Committee 26 November 2021 – Responsible Investing Update
https://politics.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=6526&Ver=4

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