Leicestershire County Council

**LOCAL PENSION COMMITTEE – 18 NOVEMBER 2022**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**OUTCOME OF ENGAGEMENT ON NET ZERO CLIMATE STRATEGY TARGETS AND DRAFT STRATEGY AND RESPONSIBLE INVESTING UPDATE**

**Purpose of the Report**

1. The purpose of this report is to:

   a) Set out the legal view on the Local Pension Committee's fiduciary responsibilities (Appendix D).

   b) Advise of the key findings from the engagement exercise on the Net Zero targets and measures which form a key part of the draft Leicestershire Pension Fund Net Zero Climate Strategy (NZCS) (Appendix B)

   c) Provide an overview of the content, format and proposed consultation approach for the draft NZCS (Appendix A).

   d) Present the Fund's response to the Department for Levelling Up, Housing and Communities consultation on climate risk, for approval.

   e) Present an update on the Fund's quarterly voting and stewardship activities undertaken on its behalf via LGPS Central, LGIM, and the Local Authority Pension Fund Forum.

**Background**

2. In November 2021 the Local Pension Committee agreed to commence work on producing the Fund's first Climate Strategy, recognising the systematic impact climate change could have on the Fund. In June 2022 it was agreed to engage on proposed metrics that were in line with the Net Zero Investment Framework developed by the Institutional Investors Group on Climate Change.

3. The Local Pension Committee approved the Responsible Investment (RI) plan, which includes reference to the Strategy 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.

**Fiduciary Duty**

4. In developing the Fund's Net Zero Climate Strategy the Fund has requested advice from Leicestershire County Council's Legal section regarding its fiduciary duty in the context of Pension Fund investment decisions. This is provided in full in Appendix D which sets out the legal and statutory guidance which the Local Pension Committee must follow.

5. In summary, fiduciary duty is a responsibility to act in the best interests of scheme members. Case law on fiduciary duty explains the duty as the exercise of discretionary power rationally and reasonably and for a proper purpose by reference to relevant legal considerations. This duty can be summarised as achieving what is the best for the financial position of the Fund.

6. The Fund must follow the law and statutory guidance for preparing and maintaining its Investment Strategy Statement and must take proper advice and act prudently when making investment decisions. Subject to this, the Fund should consider any factors that are financially material to the performance of its investments, including environmental, social and governance (ESG) factors. This includes considerations over the long term, dependent on the time horizon over which the Fund's liabilities arise.

7. Statutory guidance specifies that while pursuit of a financial return should be the predominant concern, the Fund may take "purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the Fund and where it has good reason to think that scheme members would support their decision."

8. The legal advice concludes: "The appetite of the Fund for taking risk when making investment decisions is ultimately for local consideration and determination by the Local Pensions Committee subject to the aim and purpose of the Fund. As a reminder this is to maximise the returns from investment returns within reasonable risk parameters. Therefore, the Local Pension Committee would not be acting lawfully with regard to approving investment decisions where Hymans Robertson or any successor external advisor believe a decision:

   - risks conflict with the fiduciary duty to the Fund
   - risks lower investment returns"

9. The Director of Corporate Resources advises that any decision that is consciously financially detrimental to the Fund would require employers to make resource allocation decisions, given contribution rates would increase

as a result. It is not the role of the Fund to put its non-financial beliefs above those of the employers funding the pension scheme.

**Results of the Engagement**

10. The Fund has undertaken a period of engagement on the draft measures and targets for the Net Zero Climate Strategy (NZCS). The Engagement ran from 5 July to 18 September 2022, which sought the views of a wide variety of stakeholders including scheme members (active, deferred and retired), employers and investment managers. Responses were also received from other interested parties. The engagement asked for views on the targets, and the Fund's approach to divestment and engagement, as well as offsetting via a questionnaire. A report of the outcome of the engagement is attached as Appendix B.

11. The following steps were taken to ensure scheme members and Fund employers had sufficient opportunity to respond to the engagement exercise:

- Multiple emails to circa 40,000 scheme members (that the Pension Service held email addresses for) with a link to the consultation.
- The engagement was available via the Pension Fund's website and was highlighted on the main page.
- It was highlighted as part of the email that set out Members Annual Benefit Statements.
- All employers were sent Employer Bulletins highlighting the engagement and asking them to respond and share the engagement with their staff.

12. 1,025 responses were received. Of the responses received by scheme members (1004) checks were undertaken using national insurance records in order to ensure they were members of the Fund. A breakdown is below.

| | | |
|---|---|---|
| | Total | 1025 |
| Scheme Members | Active | 424 |
| | Deferred | 177 |
| | Pensioner/Dependants | 403 |
| Employers | 9 | 9 (circa 35% of total Fund Membership). |
| Investment Managers | LGPS Central, Partners, IFM, LaSalle, Aegon, Stafford Capital | 6 |
| Other | These included those who responded as a Scheme Member, but National Insurance numbers did not match. The responses were similar to the general response rate so remained within the responses analysed. | 45. |

13. The Fund also received a small amount of correspondence from some individuals who expressed that their views that did not fit neatly into the questionnaire, including a response from Climate Action Leicester and Leicestershire (which is attached to Appendix B) to these papers). LGIM, one of the Fund's Investment Managers also submitted a separate response.

Overall Feedback

14. The engagement included the opportunity for respondents to share their individual views at defined points in the questionnaire. These are expanded on within Appendix B. A summary of some of these responses and the Fund's reply are set out below along with the findings from the questionnaire. The report also highlights where changes are proposed to targets arising from the engagement to simplify targets, and in order to better align with the Net Zero Investment Framework produced by the Institutional Investor's Group for Climate Change.

**Net Zero by 2050, with an ambition for sooner**

15. There was a high level of support for the primary measure. Of the respondents 70% agreed with the ambition. Only 18% disagreed. Analysis of the 527 open comments showed that a proportion of respondents who 'tended to agree' and 'tended to disagree' also contained a proportion of responses that felt the Fund should set more challenging targets.

16. Key themes, and the Fund's responses are highlighted below. Of the 527 comments 253 were supportive and recognised the importance of setting as ambitious targets as possible.

| **Feedback Theme** | **Fund Response** |
|---|---|
| The Fund should set more ambitious targets. | At this point in time it is unclear to officers how setting more ambitious targets can be achieved given the lack of data outside of the equities asset class to measure the Fund. The Fund is working with LGPS Central to increase asset coverage, in line with secondary measures which should help the Fund set more ambitious targets in the future.<br><br>The Fund will commit to reviewing these targets at least every three years, with a view to bringing targets forward where the data supports the change. The targets will be monitored annually to ensure progress is made. The Fund is looking to make continual progress regarding decarbonisation. |
| Not the Fund's concern | Climate risk is a key consideration for the Fund due its investments across geographies and industries and diversified portfolio. This is set out in more detail in the draft NZCS at Appendix A. |
| Not | The Fund considers the targets to be achievable, however |

| | |
|---|---|
| Achievable | this will ultimately be subject to the caveats and limitations set out within the NZCS, for example, the reliance on international governmental commitments. However, the Fund will continue to work with partners and investment managers to progress decarbonisation from its 2019 benchmark level. |

17. No change is proposed to the target "Net Zero by 2050, with an ambition for sooner".

18. On the following interim targets (paragraphs 20 to 23) respondents were also largely supportive. The comments for both interim measures largely reflected themes as set out in paragraph 16. A proportion of comments felt the questions were too technical. The draft NZCS has taken this into account and intends to simplify the concepts covered.

**By 2030 a 40% reduction in net carbon emissions from 2019-reported levels**

19. Of the respondents 68% agreed with the proposed target 19% disagreed. Comments reflected the themes raised in the previous question, more detail of which is included in Appendix B. More specific comments and the officers' response are included below.

| **Feedback Theme** | **Fund Response** |
|---|---|
| Target 50% or higher, and expand to all investments, and Scope 3. | This target has been set at 40% as the underlying data has not been normalised for assets under management. The Fund believes publishing its financed emissions gives a clearer view of the impact of its investments. The Fund has to take into account that, as it grows (due to new money being invested), it will continue to invest in a diversified manner, which will increase financed emissions. Whilst there are options to invest in low carbon investments these must be considered on a case-by-case basis, and not expose the Fund to higher risks by reducing diversification of the Fund.<br><br>The Fund has focused on equities and the resulting scope 1 and 2 emissions due to the data currently available. The Fund did not want to delay initial action due to limited data availability.<br><br>These targets will be expanded across the Fund's Investment Portfolio in line with an action plan that is in development. |

20. No substantive change is proposed for this interim target. However, the target has been simplified within the draft NZCS to "2030: Achieve a 40% reduction in absolute carbon emissions for the Equity portfolio from the 2019

benchmark." The draft NZCS includes clarification on the target, and the intention to expand it once data on other asset classes becomes available.

**By 2030 reduce the carbon intensity of the Fund's equity portfolio by 50% from 2019 reported levels.**

21. Of the respondents 64% agreed with the proposal, with 18% disagreeing with the target. Again, comments raised generally reflected previous themes. A higher proportion of comments referenced being unsure what this target actually meant in practice. This has been simplified and defined more clearly in the NZCS itself.

22. No substantive change has been made to this target other than simplification of wording to "2030: Halve the carbon intensity of the Equity portfolio:" Further clarification has been added within the draft NZCS as with the previous target.

<u>Secondary Targets</u>

23. Given the technical nature of the secondary measures these were optional questions for respondents to answer. Respondents were given the option to comment at the end of the secondary target questions, and further detail on the responses is included within Appendix B. As with the primary targets, responses were highly supportive of the proposals. The following paragraphs show the responses, and any proposed changes which arose due to simplification and alignment with the Net Zero Investor's Framework.

24. 67% agreed with the statement 'reduce the proportion of the Fund with fossil fuel exposure within the equity portfolio (was 8.5% at 31st Dec 2019) by 31st March'. 16% disagreed. No changes have been proposed to this target at this point, however the draft NZCS references current limitations.

25. 62% agreed with the statement 'Increase asset coverage to 90% by 2030 (currently at 45% 2022 Est) to be analysed for WACI'. 12% disagreed. No substantive change has been made other than simplification of the wording of this target, and the provision that as coverage expands further targets can be set for other asset classes. The Fund will work with LGPS Central to develop an asset class plan.

26. 71% agreed with the statement 'Increase allocation to climate solutions (use EU taxonomy) as defined by weight in clean technology from the base 2019 weight of 34.1% by 2030'. 12% disagreed. No substantive change has been proposed, however, the Fund will now use the definition as set out by the MSCI given LGPS Central already analyse the Fund's using MSCI.

27. 70% agreed with the statement 'Increase our percentage of portfolio underlying companies in material sectors with net zero targets, aligned to a

net zero pathway or subject to direct or collective engagement to over 90% by 2030 for listed equities, corporate bonds and sovereign bonds'. 13% disagreed.

28. It is proposed to take the reference to direct and collective engagement out of this target, which will enable the Fund to use this as a forward-looking measure to understand emission projections of the portfolio aligned or aligning to Net Zero. The Fund will work with LGPS Central to set alignment targets, which will be based on criteria by Climate Action 100+ Net Zero Company Benchmark and the Transition Pathway Initiative, in line with the Institution Investors Group Framework.

29. 71% agreed with the statement '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'. 13% disagreed. No change is proposed to this target, as with the previous target the Fund will work with LGPS Central on its alignment criteria and ensure the Fund's Stewardship Plan is targeting high carbon emitting companies.

30. 73% agreed with the statement 'County Council and LGPS Central targeting net zero by 2030 for their operations'. 12% disagreed. No change is proposed, however, it is worth clarifying that whilst Leicestershire County Council has committed to address climate change through its 2030 Net Zero Council Action Plan, the Fund will need to call on LGPS Central, as an organisation partly owned by the Fund, to target Net Zero for its own operations by 2030.

<u>Additional Questions</u>

31. The Fund also asked respondents opinions on additional questions:

- 'With regard to carbon offsetting, what approach do you think the Fund should adopt? Please select all that apply'. Only 13% of respondents felt there should be no offsetting. 'Only offsetting if it removes carbon from the atmosphere' received the most support (42%). Both 'only natural offsetting such as trees' and 'offsetting acceptable if economically best option' received 26% support.

- 'Which of the following most closely describes your view on whether the Fund should follow a policy of divestment or engagement?'. Views on engagement and divestment were less clear cut than previous questions. 35% preferred engagement, to 31% preferring divestment. However, a relatively large number (22%) were neutral on this view compared to the rates for this type of response to earlier questions in the engagement.

32. Respondents were allowed to provide free text comments for the divestment and engagement question. Comments closely reflected the option chosen in the survey. For those preferring divestment, they cited the role the Fund

could play in divesting from fossil fuels and the impact that would give, as well as financial risk from stranded assets, and concerns regarding the environment. There were also comments regarding the lack of progress within engagement.

33. Respondents that preferred engagement cited the importance of having an influential role with companies and engaging to achieve real world decarbonisation. Furthermore, some cited the risk of divesting from potentially profitable companies.

34. Comments from those that were neutral on the matter and tended to cover three themes:
    - The importance of both engagement and divestment within an effective strategy.
    - The use of divestment where engagement fails.
    - Deferring any decision to the view of investment managers/ the Fund's investment advisor.

35. In response to more direct views regarding divestment highlighted by Climate Action Leicester and Leicestershire's submission to the engagement the Fund has set out its response below:

| **Feedback theme** | **Fund Response** |
|---|---|
| Divest from top 200 fossil fuel companies and then engage with other investments. | The Fund notes the view but does not currently propose to undertake overarching divestment. This is because divestment has no impact on world's carbon footprint and in some cases, divesting will remove 'green' investment exposure from the Fund.<br><br>No company is insulated from the economic impact of extreme global warming. Engagement is therefore more compatible with our fiduciary duty and more supportive of RI, as it provides the opportunity to influence companies, something that is not possible if the investment is simply sold.<br><br>Instead, it will work with its investment managers to ensure they are taking into account forward-looking climate risk when making investment choices.<br><br>As set out within the Fiduciary Duty section of this report the Fund will continue to take proper advice and act prudently when making investment decisions in this regard. |

36. The Fund has developed its approach to Engagement, Stewardship and Divestment through these views, recognising the importance of both within an effective NZCS, which will track progress through the relevant targets and measures, and as part of the Annual Stewardship report.

37. The engagement exercise also included questions on respondents' knowledge of the Fund's fiduciary duty and what the Fund invested in. The level of knowledge was relatively low, the Fund will pick this up as part of an action for communication with scheme members with the next review of the Administration and Communication Strategy.

38. Respondents were allowed to submit any further comments, many of which covered previous themes. Other main themes highlighted were as follows:

| **Feedback Theme** | **Fund Response** |
|---|---|
| That investments should be focused on development of local based renewable energy, home insulation, and other solutions to climate change and/or social good/social impact. | Every investment must first achieve the return the Fund requires. The Fund is not equipped to make individual investments into local businesses and private investments need to be made through fund managers who have the necessary expertise and whose involvement avoids potential conflicts of interest.<br><br>It is unlikely any commercial investment manager would specifically target Leicestershire or Rutland as a whole due to size, though they may make investments in the local area where they are attractive for financial returns. |
| Which Pathway is being targeted, what stops the fund delaying action until 2040 on Net Zero and racing to the last decade. | The Fund is aligning itself to a 1.5 pathway by 2050, the Fund is aware of the risks a less balanced pathway would cause in transition and physical risks which is set out in more detail within the draft NZCS.<br><br>This is why the Fund has further set 2030 interim targets to ensure progress is made at an appropriate pace.<br><br>The Fund will monitor progress annually to ensure it is making sufficient progress in line with the Paris Agreement. |
| Focus the Fund's engagement efforts on banks, insurance and other companies. | The Fund will continue to expand its engagement efforts with LGPS Central to target key companies to ensure that they are managing climate risk and are setting scientifically backed net zero plan in line with initiatives such as Climate Action 100+ (which covers 165 focus companies that account up to 80% of global corporate |

| | |
|---|---|
| | emissions), the Transition Pathway Initiative and the Science Based Targets Initiative.<br><br>Furthermore the Fund is a member of the Local Authority Pension Fund Forum which undertakes focused engagement. This includes banks as reported in their Q2 2022 update. One of their key engagement aims relates to new financing for the oil and gas sector, given the International Energy Agency has said that no new oil and natural gas fields are needed in the net zero pathway. |

39. The Fund acknowledges the views and representations of a number of lobby groups. Climate Action Leicester and Leicestershire have submitted their response to the engagement and have previously submitted representations to the Local Pension Committee which have been taken under consideration as part of the engagement exercise.

**<u>Overview of draft Net Zero Climate Strategy</u>**

40. Following the outcome of the engagement exercise, the draft NZCS, attached at Appendix A has been developed. The NZCS outlines the Fund's strategic approach to managing climate risk, and proposed approach to achieving Net Zero by 2050, with an ambition for sooner.

41. The NZCS was developed in line with:

- The Institutional Investors Group on Climate Change (IIGCC), Net Zero Investment Framework
- Discussion at meetings and workshops with the Local Pension Committee.
- The response to the engagement exercise (Appendix B).
- The Fund's Climate Risk Report 2022 and Climate Scenario Analysis.
- Advice from the Fund's Investment Advisor, Hymans Robertson.
- Government commitments, with recognition of the ongoing consultation on governance and climate risks and opportunities for the LGPS.

42. This NZCS aligns with the investment belief that the Fund must ensure the portfolio is not overexposed to specific risk factors, ensuring it remains well-diversified across regions, technologies, and sectors. This may relate to technological risk and ensuring the Fund does not overvalue 'green' assets as part of a 'green bubble', does not have overexposure to new technology without proven track record, or risk from governmental policy reversals, for example.

Structure

43. The Strategy includes four key sections, further to the introduction, and general context on the Pension Fund. These sections relate to:

- **Climate Change Risks and Opportunities**: how the Fund will further embed climate risk and opportunities considerations. This will include working with Investment Managers to ensure they have taken into account climate risks and opportunities

- **Targets and Measures** - Net Zero by 2050, with an ambition for sooner, supported by interim and secondary measures to decarbonise the Fund's portfolio and increase investment in a range of climate solutions. This also sets out current coverage, and limitations facing the Fund.
- **Decision Making:** How the Fund can integrate targets and measures alongside best practice within the Fund's annual Strategic Asset Allocation, the Investment Strategy Statement and any investment decisions taken. The Fund can consider a range of investment approaches to manage risk and opportunities related to climate change, where there is a credible financial basis.
- **Stewardship Engagement and Divestment -** In line with the IIGCC the Fund believes that engagement will drive the transition for a low carbon economy. This sets out a four step plan of evaluation, engagement, voting and divestment.

Monitoring, Review and Reporting

44. Progress will be monitored on a regular basis, including a commitment to continue to produce annual public reports on the Fund's Climate Risk and what it is doing with its partners such as LGPS Central, the Local Authority Pension Fund Forum, Hymans Robertson and Investment Managers to address risks and opportunities.

45. The Pension Fund as a long-term investor must take a long-term view of its approach to investments. The Fund will review the NZCS and targets at least every three years and monitor progress annually as part of the Climate Risk Report. This will be supported through other Fund documents such as the Strategic Asset Allocation, Investment Strategy Statement, Funding Strategy Statement and risk register.

Next Steps

46. The Fund will continue to develop the draft NZCS by development of an implementation plan for remaining asset classes, and clear engagement thresholds through LGPS Central. The Fund is also in talks with Managers to understand their own Net Zero targets and commitments and call on them to

develop them where they have not been set. This will feed into the RI Plan 2023 and any future iterations.

47. Due to information available to the Fund it has not been possible to create an actionable plan for the remaining assets of the Fund. This is in development with LGPS Central.

48. The Fund will look at how it can improve communication to ensure scheme members have a better understanding of the Fund.

49. The Fund is currently engaged with Hymans Robertson, the Fund's Actuary, in relation to the 2023 Strategic Asset Allocation (SAA) refresh. Part of this refresh will allow the Fund to assess risks and opportunities in order to meet the Fund's long-term objective of paying pension benefits, its primary goal.

50. This review will take into account the Fund's Climate Scenario Analysis and Climate Risk Report among other critical information. Hymans Robertson incorporate climate risks into advice concerning the annual refresh of the SAA. The SAA is focused on medium to long term returns and avoids making short term asset allocation changes given the costs involved in trading in and out of sometimes illiquid positions and markets.

51. The Fund has over the years achieved a balanced allocation over many asset classes in order to protect the Fund from a multitude of risks. Any changes proposed will allow the Fund in the future to make changes whilst balancing medium and longer-term efforts regarding improving environmental, social and governance factors within the Fund.

**<u>Proposed Consultation Approach</u>**

52. It is important that the Fund continues to engage and involve its stakeholders, to inform them of the risks of climate change on the Pension Fund, the measures it is taking to limit any negative impact on the Fund, as well as the work being undertaken to engage with companies to tackle real world emissions.

53. The Fund will look to invite feedback on the draft NZCS. It is proposed to conduct a stakeholder consultation on the content of the Strategy through Leicestershire County Council's in-house consultation webpage. Subject to approval by the Committee, the process will be conducted in line with best practice guidance for a period of about 11 weeks, expected to extend from November to February 2023.

54. This will be undertaken by emailing all scheme members (active, deferred and retired) scheme members that have email addresses available (circa 40,000), emailing all employers of the Fund, advertisement on the Pension

Fund website, and as part of the presentation to scheme members at the Fund's Annual General Meeting.

**Timetable for Decisions**

55. The initial engagement from 5 July to 18 September 2022 helped shape the draft Strategy as set out in paragraphs 6 to 25, further detail is set out within Appendix B, comments received helped with the development of the draft Strategy.

56. Following formal consultation on the draft Strategy, It is intended that the final draft of the NZCS will be presented to the Local Pension Committee for approval in March 2023.

**Other Developments**

Fund actions to date

57. In 2019 the Fund transitioned £770m into LGPS Central's All World Equity Climate Multi Factor fund (Climate MFF). which incorporates three key climate change considerations: carbon emissions, fossil fuel reserves and green revenues. The fund integrates responsible investment criteria by tilting towards companies that are taking a proactive approach to environmental factors. Importantly the investment also presented as a financially attractive investment opportunity due to financial return expected, and its low cost as a passively managed fund.

58. To date the Climate MFF fund has demonstrated a track record of generating better carbon metrics compared to the broad market indices. As at 30 June 2022, the weighted average carbon intensity of the fund is 62.5% lower than its corresponding broad market index.

59. The Fund has recently committed to an investment in the Quinbrook Net Zero Power Fund, and the Stafford Capital Timberland Carbon Offset Opportunity fund pending satisfactory due diligence, in addition to its current holding in Timberland. Further details are within the Strategy.

60. The latest Climate Risk Report shows the Fund has continued to decarbonise from its 2019 base level, the Strategy below builds on this progress. It is evident as per the 2022 Climate Scenario Analysis, elsewhere on today's agenda within the public Climate Risk Report, the Fund is better positioned by supporting Net Zero by 2050, with an ambition for sooner due to the modelled impact a failed transition will have on the Fund's assets over the longer term.

Department for Levelling Up, Housing and Communities Consultation

61. On 1 September 2022 the Department for Levelling Up, Housing and Communities (DLUHC) published its consultation seeking views on proposals to require LGPS administering authorities in England in Wales to assess,

manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures. The consultation closes on 24 November 2022.

62. The consultation sets out the proposed requirements for the LGPS. In summary, each administering authority will have to consider and report against four key areas of governance, strategy, risk management, and metrics and targets.

63. The proposals under the consultation are similar to the requirements that came into force for private sector pension funds in October 2021 but include some key differences in order to reflect the needs of the LGPS, the desire to have consistency in data and reporting, and to try to positively impact the ability to accurately measure and report climate risk and emissions data

64. Administering authorities would be required to publish an annual Climate Risk Report, the first of which would be due in December 2024. The full consultation is available on DLUHC's website.

65. The Fund has drafted a response to this consultation, attached to the report as Appendix C, which highlights its support for the proposals given it is already well placed to meet the key requirements and has reported against TCFD requirements since 2020. Officers have highlighted where further clarification and guidance is required especially in regards to metric reporting where the intention is to be able to compare funds. The Fund will work with LGPS Central and partner funds within the Pool to see how to address the key requirements and provide progress updates to the Committee as appropriate.

66. LGPS Central are also looking to respond to the consultation from their perspective as a pool. These views are aligned with the Fund's proposed response.

**Quarterly Stewardship Update**

67. The Fund has a longstanding policy of delegating voting and stewardship activities to its investment managers, with the view that well run companies protect and increase shareholder value by engaging on a range of financially material Environmental, Social and Governance (ESG) investment factors.

68. This is implemented through the Fund's equity managers LGPS Central (in contract with EOS at Federated Hermes) and Legal and General Investment Manager. As well as the Local Authority Pension Fund Forum (LAPFF) a group comprised of 85 funds and seven pools with combined assets of over £350billion, which is consequently able to exert significant influence over companies in which funds are invested. Some highlights are included below.

Voting

69. As per the 2021/22 Responsible Investment plan the Fund's voting report is included as Appendix E to this report covering the period July to September 2022. This incorporates c43% of the Fund's assets (LGIM passive funds, and LGPS Central's Climate Balanced fund, Global Emerging Markets fund, and the Global Active Equity fund. A brief breakdown of these are set out below:

i. The Fund made voting recommendations at 829 company meetings, 8,118 resolutions.
ii. At 442 of these company meetings, the Fund opposed one or more resolutions.
iii. The Fund voted with management by exception on eight meetings, and supported management on all resolutions at the remaining 379 meetings.
iv. The majority of votes where the Fund voted against management were related to board structure (39%), audit and accounts (18%), capital structure and dividends (11%) and poison pill/anti-takeover device (11%).

Quarterly Engagement

70. Voting is just one of the tools available to the Fund to encourage better corporate behaviour on environmental, social and governance factors. Which often goes hand in hand with stewardship.

71. Engagement is a long-term undertaking, and it is difficult to show meaningful changes each quarter. Elsewhere on today's agenda is the Fund's Climate Stewardship Plan which focuses on key companies contributing to the Fuds' carbon intensity. Financed emissions and weight of holdings.Stewardship Plan which sets out the longer-term changes achieved in the Fund's top carbon emitting companies.

72. Links to each engagement report are included below, however a brief highlight from the Local Authority Pension Fund Forum (LAPFF), LGPS Central and LGIM are set out below.

| | Company | Concern | Action | Outcome |
|---|---|---|---|---|
| LAPFF | National Grid | Lack of sufficient climate transition plan. | Meeting with the Company, and further discussions at the companies AGM, regarding Scope 3 targets alignment to the remaining global carbon budget, processes to ensure lobbying aligned to Paris Agreement goals. | National Grid provided more detail on 1.5degrees alignment at their AGM, and further information was provided to the Science-Based Targets Initiative certification. |
| LGPS | JP | Executiv | Opposed resolution to | 68.8% of shareholders voted |

| | | | | |
|---|---|---|---|---|
| Central | Morgan | e renumeration and Climate Change | ratify executive compensation and opposed a director who sits on the compensation committee. Supported a shareholder proposal requesting the bank adopt a fossil fuel financing policy. In line with Central's votes at other major banks on the issue. | against the 'say on pay'. The first time the bank's Board lost such a vote since it was introduced in 2009. While the vote is non-binding the Board prompted to state it will take note when considering future compensation packages.<br><br>The shareholder proposal received 11.55% support. Central will continue dialogue on the issue. |
| LGIM | Sainsbury's | Living Wage | Engaged on issue from 2016, by 2021 the company was paying a real living wage to all employees except those in outer London. LGIM joined with ShareAction and filed shareholder resolution in Q1 2022 asking the company to become living wage accredited employer. | In April 2022 Sainsbury's moved all London based employees to the real living wage. However, there are still some who are excluded such as contracted cleaners/security guards. |

## Recommendation

It is recommended that:

a) The findings of the engagement exercise on the draft targets and measures to be included in the draft Leicestershire Pension Fund Net Zero Climate Strategy (NZCS) be noted;

b) The draft NZCS be approved for consultation;

c) The Fund's response to the Department for Levelling Up, Housing and Communities consultation on proposals to require LGPS administering authorities in England and Wales to assess, manage and report on climate-related risks be approved;

d) That the quarterly update on stewardship, engagement and voting be noted.

## Equality and Human Rights Implications

None.

## Appendices

Appendix A: Draft Net Zero Climate Strategy

Appendix B: Engagement Outcome

Appendix C: Fund response to Department for Levelling up, Housing and Communities consultation.

Appendix D: Fiduciary Duty

Appendix E: Voting Report

**Background Papers**

Local Pension Committee – 10 June 2022 – Responsible Investing Update
https://politics.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=6759&Ver=4

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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