



LOCAL PENSION COMMITTEE – 8 SEPTEMBER 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);
 - b. update the Committee on the Fund's quarterly voting report (Appendix B) and stewardship activities.

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. The Plan 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. The Taskforce for Climate Related Financial Disclosures report and an overview of the Net Zero Climate Strategy has been summarised within the Fund's Annual Report, included elsewhere on the agenda for this meeting.
9. As highlighted at the June 2023 Committee meeting, LGPS Central are developing an ESG tool which will support the Fund in extending its view of risk to the portfolio.
10. LGPS Central will be providing training following the meeting giving an overview of selection and stewardship as part of RI, and how it can support members in decision making and scrutiny of investment managers.

Voting and Engagement

11. Appendix B sets out the Fund's voting report from March to June 2023.
12. 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 3,711 meetings (51,996 resolutions)
 - At 2,711 meetings the Fund opposed one or more resolutions.
 - The Fund voted with management by exception at 77 meetings and supported management on all resolutions at the remaining 922 meetings.
 - The majority of votes where the Fund voted against management were related to board structure (49%). These largely relate to voting against non-independent non-executive directors where there is not sufficient independent oversight on a company board.
13. The period covered the main European and North American AGM voting seasons. Commentary on the season has been mixed, with growing investor dissention in Europe as shareholders lost patience with some responses to the climate crises. While in North America support for climate-related and social shareholder proposals fell to the lowest level in six years.
14. Significant shareholder dissent is considered where 20% or more shareholders vote against management's recommendation. The UK Governance Code requires that where 20% or more of votes have been cast against the board recommendation for a resolution, the company should explain what actions it intends to take to consult shareholders in order to understand the reasons behind the result. An update should be published no later than six months after the meeting, and then a final summary provided in the annual report.

15. Some significant votes the Fund supported or dissented against where it reached over 20% of the vote included:
- Glencore: 30% of shareholders voted against the 2022 Climate progress, following which many voted in support of a shareholder resolution which received 29% support seeking more disclosure over thermal coal, and alignment with the Paris Agreement. Glencore have stated they will publish an update on engagement with shareholders so as to ensure views are fully understood and publish an update on this within six months of the AGM.
 - JP Morgan Chase: Two shareholder resolutions received a high level of support on environmental and social grounds. The first that JP Morgan issue a report on the climate transition and set absolute greenhouse gas reduction goals. This received 35% support. The second shareholder resolution requested that JP Morgan analyse the congruence of its political and electioneering spending, against its publicly stated company values and policies, receiving 32% support.
16. There were also a number of withdrawn proposals which suggests companies and shareholders may be more willing to negotiate on these issues, with shareholders seeing dialogue and negotiations as an effective way to encourage action. This type of stewardship action can be seen within the engagement reports from the Fund's partners as set out below.

LGPS Central Stewardship Report – [2022 Stewardship Report](#)

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. Central's 2022 Stewardship Report sets out progress 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. As well as further detail on their approach as part of their governance and investment processes.

Engagement	Action	Outcome
Policy dialogue with the UK Department of Environment, Food and Rural Affairs (DEFRA) on Microplastics	Co-signed letter on behalf of 29 investors to the ministers at DEFRA. Emphasising support for the recommendations of the "All Party Parliamentary Group on Microplastics". As well as Alberto Costa MP's Microplastic Filters Bill to mandate the installation of microfibre filters in new washing machines.	Central are now focussing on a DEFRA policy paper which contains an expectation for the industry to develop low-cost filters on washing machines and will engage with the relevant MPs for further detail on how this expectation will be met.

18. The report also sets out further detail on the escalating engagement with Shell and the evidence provided to ClientEarth for use in their legal action against Shell's Board. Engagement on climate-related issues total engagement with 547 companies on 1,022 climate-related issues and objectives with progress on 378 specific objectives over 2022.

Legal and General Investment Management – ESG Impact report Q2

19. 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.
20. In June 2023 LGIM also published their updated Climate Impact Pledge which raised expectations on climate lobbying, biodiversity and energy security for a net-zero world <https://www.lgim.com/landg-assets/lgim/document-library/climate-impact-pledge/climate-impact-pledge-report-2023.pdf>
21. The latest ESG impact report highlights updates on the climate-related shareholder resolutions they co-filed, and work on diversity and some voting highlights from the AGM season.

Company	Theme	Action	Outcome
Exxon	Climate	Co-filed shareholder resolution calling on the company to provide full disclosure on their asset retirement obligations.	While the proposals received 16% support, it still demonstrated an increasing recognition of the importance of the issue. LGIM continue direct engagement. Including engaging with proxy advisers and fellow investors to better understand voting rationale.

Local Authority Pension Fund Forum – Quarterly Engagement Report April-June 2023

22. The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which acts to promote the highest standards of corporate governance to protect the long-term value of local authority pension fund assets. The latest report features an overview of voting alerts on climate, the tech sector, and mining companies. As well as their collaborative engagements, AGM attendances, the Mining and Human Rights report and media coverage.
23. During the AGM season LAPFF issued a series of dedicated climate change voting alerts, across sectors covering transition plans, adequate targets, lobbying and ensuring that the transition towards a climate-neutral economy happens in a fair way.
24. LAPFF highlighted a number of resolutions focused on climate transition plans that did well, as well as a number of requests into alignment of direct and indirect lobbying activity with climate goals which gained significant backing by shareholders. LAPFF set out their intention to follow up with companies where there were these significant votes in favour of shareholder resolutions to understand how boards intends to respond.

Company	Theme	Action	Outcome
Barclays	Climate & Governance	LAPFF had considered issuing a	LAPFF was offered a meeting with the Chair. Following discussions, the

		voting alert recommending abstention on the election of the Chair.	voting alert was withdrawn. LAPFF will continue to follow up to discuss governance and seeking reassurance and identify any possible actions. Including on climate action and disclosure.
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Other Developments

The Economic Activity of Public Bodies (Overseas Matters)

25. The Economic Activity of Public Bodies (Overseas Matters) Bill was introduced to parliament on 19 June 2023. The Bill seeks to prevent public bodies from being influenced by political or moral disapproval of foreign states when taking certain economic decisions, subject to certain exceptions; and for connected purposes. These exceptions include for financial consideration and for labour related misconduct, or environmental misconduct. This is in line with established investment practice in the LGPS.
26. The Fund takes its statutory and fiduciary duty seriously, and as set out in the Investment Strategy Statement “the Committee understand the Fund is not able to exclude investments to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.”
27. The Scheme Advisory Board has set out that they are not aware of any LGPS funds making investment decisions to express political or moral disapproval when making investment decisions. It seems the intention of the Bill in its expressly stated format is unlikely to impact the Fund. However, concern has been expressed by the Scheme Advisory Board and Local Government Association over the potentially overreaching role of the Pensions Regulator (TPR) as an enforcement authority for the LGPS, as well as the wide scope of judicial review by “interested third parties” in parallel to TPR action. There is lack of clarity around who or what may be deemed a sufficiently interested party which could result in spurious claims.

Recommendation

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

Background papers

29. None.

Equality Implications

30. 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

31. 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: Quarterly voting report

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