

Report Title:	<b>Responsible Investment</b>
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 and Advisory Panel – 19 September 2022
Responsible Officer(s):	Damien Pantling, Head of Pension Fund
Wards affected:	None

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## **REPORT SUMMARY**

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.

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 a Responsible Investment (RI) policy on 22 March 2021 supported by several values, principles, and priorities. Since then, the Fund has been continuously improving its approach to RI and have been working towards an updated RI policy that is all encompassing and reflective of the current external environment – this updated RI policy is presented alongside this report in Appendix 4 as presented by the RI working group (Task & Finish group).

This report aims to update the reader quarterly on the Fund’s responsible investment activities and outcomes through presenting an RI report and dashboard – noting that climate change is one of the underlying priorities in the Fund’s revised RI policy and therefore carries material weight in this update. This report also seeks to provide the reader with a suite of key engagement activities undertaken on behalf of the Fund and the outcomes of these engagements.

In addition, this report seeks to update the reader on the significant and positive progress made by LPPI in its net-zero journey as the Fund’s primary asset manager.

### **1. DETAILS OF RECOMMENDATION(S)**

**RECOMMENDATION: That the Pension Fund Committee notes the report;**

- i) Acknowledges the Fund’s RI dashboard, RI report, active engagement report and achievement of associated outcomes;**
- ii) Acknowledges LPPI’s recent client update on Net-Zero;**

- iii) **Approves and adopts the Fund’s revised RI policy for implementation, and;**
- iv) **Approves the publication of the appendices contained within this report on the Pension Fund website.**

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

- 2.1 Since 1 June 2018, all Fund investments have been pooled and are actively managed by the Fund’s Investment Manager LPPI. Responsible investing is an underpinning principal of LPPI’s investment approach and is documented by a suite of detailed RI policies and reports available on their website.
- 2.2 From December 2021, the Fund has reported publicly on its implementation and outcomes concerning responsible investment. The report and dashboard as at Q1 2022 (or Q4 2021/22) are included at Appendix 1 and Appendix 2 to this report.
- 2.3 Notably, the report 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. The key takeaways from this analysis are as follows:
  - 2.3.1 Investments in brown sectors (extraction, transportation, storage, supply, and generation of energy from fossil fuels) make up just **1.47%** of the portfolio.
  - 2.3.2 Investments in green sectors (renewable energy generation, clean technology, and decarbonising activities) make up over **3.67%** of the portfolio.
- 2.4 As illustrated above, the green exposure significantly outweighs the brown exposure within the identified portfolio, underpinning the principle of “net” zero. 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.
- 2.5 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 (via LPPI) 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 Q2 2022 (or Q1 2022/23) at Appendix 3 to this report.
- 2.6 Whilst a separate RI policy is not compulsory for LGPS funds under the regulations, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, (regulation 7) requires that the authorities investment strategy statement (ISS) must include the authority’s policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments. The fund’s ISS (last approved by the Pension Fund Committee on 7 March 2022 defines that a separate RI policy shall be in place with detailed

guidance on the points within the regulations, and that implementation of said RI policy would be undertaken by LPPI.

- 2.7 A decision was taken by the Pension Fund Committee in December 2022 to set up a RI working group (the Task & finish Group) of Officers, Committee, Board, Advisory Panel members, LPPI and independent advisors. Terms of Reference were agreed and the group met in April 2022. The Task & Finish group undertook various other meetings and discussions to develop a revised RI policy that is modern, consistent with the current external environment, and that it reflects the values, principles and priorities of the Pension Fund Committee.
- 2.8 The revised RI policy is attached at Appendix 4 to this report, reflecting months of work by the Task & Finish group to ensure it is fit for purpose. LPPI have also given a professional opinion that the policy will be implemented in practice and tailored reporting has been reflected in the relevant RI report and dashboard (appendix 1 and 2).
- 2.9 The revised RI policy encapsulates several changes such as the focus on continuous improvement as well as specific priorities of the Fund within the Environment, Social and Governance categories. The policy is underpinned by the fund's fiduciary responsibility to pay scheme members benefits as they fall due as an absolute priority with RI initiatives not expected to contradict the Fund's core duty.
- 2.10 Following LPPI's commitment achieving to Net Zero portfolio emissions by 2050 by signing the IIGCC (Institutional Investor Group on Climate Change) Net Zero Asset Manager Commitment (NZAMC) in November 2021 (as reported to the Pension Fund Committee on 6 December 2021), LPPI have provided a client update on the progress made against this commitment, attached at Appendix 6 to this report. This update focuses on interim target setting as required by the IIGCC within 12 months of making the formal commitment to net-zero emissions.

### **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.
- 3.2 Responsible Investment is attracting increasing public, professional and regulatory interest. Failure to adopt and maintain a fit-for-purpose shareholder voting and engagement policy is likely to attract increasing criticism from the public, members of the Pension Fund, and the Pensions Regulator.
- 3.3 The RI policy has undergone extensive review by the 'task & finish' group and has been confirmed by LPPI to be implementable in practice with no material changes to the Fund's investment activities or objectives.

- 3.4 It's in line with best practice to report upon any public commitment previously made, LPPI's net-zero update provides information on the positive progress made since making the net-zero commitment in November 2021.

#### **4. FINANCIAL DETAILS / VALUE FOR MONEY**

- 4.1 Net-zero strategy development and LPPI's recent decision to exclude extractive fossil fuel companies from its global equities fund has involved divesting from a relatively small opportunity set. However, these investments consumed disproportionate stewardship resources and the associated costs of maintaining these. Exclusion of these assets enables attention to move to a broader range of sectors impacted by transition risk and are required to decarbonise, providing the fund with future opportunities and an improved framework to manage risk.
- 4.2 At present, the Fund's investment performance and expected returns are not mutually exclusive to the achievement of its revised responsible investment policy outcomes. Therefore, the Fund's fiduciary duty and ultimate goal to pay pensions is not adversely affected by implementation of its existing RI and ESG policies.
- 4.3 Well-governed companies are best equipped to manage business risks and opportunities, and this contributes to achieving optimum risk-adjusted returns over the long term.

#### **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 and legislated by DLUHC (Department for Levelling up, Housing and Communities). These requirements will likely involve penalties and levies by tPR for non-compliance. TCFD requirements shall be implemented in due course and the Fund shall monitor these developments carefully.
- 5.2 The Fund is compliant with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (regulation 7) which requires that the authority's investment strategy statement (ISS) must include the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments. The fund's ISS (last approved by the Pension Fund Committee on 7 March 2022 defines that a separate RI policy shall be in place with detailed guidance on the points within the regulations, and that implementation of said RI policy would be undertaken by LPPI. The revised RI policy is this compliant with the regulations.

#### **6. RISK MANAGEMENT**

- 6.1 The Pension Fund Committee review and approve a risk register on a quarterly basis, prepared in line with CIPFA's guidance on "managing risks in the LGPS –

2018". The latest risk register (including relevant actions and mitigations) has been prepared alongside the amendments within these revised policies, with any relevant changes considered and documented as appropriate in the quarterly review of the risk management report.

## **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. A completed EQIA has been attached at Appendix 6 to this report.
- 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 The Fund's Investment Advisor LPPI was consulted in preparing this report.

## **9. TIMETABLE FOR IMPLEMENTATION**

- 9.1 Responsible investment outcomes are not subject to any specific timeline and are instead ongoing.

## **10. APPENDICES**

- 10.1 This report is supported by 6 appendices:
  - Appendix 1: Responsible Investment Report Q2 2022
  - Appendix 2: Responsible Investment Dashboard Q2 2022
  - Appendix 3: Active Engagement Report Q2 2022
  - Appendix 4: Revised RI policy
  - Appendix 5: LPPI client update on Net Zero
  - Appendix 6: EQIA

## **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	18/08/2022	
Emma Duncan	Deputy Director of Law and Strategy / Monitoring Officer	18/08/2022	
<i>Deputies:</i>			
Andrew Vallance	Head of Finance (Deputy S151 Officer)	18/08/2022	
Elaine Browne	Head of Law (Deputy Monitoring Officer)	18/08/2022	
Karen Shepherd	Head of Governance (Deputy Monitoring Officer)	18/08/2022	18/08/2022
<i>Other consultees:</i>			
Cllr Julian Sharpe	Chairman – Berkshire Pension Fund Committee	18/08/2022	

## 13. REPORT HISTORY

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

Report Author: Damien Pantling, Head of Pension Fund