



LOCAL PENSION COMMITTEE – 20 JANUARY 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

DRAFT RESPONSIBLE INVESTMENT PLAN 2023

Purpose of the Report

1. The purpose of this report is to seek the Local Pension Committee's approval of the Leicestershire Pension Fund's Responsible Investment Plan 2023 (Appendix A) to enable the Fund to further improve the management of responsible investment risks.

Background

2. The term 'responsible investment' refers to the integration of financially material environmental, social and corporate 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 considerations.
3. The Fund's approach to Responsible Investment matters have been incorporated into the Investment Statement Strategy and all actions the Fund undertakes. These are considered in two key areas:
 - Sustainable Investment: considering the financial impact of ESG factors on its investments.
 - Stewardship and Governance: Acting as responsible and active investors/owners through considered voting of shares and engaging with investee company management as part of the investment process.
4. The first Responsible Investment plan was approved at the January 2020 Local Pension Committee meeting, with updated plans being presented and approved annually since. A progress update of the latest 2022 plan is attached as Appendix B.

Responsible Investment Plan 2023

5. Officers have developed the Fund's 2023 Responsible Investment (RI) plan in conjunction with LGPS Central's in-house RI team. The plan includes outputs and recommendations from the Fund's latest Climate Risk Report which was supported by the Local Pension Committee at its meeting on 18 November 2022.

6. The plan builds on the three previous iterations and improves on the approach and beliefs detailed in the Fund's ISS and development of the draft Net Zero Climate Strategy.
7. The draft RI plan for 2023 is attached as Appendix A. Some highlights are as follows:
 - Continuation of quarterly manager presentations to the Local Pension Committee that include manager views and performance on ESG matters.
 - A wholesale review of the Fund's investment managers' approaches to climate risk as at 31 March 2023. To include what commitments and initiatives they are signed up to, their climate commitments for financed emissions, whether the Fund's investment falls within these commitments, the climate metrics reported and how they will report to the Fund on climate issues and RI issues. This will help the Fund understand alignment with the Fund's proposed Net Zero Climate Strategy (subject to approval), and shape engagement and discussions held with managers throughout the year.
 - Climate Risk Report/Task Force on Climate Related Financial Disclosures reporting – LGPS Central are in the process of refining their offering for partner funds. The Fund will look to support this review with the aim of streamlining and simplification of reporting, considering the Fund's proposed Net Zero Climate Strategy and further integration of other asset classes into climate reporting, such as bonds.
 - LGPS Central are hosting a Responsible Investment Stakeholder Day on 9 March, all Members are encouraged to attend.
8. The proposed Net Zero Climate Strategy will help shape several actions set out in the plan subject to its approval. There will also be further actions required for implementation of the Net Zero Climate Strategy that will expand the RI Plan, alongside ongoing RI activities undertaken throughout the year as needed.
9. The Committee will continue to receive quarterly reports on stewardship, voting and engagement each quarter. Committee members are encouraged to highlight any areas of particular interest (for example, company specific, sector or type of engagement) if they would like more in-depth reporting on specific matters.

Collaboration on Responsible Investment Matters

10. There are various bodies, codes and initiatives the Fund could join if it so wished. Historically, other than with the Local Authority Pension Fund Forum, the Fund has not become a direct signatory to certain key initiatives relating to RI and has been comfortable that as its investment managers have always been signatories the Fund was adhering to the broad principles by default. However, the Fund will consider further collaboration vehicles as it sees fit.
11. The Fund's strategy has been to engage with its investee companies and other key stakeholders through its current partnerships. In order to protect and increase shareholder value by engaging on a range of financially material ESG investment factors. This engagement programme is implemented through partnerships

including the Local Authority Pension Fund Forum (LAPFF), Equity Ownership Service (EOS) at Federated Hermes (via a contract held by LGPS Central Ltd, the Fund's investment pool operator). LGIM also have a strong engagement programme which covers the Fund's passive portfolio.

Local Authority Pension Fund Forum

12. The Fund is a member of the LAPFF, alongside Central and the other partner funds. This is a collaborative shareholder engagement group with over £350 billion in assets and accounts for at least 84 of 98 LGPS funds, and most pools.
13. The Forum publishes quarterly stewardship progress reports, as well as key voting alerts many of which are in relation to supporting climate lobbying and resolutions related to setting carbon emission targets. The activity of LAPFF is highlighted at each quarterly Committee meeting.
14. LAPFF held an annual responsible investment conference 7-9 December 2022 titled "Now More than Ever". The conference held various sessions which covered topics such as human rights, responsible mining, the pandemic, a just transition, sustainability, climate change, electric vehicle charging, remuneration, privacy rights, levelling up, sustainable water, racial equity and stakeholder resolutions. The conference set out many positive examples of progress with engagements possible through collaboration, as set out in their quarterly and annual reporting cycles.
15. LAPFF engage with companies on behalf of LGPS funds, and while progress can seem slow, escalation is evidenced and supported through their collaboration with other asset owners and managers. The Fund may wish to increase its approach in this area through other groups and initiatives set out below.

Further Opportunities for Collaboration

16. There is no obligation for the Fund to be a signatory of any body, however, it may be prudent where they are strongly aligned with the views and beliefs of the Committee. It is not intended that the Fund sign up to any new code, initiative or group at this stage given resource dedicated in development and expected implementation of the Net Zero Climate Strategy.
17. Instead, it is proposed that as part of the RI Plan officers look to explore these opportunities throughout the year. Where there is added value to the Fund not already achieved through its current approach and collaborations, this will be reported to Committee.

Stewardship Code 2020

18. The Financial Reporting Council's (FRC) UK Stewardship Code 2020 ('the Code') sets elevated expectations for how investors, and those that support them, invest, and manage money on behalf of UK savers and pensioners, and how this leads to sustainable benefits for the economy, the environment and society. It is a set of 12 Principles for asset owners and asset managers, and a separate set of six Principles for service providers: investment consultants, proxy advisors, data providers and others.

19. Organisations must apply and out of the 189 organisations that applied in 2021 only 64 were approved, evidencing the high standards required to successfully apply. As at September 2022 there is a total of 245 signatories accounting for £40.6trillion in assets under management. Organisations range by size of assets, asset classes, geographies, investment style and role in the investment community. It is understood that the Code's Stewardship Term will begin the planned review of the regulatory framework for stewardship alongside the FCA, DWP and TPR. Alongside a consultation on the Code from late 2023. The review will look at whether the code is creating a market for effective stewardship and the need for any further regulation in the area.
20. Signatories are expected to explain how stewardship has been exercised across asset classes, and how the Fund's purpose, investment beliefs strategy and culture enable it to practice stewardship. Signatories are expected to report annually on its stewardship activity and outcomes.
21. Several Fund managers are already signatories of the Code, including LGPS Central, which will cover the Fund's investments managed through Central. Other managers are Aegon Asset Management, LaSalle, Legal and General, M&G, Quinbrook. Ruffer, Standard Life (abrdn). Within the LGPS Central pool West Midlands and Worcestershire are successful code signatories.
22. It is worth highlighting that the Stewardship Code's latest [Review of Stewardship Reporting](#) was published November 2022. Within the report they have highlighted two engagements by LGPS Central as providing robust reporting in line with the FRC's requirements. One example relates to the Global Equity Active Multi Manager fund and highlights one of the underlying external managers Schroders:
- Schroders engaged with a utility company to set a clear decarbonisation strategy. The company did not have an overarching net zero commitment or quantitative targets to reduce emissions. Schroders further engaged with the company in September 2021, setting out key expectations. This was then escalated. The company has been receptive to Schroder's requests making valid points about the importance of shorter-term targets. However, Schroders do not believe this precludes the company setting longer term targets. If the Company does not announce 2030 or 2050 targets Schroders will re-engage.

Principles of Responsible Investment

23. The United Nation Principles for Responsible Investment (PRI) were developed by an international group of institutional investors to reflect the increasing relevance of ESG issues to investment practices. There are six principles which the Fund has included within the ISS (Investment Strategy Statement) since 2019.
- **Principle 1:** We will incorporate ESG issues into investment analysis and decision-making processes.
 - **Principle 2:** We will be active owners and incorporate ESG issues into our ownership policies and practices.
 - **Principle 3:** We will seek appropriate disclosure on ESG issues by the entities in which we invest.

- **Principle 4:** We will promote acceptance and implementation of the Principles within the investment industry.
- **Principle 5:** We will work together to enhance our effectiveness in implementing the Principles.
- **Principle 6:** We will each report on our activities and progress towards implementing the Principles.

24. Over 5000 organisations have globally committed to the PRI. Given the global nature of the initiative a majority of the Fund's managers are signatories including LGPS Central and LGIM. Within the pool only West Midlands is a direct signatory. Annual subscription costs to become a signatory are circa £7,000 for a Fund of Leicestershire's size, and do not account for the internal cost to the Fund related to reporting expectations. While there is no strict criteria to qualify for approval initially, the Fund must demonstrate adherence to the principals.

25. The PRI is in the process of assessing how best to ensure accountability on responsible investment practices globally. If the Fund was to sign up it would have a one-year grace period for reporting and assessment against the principles in its current form which include stringent requirements on reporting.

26. Other groups and initiatives are set out below. Often these collaborate and rarely stand alone:

Group	About	Asset Coverage	Cost	LGPSC link
Climate Action 100+	Investor led initiative to undertake collaborative engagement with largest greenhouse gas emitters.	700 global investors (\$68trillion)	[Must be member of a coordinating investment network such as PRI (Principles for Responsible Investment)]	yes
Transition Pathway Initiative	Independent, authoritative source of research and data into the progress being made by the financial and corporate world in making the transition to a low-carbon economy.	131 global investors (\$50 trillion)	No cost to become supporter.	yes
Institutional Investor Group on Climate Change	Leading global investor body focussing specifically on climate change.	375 global investors (€60trillion)	£4,200	yes
Ceres Investor Network	Advance sustainable investment practices, engage with corporate leaders, and advocate for key policy and regulatory solutions to accelerate the transition to a	220 institutional investors (\$60trillion)	Not advertised.	no

	just, sustainable, net zero emissions economy.			
Net Zero Asset Owner Alliance	Global asset owners committed to decarbonising their investment portfolios and achieving net-zero emissions by 2050.	83 asset owners (\$11trillion)	Circa \$10,700	no
UK Sustainable Investment and Finance Association	The leading membership organisation for sustainable and responsible finance in the UK.	300+ UK based institutions (£19trillion)	£470+Vat	no

27. Each group and initiative will have its own benefits, these may relate to engagement with companies, policy development/lobbying, collaboration, networking, communication and best practice. However, may also involve internal costs in relation to reporting requirements and resource required. Officers will review membership benefits to the Fund, it is important it demonstrates key benefits to the Fund, outside of use of a logo.

Recommendation

28. It is recommended that the Local Pension Committee approves the Responsible Investment Plan 2023.

Equality and Human Rights Implications

29. None.

Appendix

Appendix A: Draft 2023 Responsible Investment Plan

Appendix B: Progress against 2022 Responsible Investment Plan

Background Papers

Local Pension Committee – Friday 18 November 2022 – [Climate Risk Report](#)

Local Pension Committee – Friday 21 January 2022 – [Responsible Investment Plan 2022](#)

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