



## **LOCAL PENSION COMMITTEE – 16 JUNE 2023**

### **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 progress versus the Responsible Investment (RI) Plan 2023 (Appendix A) to improve management of the Leicestershire Pension Fund (the Fund).
  - b. present the Fund's Taskforce on Climate Financial Disclosure report for 2022 (Appendix B);
  - c. update the Committee on the Fund's quarterly voting report (Appendix C) and LGPS Central quarterly stewardship report (Appendix D).

##### **Policy Framework and Previous Decisions**

2. Responsible investment factors have long been a consideration for the Leicestershire County Council Pension Fund having satisfied itself that potential investment managers take account of responsible investment (RI) as part of their decision-making processes before they are considered for appointment.
3. This is enshrined in the Fund's Investment Strategy Statement last approved by the Committee on 3 March 2023, as well as the approach to climate related risk and opportunities within the Net Zero Climate Strategy also approved 3 March 2023.
4. The Fund is supported by LGPS Central's Responsible Investment and Engagement Framework which sets out its approach to responsible investment on behalf of the eight pooled funds. The framework supports the Fund broadening its stewardship activities.

##### **Background**

5. 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 the Fund's 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.

6. Engaging companies on ESG issues can create value for those businesses and the Fund as an investor by encouraging better risk management and more sustainable practices, which therefore should generate sustainable investment returns.

### **Responsible Investment (RI) Plan 2023 Progress**

7. The Local Pension Committee approved the RI Plan at its January 2023 meeting which was developed following discussion with LGPS Central's in-house RI team. The Fund has a continual focus on raising RI standards. Progress made to date on the 2023 RI Plan is set out in Appendix A.
8. Progress included LGPS Central's Responsible Investment Summit held on 9 March which involved a day of sessions and a number of well-regarded speakers on a range of topics as highlighted in Appendix A.

### **Taskforce for Climate Related Financial Disclosures (TCFD) Reporting**

9. The TCFD report set out in Appendix B is the Fund's third disclosure covering the period January 2022 to December 2022. The report 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. The recommendations look 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.
10. While requirements have been put in place for occupational pension schemes to report against TCFD recommendations since 2021, the Government only recently consulted on similar requirements for the LGPS. There remains no certainty over the timing of the Government response to that consultation or publication of draft regulations on climate risk reporting. It is likely implementation of reporting requirements will be delayed for another year according to the latest update to the Scheme Advisory Board.
11. In the meantime, the Fund's TCFD report has been updated to reflect work undertaken in 2022 and the latest data available. Officers also considered the Pension Regulator's review of occupational pension schemes compliance with TCFD recommendations and other areas for improvement. This has led to the following key changes.
  - a. Governance – Further disclosure of the Fund's governance on climate related risks and opportunities in how it satisfies itself that it is adequately identifying and assessing climate-related risks and opportunities. Further information has also been added on the roles of the Committee, Board, Investment Sub-Committee (ISC), LGPS Central and advisors.
  - b. Strategy - Expanded reference to risks including pension liabilities and climate opportunities. Further emphasis of the impact of climate-related risks on the Scheme's Investment Strategy and Funding Strategy Statement.
  - c. Risk Management – Further detail on how the Fund has established processes for identifying, assessing, and managing climate related risks, including specific examples of the Committee's considerations throughout the year. Inclusion of the updated climate scenario analysis and inclusion of Hymans view of climate risk to the Fund's funding level.

- d. Metrics and Targets - Inclusion of additional metrics measured, and limitations, and updated data from the November 2022 Climate Risk Report. An additional plan on how the Fund is looking to address asset class gaps has also been added.
12. The report features examples of the Fund's action throughout 2022 in developing a Net Zero Climate Strategy, using stewardship to manage climate-related risks, and how the Fund has allocated more to funds with climate-related factors that favour companies that are taking a proactive approach to environmental factors. It is clear data remains a challenge, which the Fund intends to address through its Net Zero Climate Strategy targeting 90% of assets measured by 2030 through the Fund's Climate Risk Report. .
13. As set out in the Climate Risk Report it is encouraging to see that the weighted average carbon intensity (WACI) of the listed equity portfolio has declined by 26% since 2019. It is clear there is still work to be done to ensure the Fund achieves the set target of net zero by 2050, and 50% reduction in WACI for listed equity by 2030. The implementation and utilisation of updated metrics, and increased engagement with portfolio companies through LGPS Central and other partners in 2023 will be instrumental in further progress towards the achievement of these goals.
14. Currently the report aligns to the calendar year rather than financial year, it is expected the Fund will need to produce an interim report at some stage when it will look to align it to financial year end reporting to better align with the Fund's Annual Report.

### **Voting and Engagement**

15. The Fund's voting report is included as Appendix C to this report covering the period January to March 2023. This incorporates c.43% of the Fund's assets (LGIM passive funds, LGPS Central Climate balanced fund, global emerging markets fund and the global active equity fund). A brief breakdown is set out below.
- The Fund made voting recommendations at 931 meetings (10,596 resolutions)
  - At 619 meetings the Fund opposed one or more resolutions.
  - The Fund voted with management by exception on 11 meetings and supported management on all resolutions at the remaining 299 meetings.
  - The majority of votes where the Fund voted against management were related to board structure (45%). These largely relate to voting against non-independent non-executive directors where there is not sufficient independent oversight on a company board.
16. The Fund also received engagement reports from its partners covering January to March 2023. These are linked below alongside a highlight of engagement activity.

### **LGPS Central Stewardship Report – Appendix D**

17. LGPS Central is the pooling company of the Fund. It is a strong supporter of responsible investment through the Responsible Investment and Engagement Framework. The latest quarterly update attached as Appendix D features examples of ongoing and new engagements which relate to the four Stewardship Themes: climate change, plastic, fair tax payment and tax transparency, and human rights risk. LGPS Central's engagement set comprised 729 companies, with engagement

activity on 1844 issues and objectives. Against 491 specific objectives there was achievement of some or all on 159 occasions. One highlight from this report is set out below.

<b>Company</b>	<b>Theme</b>	<b>Action</b>	<b>Outcome</b>
Thermo Fisher	Human Rights	External Manager participated in ESG engagement regarding current human rights due diligence and commercial controls around sale of genetic sequencers.	Confirmed they have stopped selling genetic sequencers in Xinjiang but also to all police bureaus across the country. Thermo Fisher now require due diligence into end customers and use of their products, with distribution terminated if customers violate requirements. Similar policies have been incorporated elsewhere.

#### Legal and General Investment Management – [ESG Impact report](#)

18. Legal and General Investment Management (LGIM) manage the majority of the Fund's passive equity which accounts for 15.9% of the Fund. LGIM's latest ESG impact report highlights some key activity in the Investment Stewardship team, including their latest Climate Impact Pledge updates, collaboration with ShareAction on European chemical companies, and a selection of significant votes. One highlight from this report is set out below.

<b>Issue</b>	<b>Theme</b>	<b>Action</b>	<b>Outcome</b>
UK water companies	Water pollution	Meeting with Macquarie Asset Management Southern Water's majority shareholder. Previously held other meetings with Thames Water and Ofwat.	LGIM continues to limit its exposure to the bonds of weaker companies in the sector pending evidence on progress on operation and financial issues. More recently Thames Water have hired advisors to explore financing options.

#### Local Authority Pension Fund Forum - [Quarterly Engagement Report January to March 2023](#)

19. The Fund is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF act to promote the highest standards of corporate governance to protect the long-term value of local authority pension fund assets. The latest report features company engagements, including their work on the '[Say on Climate](#)' vote, water stewardship and executive remuneration, as well as updates on collaborative engagements, community meetings policy responses and media coverage. One highlight from this report is set out below.

<b>Company</b>	<b>Theme</b>	<b>Action</b>	<b>Outcome</b>
McDonalds	Environmental Risk	Met with McDonalds as	McDonalds undertook water risk assessment covering

		part of coalition to discuss management of environmental risks across agricultural supply chain.	entire value chain. Highlighted a number of facilities operating in regions of high-water stress. LAPFF now want it to set targets that prevent it from negatively impacting water availability in water scarce areas across its value chain.
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### **Other Developments - HM Government, 'Powering Up Britain' March 2023**

20. Within '[Powering Up Britain](#)' released in March 2023 the UK Government committed to "staying at the forefront of the economic transformation to net zero and retain our edge to unlock further opportunities to invest in and grow green industries in the UK". The paper looks to deliver both policy and funding measures to cement the UK as a prime destination for long-term investment, growing its green industrial base and unlocking export opportunities for British business.
21. The paper includes references to reforms to the pensions sector to leverage the UK's capital markets to invest in the net zero transition and green industries in the UK. More detail is included within the [Green Finance Strategy](#), also published 30 March 2023 in recognition of the "key role of pension scheme trustees especially as there are over £3trillion in UK pension investments", but also that "climate change impacts, and actions that governments globally take to tackle it present a financial risk and opportunity for pensions."
22. The Strategy references the awaited consultation on the "accelerated transfer of the £364billion LGPS assets into pools to support increased investment in innovative companies and other productive assets, leading by example". As at the time of writing this report there has been no further information on when the consultation is likely to commence.
23. There are other references within the paper which target occupational schemes, while these do not explicitly relate to the LGPS, officers will consider any developments and best practice as it emerges, including the awaited review of the Stewardship Code which the Fund may wish to report against in future.

### **Recommendation**

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

### **Background papers**

25. None.

### **Equality Implications**

26. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance ("ESG") factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty

**Human Rights Implications**

27. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance (“ESG”) factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund’s fiduciary duty

**Appendices**

Appendix A: RI Plan Update  
Appendix B: 2022 TCFD Report  
Appendix C: Quarterly voting report  
Appendix D: LGPS Central Stewardship Report

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