

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 – 5 December 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 was approved by the Committee on 12 October 2022.

This report aims to update the reader quarterly on the Fund’s responsible investment activities and outcomes through presenting an RI report and dashboard as aligned with the Fun’s RI policy – 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 covers the response to DLUHC’s consultation on the Taskforce on Climate-related Financial Disclosures (TCFD).

### **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) Approves the publication of the appendices contained within this report on the Pension Fund website.**
- iii) TCFD consultation response**

## 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 Q3 2022 (or Q2 2022/23) are included at Appendix 1 and Appendix 2 to this report.
- 2.3 Notably, the report and dashboard 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 **1.63% of** the portfolio.
  - 2.3.2 Investments in green sectors (renewable energy generation, clean technology, and decarbonising activities) make up **over 4.44% 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 Q3 2022 (or Q2 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 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.
- 2.7 A decision was taken by the Pension Fund Committee on 6 December 2022 to set up a RI working group (the Task & Finish Group) of Officers, Committee members, Board members, Advisory Panel members, LPPI and independent

advisors. Terms of Reference were agreed and the group first met in April 2022. The Task & Finish group undertook various other meetings and discussions to develop a comprehensive 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. The revised RI policy also serves as a position statement on the Fund's approach to RI.

- 2.8 The revised RI policy was approved by the Pension Fund Committee on 12 October 2022. LPPI have also given a professional opinion that the policy shall be implemented in practice and tailored reporting has been reflected in the relevant RI report and dashboard (appendix 1 and 2). 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 duties.
- 2.9 DLUHC published a 12-week consultation from 1 September to 24 November 2022 in order to seek views on proposals to require Local Government Pension Scheme (LGPS) administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). A consultation response to the 12 specific consultation questions was sent to DLUHC following consultation with the Pension Fund Committee members in mid-November, a copy of this response is attached at 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 report and dashboard acts as a public document to be updated quarterly and aims to address the majority of public requests for information.
- 3.2 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.

### **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 revised RI policy but this shall be kept under review.
- 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 this report, with any relevant changes considered and documented as appropriate in the quarterly 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 5 appendices:

- Appendix 1: Responsible Investment Report Q3 2022
- Appendix 2: Responsible Investment Dashboard Q3 2022
- Appendix 3: Active Engagement Report Q3 2022
- Appendix 4: DLUHC TCFD consultation response – November 2022
- Appendix 5: EQIA

## 11. BACKGROUND DOCUMENTS

11.1 This report is supported by one background document available in the “policies and reports” section of the Pension Fund [website](#)

- Responsible Investment Policy (October 2022)

## 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	25/08/2022
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	06/09/2022
Elaine Browne	Head of Law (Deputy Monitoring Officer)	18/08/2022	24/08/2022
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**

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

Report Author: Damien Pantling, Head of Pension Fund