

Report Title:	Responsible Investment Update
Contains Confidential or Exempt Information	No - Part I
Lead Member:	Councillor Julian Sharpe, Chairman Pension Fund Committee and Advisory Panel
Meeting and Date:	Pension Fund Committee 7 March 2022
Responsible Officer(s):	Damien Pantling, Head of Pension Fund
Wards affected:	None

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REPORT SUMMARY

The Pension Fund Committee agreed and released an Environmental, Social and Governance (ESG) public statement in late 2020 clarifying its commitment to long-term responsible investment of pension savings. Following this, the fund approved an updated Responsible Investment (RI) policy on 22 March 2021 supported by several values, principles, and priorities.

Whilst responsible investing and ESG have always been guiding principles in the Fund's investment strategy, the decision to pool funds with LPPI from 1 June 2018 enabled more active monitoring and consolidation of its responsible investment outcomes.

Climate Change is one of the underlying priorities in the Fund's RI policy and this report sets out to formally update members on LPPI's most recent amendments to their RI policy (namely on fossil fuel divestment), to report on the Fund's responsible investment outcomes and to report on the Fund's recent engagement activities.

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That the Pension Fund Committee notes the report;

- i) **Acknowledges LPPI's updated Responsible Investment policy (climate change Annex) and;**
- ii) **Acknowledges the Fund's RI dashboard, RI report, active engagement report and achievement of associated outcomes.**

2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

- 2.1 Since 1 June 2018, all our investments have been pooled and are actively managed by LPPI. Responsible investing is an underpinning principal of LPPI's investment approach and is documented by a suite of detailed RI policies available on their website.

- 2.2 LPPI's active decision to declare a net-zero commitment was reported on at the 6 December 2021 meeting, however, this report outlines the LPPI official policy update on this matter (Climate change Annex to LPPI's Responsible Investment Policy dated January 2022).
- 2.3 Appendix 1 to this report details three key changes to LPPI's Responsible Investment policy (climate change Annex), these are summarised as follows:
- 2.3.1 Record LPPI's commitment to the goal of Net Zero portfolio emission by 2050 in partnership with our clients. This follows LPPI becoming a signatory to the IIGCC Net Zero Asset Manager Commitment on 1st November 2021.
- 2.3.2 Confirm the exclusion of extractive fossil fuel companies from the LPPI Global Equities Fund ("GEF") from 31st December 2021.
- 2.3.3 Reflect that Climate Change management is a priority theme within LPPI's new Shareholder Voting Guidelines (published August 2021) and considered in reaching voting decisions.
- 2.4 In regard to divestment (and exclusion) of extractive fossil fuels from the global equities fund. The fund's Responsible Investment policy prioritises engagement over divestment. However, in this particular case, these stocks were no longer a natural fit for the fund's enduring quality bias and, considering the size of their weighting, consumed disproportionate stewardship resources.
- 2.5 Considering the wider Net Zero journey, divestment of holdings will not necessarily follow for other assets classes.
- 2.6 From December 2021, the Fund has reported publicly on its implementation and outcomes concerning responsible investment. The report and dashboard as at Q4 2021 (or Q3 2021/22) are included at Appendix 2 and Appendix 3 to this report.
- 2.7 In addition to the report provided last quarter (Q3), the Q4 report now shows full "green/brown" portfolio exposures to all of the Fund's equity assets (listed equity, private equity, and infrastructure) plus corporate bonds within fixed income. This information was provided in Part-2 at Q3 due to a degree of uncertainty regarding the "on balance-sheet" assets but can now be reported publicly. The key takeaways from this analysis are as follows:
- 2.7.4 Investments in brown sectors (extraction, transportation, storage, supply, and generation of energy from fossil fuels) are 1.30% of the portfolio.
- 2.7.5 Investments in green sectors (renewable energy generation, clean technology, and decarbonising activities) are 3.12% of the portfolio.
- 2.8 As illustrated above, the green exposure significantly outweighs the brown exposure within the identified portfolio. Further work is being undertaken by LPPI to report on the green/brown exposure of the whole Fund and this shall be reported in due course.

- 2.9 As detailed in the Fund's Responsible Investment policy, "the RCBPF considers engagement to be a route for exerting a positive influence over investee companies and encouraging responsible corporate behaviour." The Fund has appointed an engagement partner to ensure active engagement with companies across its credit and equity portfolios, seeking to improve a company's behaviour on ESG (Environmental, Social and Governance) related issues. The Fund's active engagement outcomes are reported as at Q4 2021 in Appendix 4.

3. KEY IMPLICATIONS

- 3.1 The Fund are receiving a growing number of Freedom of Information (FOI) requests regarding how the Fund's investment assets are being managed and invested responsibly. Moreover, the recent focus has been on environmental factors concerning carbon emissions and fossil-fuel exposure. The Fund's RI dashboard acts as a public document to be updated quarterly and aims to address the majority of public requests for information.

4. FINANCIAL DETAILS / VALUE FOR MONEY

- 4.1 At present, there are no cited financial or investment advantages or disadvantages of aligning investments to net-zero or considering other RI/ESG outcomes. The Fund remains fully compliant in its fiduciary duty to the payment of scheme benefits as they fall due. The Fund's investment performance and expected returns are not mutually exclusive to the achievement of its responsible investment policy outcomes.

5. LEGAL IMPLICATIONS

- 5.1 Reporting against RI metrics and making a net-zero commitment are not legal requirements. TCFD reporting requirements, when published, will be a legal requirement by DLUHC (Department for Levelling up, Housing and Communities) and will likely involve penalties and levies by TPR for non-compliance. TCFD requirements shall be implemented in due course.

6. RISK MANAGEMENT

- 6.1 The below table relates to risk "PEN005" from the risk register considered and approved by Pension Fund Committee on 6 December 2021.

Table 1: Impact of risk and mitigation (PEN005)

Risk Description	Gross Risk Score	Mitigating Actions	Net Risk Score
Increased scrutiny on environmental, social and governance (ESG) issues, leading to reputational damage if not compliant. The	27	1) Review ISS in relation to published best practice (e.g., Stewardship Code) . 2) Ensure fund managers are encouraged to engage and to follow the requirements of the published ISS. 3) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and Pensions and Lifetime	18

administering authority declared an environmental and climate emergency in June 2019, effect on Pension Fund is currently unknown. TCFD regulations impact on LGPS schemes currently unknown but expected to come into force during 2022/23.		<p>Savings Association (PLSA), which raises awareness of ESG issues and facilitates engagement with fund managers and company directors.</p> <p>4) An ESG statement and RI Policy was drafted for the Pension Fund as part of the ISS and approved in March 2021.</p> <p>5) Officers regularly attend training events on ESG and TCFD regulations to ensure stay up to date with latest guidance.</p> <p>6) LPPI manage the fund's investments and have their own strict ESG policies in place which align with those of the fund.</p>	
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7. POTENTIAL IMPACTS

- 7.1 Equalities. Equality Impact Assessments are published on the [council's website](#). There are no EQIA impacts as a result of taking this decision.
- 7.2 Climate change/sustainability. This report is centred around the topic of climate change and sustainability and such impacts are documented in detail through the report and its appendices.
- 7.3 Data Protection/GDPR. There are no additional data protection/GDPR considerations as a result of taking this decision

8. CONSULTATION

- 8.1 Not applicable

9. TIMETABLE FOR IMPLEMENTATION

- 9.1 LPPI have already begun to implement their plans for net-zero by 2050 from the date of becoming an IIGCC signatory. Responsible investment outcomes are not subject to any specific timeline and are instead ongoing.

10. APPENDICES

- 10.1 This report is supported by 4 appendices:
- Appendix 1: LPPI Responsible Investment Policy, Climate Change Annex Jan 2022.
 - Appendix 2: Responsible Investment Report Q4 2021
 - Appendix 3: Responsible Investment Dashboard Q4 2021
 - Appendix 4: Active Engagement Report Q4 2021

11. BACKGROUND DOCUMENTS

- 11.1 This report is supported by 2 background documents available at [Pension Fund Policies | Berkshire Pension Fund \(berkshirepensions.org.uk\)](#)

- Responsible Investment Policy (March 2021)
- Environmental, Social and Governance (ESG) Statement (December 2020)

12. CONSULTATION (MANDATORY)

Name of consultee	Post held	Date sent	Date returned
<i>Mandatory:</i>		<i>Statutory Officers (or deputy)</i>	
Adele Taylor	Executive Director of Resources/S151 Officer		
Emma Duncan	Deputy Director of Law and Strategy / Monitoring Officer		
<i>Deputies:</i>			
Andrew Vallance	Head of Finance (Deputy S151 Officer)		
Elaine Browne	Head of Law (Deputy Monitoring Officer)		
Karen Shepherd	Head of Governance (Deputy Monitoring Officer)		
<i>Other consultees:</i>			
Cllr Julian Sharpe	Chairman – Berkshire Pension Fund Committee		

REPORT HISTORY

Decision type:	Urgency item?	To follow item?
Pension Fund Committee decision	Yes/No	Yes/No

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