



LGPS Central Joint Committee Meeting

Friday 29th June 2018

Responsible Investment Update – June 2018

Report of the Director of Responsible Investment & Engagement LGPSC

1. About this document

This report is intended to brief LGPS Central's Joint Committee on the implementation of LGPS Central's approach to responsible investment & engagement ("RI&E") between April and June 2018. It also provides some general industry updates for context.

2. Summary of RI&E Framework

In March 2018 the Board approved the RI&E Framework and Statement of Compliance with the UK Stewardship Code. These documents were presented to the Joint Committee on 29 March. Further to this, the framework has been presented to some of our partner funds' pensions committees. The Framework articulates beliefs about responsible investment & engagement which draw upon the investment beliefs articulated in our partner funds' *Investment Strategy Statements* and/ or bespoke responsible investment frameworks.

We are pleased to announce we have received "Tier 1" (best practice) status for our Statement of Compliance with the UK Stewardship Code. We have successfully signed up to our partnership organisations and have begun to take active roles in each. Our partner organisations are: 30% Club Investor Group, British Venture Capital and Private Equity Association (BVCA), CDP (Carbon Disclosure Project), Institutional Investor Group on Climate Change (IIGCC), International Corporate Governance Network (ICGN), Principles for Responsible Investment (PRI), Transition Pathway Initiative (TPI).

There has been a strongly positive reception for the release of our RI&E Framework, with a feature in responsible-investor.com followed by warm comments from industry peers. The release of the Framework was accompanied by speaking appearances at several conferences including the SPS ESG conference, RI Europe and Institutional Investor.

Among other things, the RI&E Framework includes a commitment to integrate RI&E across all asset classes, work towards annual Stewardship Themes, and issue a Quarterly Stewardship Report, which will be hosted on the website. Work in each area has already begun.



3. General RI News

The Environmental Audit Committee (EAC), which is a House of Commons Select Committee, published the responses of the 25 largest UK pension funds to its inquiry into green finance. The pension funds were asked a series of questions about climate change and disclosure. The EAC has rated the responses and disclosed the commitment level of the pension funds including whether the funds have committed to the Taskforce on Climate-related Financial Disclosures (TCFD). LGPS Central has publicly indicated support for TCFD and will use the TCFD's framework to guide disclosure on climate change risk. We will monitor the EAC's next steps.

On 18 June 2018 the Department for Work and Pensions ("DWP") issued a report and a consultation on clarifications to fiduciary duty which it is minded to enshrine in regulatory amendments. While this is not immediately of direct relevance to clients of LGPS Central, it does represent a tonal shift for other occupational UK pension schemes. The key points concern clarifications of fiduciary duty and the role of scheme members.

The European Parliament adopted in May 2018 a resolution on sustainable finance, the culmination of the EU Commission's High Level Expert Group ("HLEG") on Sustainable Finance. The resolution calls for updates to fiduciary duty, green bond disclosure standards, a robust taxonomy for green finance, and carbon stress tests for banks.

4. LGPS Central's RI&E activities

RI&E Integration:

As a team we have begun to integrate RI&E into our investment procedures across all asset classes. This includes, for example, our assessment of candidate asset managers for the global equity mandate, our due diligence of infrastructure opportunities, our approach to monitoring private equity funds, and so on.

One of our RI&E objectives is to be an exemplar for RI&E and to raise standards across the market. During the quarter in review, we contributed to new a new guidance framework for monitoring private equity funds on matters of responsible investment. This framework was published by the PRI and is likely to set, and to raise, the standards that private equity managers aim for when it comes to managing and disclosing on RI issues.

Engagement:

Engagements have been undertaken with eight companies during the period in review. Topics covered included remuneration, corporate disclosure, cyber security, board composition, succession planning and climate risk strategy. Some of these engagements are being coordinated by our partners the PRI and the Climate Action 100+ initiative, with LGPS Central acting as the lead or co-lead engager.



Voting:

The company's interim voting arrangements were launched successfully in April, with new arrangements set up between the interim voting provider and the company's asset servicer. Data and commentary on the company's voting decisions will be provided in the Quarterly Stewardship Report, which is scheduled for publication in August. We have integrated some thematic voting rules, as described below.

Stewardship Themes:

Climate change:

We have begun to work with the Climate Action 100+ initiative, a very large global collaboration of institutional investors which seeks to engage around 150 companies for which climate change is a material risk. There are three engagement objectives, concerning the governance of climate risk, the disclosure of climate risk strategies via TCFD, and the alignment of business models with a two degrees pathway. LGPS Central is co-leading on engagements with two UK companies. The Director of RI&E attended Centrica's AGM in May to ask the company to target the reduction of Centrica's customers' GHG emissions, which account for 90% of total. Joined, we engaged the directors after the conclusion of the AGM and seek a meeting for further discussion.

We also continue to work with the Transition Pathway Initiative (TPI), which leverages insight from the London School of Economics and FTSE Russell to observe climate change governance and performance for companies in high impact sectors such as Utilities, Oil & Gas, Autos and Cement. We have implemented a voting rule where we vote against the Chair of any company that scores 0 on the TPI's governance rating. Such companies have failed to recognise climate change as a risk and we have used our vote to signal disappointment in the person most responsible for setting company strategy and risk appetite (i.e. the Chair).

LGPS Central is co-leading a workstream within the Green Finance Taskforce (GFT), which is part of the Green Finance Initiative. We contributed to the GFT's recent recommendations report which encouraged UK policy makers to introduce TCFD-aligned reporting into "soft" legislation such as the UK Corporate Governance Code, the UK Stewardship Code, listing rules, and so on. The next stages for the GFT is to work with UK government and the regulators to implement the recommendations.

Cyber security:

The PRI is co-ordinating a collaborative engagement on cyber security with around 60 companies globally, and LGPS Central is leading the engagements with two UK banks. The Director of RI&E met each company during the quarter in review, and has fed back the results to the PRI engagement group. We were impressed with the companies' preparedness for cyber risk but feel there are some improvements to disclosure that could be made to further establish their leadership positions on this issue. We have written to the companies.



Diversity:

The company is a signatory to the 30% Club Investor Group. During the period in review, the company has elected to engage a UK company which, until the recent appointment of a female Chair, had no women on its nine-person board of directors. We intend to discuss with the Nominations Committee Chair the plans to further consider diversity in subsequent recruitments to the board.

We have also introduced a voting rule which aligns with our support for the 30% Club Investor Group's *Statement of Intent*. We have decided to oppose the re-election of any Nominations Committee Chair that is making insufficient progress on board diversity (which we define to be fewer than 25% of the board comprising female directors for FTSE 100 companies and fewer than 20% for FTSE 250 companies).

5. Ongoing disclosure

LGPS Central will issue Quarterly Stewardship Reports, and host these on the website. The reports will describe, to all stakeholders, the actions taken by LGPS Central to achieve its stewardship objectives. The first of these reports, covering the quarter April to June, is scheduled for publication in August.

Recommendation: -

The Committee are asked to receive the report and comment as appropriate.

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