



LOCAL PENSION COMMITTEE – 19 JUNE 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 Local Pension Committee (LPC) with an update on:
 - a. Progress versus the Responsible Investment (RI) Plan 2024 (Appendix A);
 - b. The Fund's 2023 Taskforce for Climate-related Financial Disclosures report (Appendix B); and
 - c. The Fund's quarterly voting report (Appendix C) 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, as well as the approach to climate related risk and opportunities within the Net Zero Climate Strategy, both approved by the LPC on 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. LGPS Central presented their revised Stewardship Strategy at the March 2024 Committee meeting.

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 2024 Progress

7. The LPC 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. An update has also been made to the Ongoing Activities throughout the year table to include target dates and further commentary.

Task Force on Climate Related Financial Disclosure

8. In 2022 the Government consulted on proposals to require Local Government Pension Scheme administering authorities to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) that is already a regulation for private pension schemes. In November 2022 the Local Pension Committee approved a response to the consultation which supported proposals and highlighted where further clarification and guidance may be needed for schemes.
9. The Fund has been reporting against TCFD since 2020, as it is an important mechanism for setting out to the Committee, scheme members and interested parties the work the Fund undertakes in assessing and managing climate-related risks and opportunities. Across the LGPS the Fund is only aware of around 25 out of 86 funds reporting in such a manner, and not necessarily to the extent or frequency that the Fund is.
10. The latest report as set out in Appendix B includes recommendations as part of the December 2023 Climate Risk Management Report and the Pension Regulator’s review of private pension schemes publications. Some key changes are set out below:
 - An executive summary and brief overview of progress the Fund has been undertaking since 2019, alongside next key milestones for the Fund.
 - Approval of the Net Zero Climate Strategy, changes reflecting this strategic approach and the targets set have been included.

- Specific examples of how the Committee’s discussions have supported challenging investment managers, the Fund and LGPS Central on how climate risk is being considered.
 - Engagement examples for key stewardship plan companies.
 - Integration of LGPS Central’s recommendations in respect of the TCFD disclosure maturity map.
11. Despite considerable progress in improving how the Fund manages and monitors climate risk and opportunities, there are still areas for improvement, and areas will arise as part of best practice to be taken forward in future reporting cycles.
12. Of the recommendations set out within the Climate Risk Management Report presented to this Committee in December 2023, consideration continues with how the Fund can consider climate scenario analysis with integration of its investment assets and funding strategy together. The Fund is engaging with LGPS Central and the actuarial advisor, and consideration is being given to best practice in this area to consider application as part of the 2025 valuation to support it to balance longer-term security and stability by considering the impact of climate change among others. The Fund is also awaiting Government guidance how it is recommended Fund’s undertake climate scenario analysis as part of TCFD proposals.
13. In benchmarking the Fund against other schemes, the following table has been produced offering a snapshot of LGPS and some private pension schemes (Defined Contribution funds) where published data seems to use the same methodology. Despite this there are still caveats which may prevent like for like comparisons, such as different data providers, assumptions used and the date at which a snapshot has been taken among other factors. It is also important to note that climate risk cannot be distilled into one single metric, and these are only backwards looking measures.
14. The two most widely used measures that the Fund can compare are as follows:
- a. Weighted Average Carbon Intensity (WACI): a portfolio’s exposure to carbon intensive companies. A proxy for carbon price risk.
 - b. Normalised Financed Emissions: the amount of emissions the Fund would be responsible for per million dollar of financing.

Fund	Snapshot date	WACI (tco2e/\$m revenue)	Normalised Financed Emissions (tco2e/\$m invested)
Leicestershire	March 2023	102	52.8
LGPS A	March 2023	153	

LGPS B	March 2022	100	
LGPS C	March 2023	119	61
LGPS D	March 2022	123	
LGPS E	March 2022	89.9	37.4
LGPS F	March 2023	104	
LGPS G	June 2022	118.7	
LGPS H	Dec 2023	77.6	34.2
LGPS I	2023	227.8	
LGPS J	Dec 2023	79.2	
DC A	April 2023	56.5	144.5
DC B	Dec 2023	198	

15. In considering LGPS H its metrics are a result of significant changes to their portfolio including investment in a Paris-aligned fund. This type of investment was considered by the Investment Subcommittee at its meeting in April 2023. The Fund instead agreed to invest in LGIM's Low Carbon Transition which reduces initial exposure to carbon-emitting assets by 70% compared to the market benchmark with further reduced exposure to carbon emissions over time, with the ultimate objective of aligning with net zero emissions globally by 2050, consistent with the goals of the Paris Agreement. This was considered most aligned to the Fund's Net Zero Climate Strategy in support of achieving the Fund's 2030 targets, supporting real-world emissions reductions through engagement and risk appetite.
16. The Fund should see improvements in its climate metrics as a result at the next climate snapshot as at 31st March 2024 to be presented to LPC on 29 November, the results of which will be considered as part of the next Strategic Asset Allocation review in January 2025.

Manager Questionnaires

17. Officers have sent out investment manager questionnaires to seek to continue and monitor investment managers' (outside of LGPS Central's responsibility) net zero targets, how they consider risks from high impact sectors, climate metrics reported, and engagement activities undertaken. The results will be reported to the 29 November Committee meeting alongside the Climate Risk Management report.

LGPS Central RI Summit

18. LGPS Central held their Responsible Investment Summit on 5th June 2024. As part of this a number of panels and discussions were held which allowed for questions and answers from participants. This included discussions on artificial intelligence, the state and outlook for the net zero transition, macro uncertainty, the evolution of climate scenario analysis, and what is effective stewardship. There are a number of takeaways for the Fund to consider as part of key actions being undertaken including.

- Development of climate scenario analysis, the challenges, advancements and future directions in providing decision useful information.
- How to be effective stewards and understand how fund managers and stewardship leads work together in supporting long-term value creation.
- The growing interest from regulation bodies on disclosure, labelling and anti-greenwashing guidance for investment managers.
- The review of the Stewardship Code and how it could be considered by the Fund in future.

Voting and Engagement

19. Appendix C sets out the Fund's voting report from January to March 2024. 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 947 meetings (9942 resolutions)
- At 583 meetings the Fund opposed one or more resolutions.
- The Fund voted with management by exception at two meetings and supported management on all resolutions at the remaining 364 meetings.
- The majority of votes where the Fund voted against management were related to board structure (48%). These votes include issues such as over boarding, diversity, and inadequate management of climate risk.

LGPS Central Stewardship Report - [January to March 2024](#)

20. LGPS Central is the pooling company of the Fund. It is a strong supporter of responsible investment through the Responsible Investment and Engagement Framework.
21. As presented to Committee in March 2024 LGPS Central have updated their Stewardship Strategy and objectives, the following progress has been made over the quarter against their objectives.

Theme	Companies Engaged With	Engagement Issues	Progress on specific Engagement Issues
Climate Change	212	322	34
Natural Capital	105	188	20
Sensitive/Topical Activities	1	1	0
Human Rights	321	526	117

	Theme	Engagement	Outcome
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BHP	Climate Change (Just Transition)	Central met with BHP. Though BHP have committed to responsible closure of a mine in 2030 which was previously due to close in 2045, Central wanted reassurances about how they intend to meet this commitment. BHP had setup the Tomorrow, Together Initiative which aims to support BHP employees to identify a pathway post closure most appropriate for individual's circumstances. This included costs for re-training and re-deployment. However this had not been disclosed outside of the usual rehabilitation costs.	BHP Admitted they saw the point on public disclosures not including specific measures of the Tomorrow, Together Initiative. Central will continue to engage with them on the approach to the Just Transition.
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Legal and General Investment Management – [January to March 2024](#)

22. Legal and General Investment Management (LGIM) manage the majority of the Fund's passive equity which accounts for 17% of the Fund. LGIM's latest ESG impact report highlights some key activity in the Investment Stewardship team.
23. 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:

Company	Theme	Action	Outcome
Nestle	Nutrition	LGIM have been engaging in support of the Share Action Health Markets Initiative. This encouraged companies to be more transparent around their nutrition strategy, demonstrate progress, and committing to disclose on these issues. LGIM met with Nestle many times on these matters.	<p>Nestle committed to report on their global portfolio using the nutrient profiling system which was welcomed. Nestle also announced a new nutrition target, however LGIM do not believe this is ambitious enough.</p> <p>Reflecting concerns LGIM has escalated its actions and co-filed a shareholder resolution calling on the company to:</p> <p>Set key performance indicators regarding absolute and proportional sales for good and beverage according to their healthfulness.</p>

			And provide a timebound target to increase the proportion of sales derived from healthier products
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24. Additionally, LGIM have set baseline expectations as part of their [Climate Impact Pledge 2024](#) by introducing absolute minimum standards for companies in emission-intensive sectors. LGIM analyse over 5000 companies across a range of metrics based on the TCFD framework. Where they fail to meet minimum standards they may vote against re-election of the chair of their board. They engage directly with over 100 companies they believe have the potential to be dial movers in their sectors, LGIM's view is if they change others may follow.
25. This year LGIM also made changes to their qualitative assessment and voting policy to put a spotlight on companies' methane emissions (which while shorter-lived in the atmosphere than carbon dioxide, is a more potent greenhouse gas) disclosure and the expectation that mining companies and electric utilities refrain from making new investments in thermal coal mining or power generation expansion.

[Local Authority Pension Fund Forum – January to March 2024.](#)

26. 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. Highlights of the latest report set out engagement with banks on climate change, including meetings with HSBC and Barclays. Updates on continued engagement with Drax Energy, water stewardship engagements with UK water companies, mining and human rights, and human rights risk in the luxury goods sector are provided.

Topic	Action	Outcome
Barclays	Continued engagement with Barclays.	<p>Barclays updated its climate change statement that went some way in addressing concerns and takes account of the International Energy Agency net zero scenario. Share Action as a result withdrew its shareholder resolution which likely would have attracted significant support from shareholders.</p> <p>LAPFF continues to encourage further actions on stronger restrictions on lending to the fossil fuel sector, proper disclosure and analysis of transition plans and robust commitments to financing the energy transition.</p>

27. 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 which is needed to help managers make more informed investment decisions.

Topic	Action	Outcome
BP	Sustainability reporting requesting additional reporting on low carbon or transition growth and financial reporting by business segment for greater transparency.	BP's Chief Financial Officer (CFO) recognised a number of shareholders are asking for greater insight and re-segmented financial reporting to strip the low carbon or transition growth engines away from the traditional oil segment. As part of Ruffer's next meeting with the company, they plan to clarify some of the points raised by the CFO: the possibility of revised segment reporting; the key performance indicators for measuring the speed and trajectory of the energy transition; the broad topic of capital allocation; and asking how shareholders can gain comfort that the board and management are deploying capital in the best interests of the company.

Hymans Robertson

28. Hymans Robertson, the Fund's Investment Advisor published, a new [responsible investment mission statement](#) in April 2024. This sets out their three core pillars of activity, each which reflects an outcome they are working towards:
- Achieving net zero – helping clients understand what net zero means for them and how they can take meaningful action to align with this ambition.
 - Being better stewards – helping clients create approaches to stewardship that reflect the resource they're able to commit.
 - Creating positive impact – helping clients better understand how they can have impact, allocate capital, and exercise stewardship to create positive real-world outcomes, all while continuing to meet their fiduciary responsibilities.

Recommendation

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

Background papers

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
Appendix C: TCFD Report

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