



LGPS Central Joint Committee Friday 21 July 2023

Item 5: Public questions

Explanatory Note: The Joint Committee Terms of Reference provides for questions to be asked by members of the public, to be answered verbally in the meeting where time permits. A maximum of 15 minutes is set aside for this part of the Joint Committee. Any questions that cannot be answered in the time limit will receive a written response and all questions and answers will be published on the LGPS Central webpage.

The following question(s) were received from the public prior to noon on 14 July 2023, being the cut-off for public questions under the public question protocol adopted by the Joint Committee. The responses are given on behalf of LGPS Central in relation to investments held through LGPS Central Ltd, and are not given on behalf of any individual LGPS Central Partner Fund.

Question 1: received 29/06/2023 from D Plunkett

The June 2023 PLSA conference report PENSIONS AND GROWTH lists the major benefits for the UK economy from our pension funds investing in the UK rather than abroad, “as large and long-term investors, pension funds also invest in infrastructure projects, such as renewable energy, transportation, and affordable/social housing. Investments that create UK jobs, support economic development, and help to address long-term societal challenges, such as climate change and housing affordability.”

My own Cheshire Pension Fund also showed that 83% of investment income came from just the 22% of CPF fund assets invested in the UK, (2021/2022 Annual Report, p140, LGPS SAB).

Therefore, given the clear benefits of investing in the UK for future growth:

What percentage of LGPS Central assets are invested in the UK, and what percentage of investment income do this produce?

Response

At 30 June 2023, there was c. £17.2bn invested within the ACS funds managed by LGPS Central. These funds cover a variety of different asset classes including active equity, passive equity, fixed income, and real estate. Of this c. £17.2bn, c £2.3bn is invested within the UK (13.2%) (source: Northern Trust).



Whilst investment income is received within the Funds, this is re-invested in line with investment mandates specified for each Fund. Over the year to 31 March 2023 c. £397m was received in investment income (gross of fees and tax), of which 23% was attributable to UK investments.

More details on the ACS Funds and their underlying holdings can be found on the LGPS Central website.

Question 2: received 03/07/2023 from D Challen

What is the size of the current holding LGPS Central has invested in Climate Bonds?

If the current holding is zero, will these bonds be acquired in future?

Response

As at 31 March 2023, there was c. £2.9bn invested within the LGPS Central Fixed Income ACS Funds, of which c. £174.4m (c. 5.9%) is invested in Green Bonds (including sustainability bonds, sustainability index-linked bonds and social bonds)

(source: LGPS Central, Northern Trust and underlying investment managers, please note some underlying manager data as at 31 December 2022, however we do not anticipate a material difference to this figures).

Question 3: received 04/07/2023 from J Cameron

In view of increasing reports of failures in meeting climate change targets which indicate a failure of the trusts policy of engagement with the fossil fuel industry, increasing risks of being left with stranded assets, isn't it time now to move towards divestment rather than engagement?

Response

LGPS Central supports a policy of engagement with the fossil fuel industry rather than divestment. We believe that environmental, social and governance (ESG) integration and stewardship are effective tools for managing stranded asset risks and encouraging responsible corporate behaviour.

We believe that collaboration between government, investors, and corporates is essential for an urgent and "just" transition to a low carbon economy. We see ourselves as long-term owners of the companies we invest in, encouraging management to adopt a strategic approach towards addressing climate change. Our position is that divestment by asset owners may result in the ownership of companies shifting to investors with shorter-term interests and less inclination to consider the interests of other stakeholders. We believe this could hinder, rather than accelerate, the transition to a low carbon economy.



According to the International Energy Agency (IEA) Net Zero scenario, fossil fuels are likely to be part of the global energy mix until 2050 and beyond, albeit in smaller amounts. We see a role for the fossil fuel industry in developing technologies for capturing and storing emissions and supporting the decarbonisation of industries such as aviation and maritime transportation through the development of alternative fuels. We place emphasis on the importance of analysing sectors and companies individually when making investment decisions and assessing risks, including the risk of asset stranding. We believe a sector-level approach to divestment is not the most effective way to manage the risks and opportunities associated with the low carbon transition.

LGPS Central engages with companies through initiatives like Climate Action 100+ and the Institutional Investor Group on Climate Change. These engagements focus on reducing carbon emissions and encouraging companies to embrace renewable energy options and carbon capture and storage. We also engage with policymakers to promote regulatory frameworks that facilitate the integration of ESG considerations into investment processes.

LGPS Central believes that engagement efforts should address both the demand and supply of fossil fuels. We do not support companies selling their fossil fuel assets to other operators, as it would only transfer emissions rather than contribute to decarbonisation. We emphasise the need for a global concerted effort to achieve real-world decarbonisation.

LGPS Central provides regular updates on our engagements and stewardship activities to enhance transparency and accountability.

Question 4: received 05/07/2023 from P Hollett:

When is the end to giving to arms dealers?

Response

LGPS Central take an approach to Responsible Investing (RI) which relies on integration of material environmental, social and governance (ESG) factors into investment decision making and on engagement with companies to encourage better standards across the ESG risk spectrum. LGPS Central do not divest from specific sectors on moral or ethical grounds; however, it is expected that the companies invested in should behave responsibly and abide by international law and global norms. Our external investment managers are required to monitor this within their portfolios, and we expect them to engage accordingly.

LGPS Central considers that engagement and ESG integration invariably leads to better outcomes for investors, corporations and other stakeholders.