



LOCAL PENSION COMMITTEE – 8 MARCH 2024
REPORT OF THE DIRECTOR OF CORPORATE RESOURCES
RESPONSIBLE INVESTING UPDATE

Purpose of the Report

1. The purpose of this report is to provide the Committee with an update on:
 - a. progress versus the Responsible Investment (RI) Plan 2024 (Appendix A);
 - b. the Fund's quarterly voting report (Appendix B) and stewardship activities.
2. A presentation will also be provided by LGPS Central on LGPS Central's Stewardship Strategy 2024-2027 (Appendix C).

Policy Framework and Previous Decisions

3. 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.
4. 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.
5. 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

6. 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.

7. 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 2024 Progress

8. The Local Pension Committee approved the RI Plan in January 2024. 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 2024 RI Plan is set out in Appendix A.

LGPS Central Stewardship Strategy

9. LGPS Central undertook a three-year review of its stewardship strategy and themes, resulting in a focus from 2024 onwards on the following revised themes:
 - a. Climate Change
 - b. Natural Capital
 - c. Human Rights
 - d. Sensitive/Topical Issues.
10. The four themes are more aligned to those of wider industry engagement and will therefore allow LGPS Central to work even more collaboratively with other groups of investors.
11. Central have developed a new engagement tracker to better monitor objectives, rationale, contributions and next steps for each engagement. This will integrate measures of success and effectiveness and will be reported as part of their public stewardship reports.
12. LGPS Central will be in attendance to set out the revised Stewardship Strategy and outcomes of previous engagements and next steps and provide an opportunity for Committee to feedback their views on stewardship activities.

Voting and Engagement

13. Appendix B sets out the Fund's voting report from October to December 2023. This incorporates circa 43% of the Fund's assets (LGIM's Global, UK and Low Carbon Transition fund, LGPS Central's Climate Multi Factor fund, Emerging Markets Active fund and the Global Equity Active fund). A brief breakdown is set out below:
 - The Fund made voting recommendations at 757 meetings (5,605 resolutions)

- At 383 meetings the Fund opposed one or more resolutions.
- The Fund voted with management by exception at three meetings and supported management on all resolutions at the remaining 371 meetings.
- The majority of votes where the Fund voted against management were related to board structure (42%). These votes include issues such as overboarding, diversity, and inadequate management of climate risk.

14. As announced [during COP28](#) a number of investment managers including LGIM, Ruffer, Aegon, and other organisations have signed a statement calling on global adoption of the International Sustainability Standards Board's climate-related reporting at a global level. This would support companies in adopting better climate-related reporting in order to advance action orientated responses to the risk of climate change.

15. Some further highlights from engagement activity from partners and investment managers are set out below.

LGPS Central Stewardship Report

16. 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 will provide an update on its stewardship activities as part of their appended presentation.

Legal and General Investment Management – [ESG Impact report Q4](#)

17. Legal and General Investment Management (LGIM) manage the majority of the Fund's passive equity which accounts for 16.1% of the Fund. LGIM's latest ESG impact report highlights some key activity in the Investment Stewardship team.

18. The latest ESG impact report highlights the focus on nature, collaboration with companies in Asia, and key policy updates regarding diversity and human rights. One highlight is set out below.

Comp any	Theme	Action	Outcome
Rolls Royce	Labour relations and climate change	Engagement with the new Rolls Royce CEO and Board Chair. Discussed importance of positioning the company for the climate transition, and nearer term challenges and objectives such as returning the company to an investment grade credit rating.	Rolls Royce have announced a strategic review in November 2023 which appears well balanced in making appropriately radical structural and cultural changes without sacrificing options for the company to remain an active participant in the carbon transition. This review was received well by the market. LGIM will remain engaged with the company on their implementation of the review's findings and its role in the carbon transition.

[Local Authority Pension Fund Forum – October to December 2023](#)

19. 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 the LAPFF conference detailing discussions on various important topics including electric vehicle (EV) supply chains and the biodiversity crisis. There is a continued push on the ‘Say on Climate’ initiative, aimed at pushing companies to present their climate transition plans for shareholder voting. There is active engagement with insurance companies regarding climate change, as well as engagement efforts focused on mining human rights. There has also been joint engagement related to antimicrobial resistance which is considered a global threat to public health and economic prosperity. One example of this is given below:

Topic	Action	Outcome
FAIRR Initiative’s Restaurant Antibiotics Engagement	Focus on reducing the use of antibiotics in protein supply chains. Aim of mitigating risks associated with antibiotic resistance due to the overuse of antibiotics in livestock to safeguard public health.	LAPFF and other investors held a first call with Restaurant Brands International (who own Burger King and Tim Hortons among others), sharing key asks of the engagement and pushed for enhanced transparency on the company’s efforts to reduce antibiotics in the supply chain. LAPFF will continue to support engagement as the dialogue develops.

[Ruffer – Q4 2023](#)

20. Forming a small proportion of the Fund’s portfolio, Ruffer invest in a handful of equities on behalf of the Fund within the targeted return portfolio. Their approach to engagement includes looking at developing an understanding of whether specific issues were industry-wide issues or specific to a company, and continuing work to support the market infrastructure needed to help managers make more informed investment decisions.

Topic	Action	Outcome
Ryanair	Discuss use of sustainable aviation fuel, update on emissions reduction targets and other climate related issues.	<p>The Company has formally submitted targets to the Science Based Targets Initiative and awaits validation process.</p> <p>Expecting improved disclosures as part of its Sustainability Report to align with the incoming Corporate Sustainability Reporting Directive regulations.</p> <p>Ruffer remains impressed by Ryanair’s approach and believes it is well placed to reinforce its</p>

		competitive advantage throughout the transition and emissions reductions.
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Recommendation

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

Background papers

22. None

Equality Implications

23. 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

24. 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
 Appendix C: LGPS Central Presentation

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