

Report Title:	Responsible Investment
Contains Confidential or Exempt Information	No - Part I
Lead Member:	Councillor Simon Bond, Chairman Pension Fund Committee and Advisory Panel
Meeting and Date:	Pension Fund Committee and Advisory Panel – 18 December 2023
Responsible Officer(s):	Damien Pantling, Head of Pension Fund
Wards affected:	None

www.rbwm.gov.uk



REPORT SUMMARY

This report aims to update the reader on the Fund's responsible investment activities and outcomes through presenting a Responsible Investment (RI) report and dashboard as aligned with the Fund's RI policy; – noting that climate change is one of the underlying priorities in the Fund's RI policy and thus 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.

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That the Pension Fund Committee notes the report;

- i) Approves the Fund's RI dashboard, RI report and Active Engagement report for publication;**

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

- 2.1 A separate RI policy is not compulsory for LGPS Funds under the Regulations, however, regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations (2016) requires that the Authority's Investment Strategy Statement (ISS) must include its "policy on how ESG considerations are taken into account in the selection, non-selection, retention and realisation of investments". The Fund's ISS 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.
- 2.2 The Fund's RI policy was last presented for approval by the RI working group (the task and finish group) and approved by the Committee in October 2022 along with a commitment to review regularly. One of the actions taken from the September 2023 Committee meeting concerned the re-establishment of the working group and set up of a project to review the RI policy again for presentation at the March 2024 Committee. By means of an update, this timeline is unlikely to be met due to resource constraints, but the group is still intended to be re-established and a revised RI policy is intended to be presented for approval during 2024/25.

- 2.3 Since December 2021, the Fund has reported publicly on its implementation and outcomes concerning responsible investment. The report and dashboard to Q3 2023 calendar year (or Q2 2023/24 financial year) are included respectively at Appendix 1 and Appendix 2 to this report.
- 2.4 Notably, the report and dashboard show indicative “green/brown” portfolio exposures to all of the Fund’s equity and equity-like assets (listed equity, private equity, and infrastructure) plus corporate bonds within fixed income. The key takeaways from this analysis are as follows:
 - 2.4.1 Investments in brown sectors (extraction, transportation, storage, supply, and generation of energy from fossil fuels) make up just 1.96% of the portfolio.
 - 2.4.2 Investments in green sectors (renewable energy generation, clean technology, and decarbonising activities) make up an estimated 6.76% of the portfolio.
- 2.5 As illustrated above, the green exposure significantly outweighs the brown exposure by over 3.4x within the identified portfolio.
- 2.6 LPPI has published a net-zero roadmap (presented at the March 2023 meeting) and its net-zero targets for the LPPI Global Equity Fund, further work is being undertaken by LPPI in relation to Net Zero target setting for additional asset classes with targets for Fixed Income and Real Estate to be published in 2023/24 and shared with the Committee in due course through this quarterly report.
- 2.7 In addition, LPPI is currently undertaking a project to develop a Climate Solutions Fund with details to be shared in due course for consideration.
- 2.8 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 increase capacity for active engagement with companies across its credit and equity portfolios, seeking to improve a company’s behaviour on ESG related issues. The Fund’s active engagement outcomes are reported at Q3 2023 (or Q2 2023/24) on the Fund’s website and noted in the background papers section to this report. The key parts of the active engagement report are summarised within the RI report attached at Appendix 1.

3. KEY IMPLICATIONS

- 3.1 A key implication of publishing this report is to actively put the Fund’s RI outcomes and data in the public domain in advance of receiving FOI requests. Officers have thus far seen a significant reduction in the amount of time dedicated to addressing RI related FOI requests as a consequence of proactively publishing this report quarterly since December 2021.
- 3.2 The Fund seeks to achieve good ESG credentials whilst maintaining strong investment performance. Evidence¹ suggests these two are not mutually

¹ The Journal of Sustainable Finance & Investment (2015) Vol 5 (Issue 4)

exclusive, therefore, the Fund seeks to achieve both over the long run provided it can meet its fiduciary responsibility to scheme members and employers.

- 3.3 Strong ESG credentials are positive indicators for sustainable companies. Therefore, incorporating material ESG considerations is an important part of both asset selection and active stewardship and is additive to the identification of long-term stable returns, thus assisting the Fund in meeting its fiduciary responsibility.

4. FINANCIAL DETAILS / VALUE FOR MONEY

- 4.1 Budget and funding implications should be properly considered if the Committee intend on undertaking additional climate risk analysis work over and above the work already undertaken.
- 4.2 Re-establishment of the RI working group (task and finish group) may require additional consultancy and advisory costs, but these shall be met within existing service budgets.

5. LEGAL IMPLICATIONS

- 5.1 Reporting against RI metrics and making a net-zero commitment are not legal or regulatory requirements. Taskforce for Climate Related Financial Disclosures (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 closely.
- 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 in March 2023) 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 this report, with any relevant changes considered and documented as appropriate in the quarterly risk management report.

7. POTENTIAL IMPACTS

- 7.1 Failure to comply with pension legislation could result in the Administering Authority being reported to the Pensions Regulator where failure is deemed to be of a material significance.

- 7.2 Equalities. The Equality Act 2010 places a statutory duty on the council to ensure that when considering any new or reviewed strategy, policy, plan, project, service or procedure the impacts on particular groups, including those within the workforce and customer/public groups, have been considered. An Equality Impact Assessment (EQIA) screening exercise has been completed and approved in respect of this this report and shared with the RBWM Equalities team. It has been determined through the EQIA screening that a full EQIA is not required and is therefore not appended with this report.
- 7.3 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.
- 7.4 Data Protection/GDPR. GDPR compliance is included as a specific risk on the register in regard to processing and handling personal data, this is dealt with in the relevant risk report to the Committee along with the relevant mitigations.

8. CONSULTATION

- 8.1 The Fund’s fiduciary Investment manager LPPI, independent advisors and independent scheme actuary Barnett Waddingham 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. Specific interim net-zero targets and plans are set out in the relevant appendices to prior Responsible Investment reports presented to the Pension Fund Committee.

10. APPENDICES

- 10.1 This report is supported by 2 appendices:
 - Appendix 1: Responsible Investment Report Q3 2023
 - Appendix 2: Responsible Investment Dashboard Q3 2023

11. BACKGROUND DOCUMENTS

- 11.1 This report is supported by two background documents:
 - Responsible Investment Policy (October 2022) is available in the “policies and reports” section of the Pension Fund [website](#);
 - Active Engagement Report (Q3 2023) is available in the “Investments” section of the Pension Fund [website](#)

12. CONSULTATION (MANDATORY)

Name of consultee	Post held	Date sent	Date returned
<i>Mandatory: Statutory Officers (or deputy)</i>			
Elizabeth Griffiths	Executive Director of Resources (Section 151 officer)	24/11/2023	8/12/23
Elaine Browne	Deputy Director of Law and Governance (Monitoring Officer)	24/11/2023	8/12/23

<i>Deputies:</i>			
Andrew Vallance	Deputy Director of Finance (Deputy Section 151 officer)	24/11/2023	24/11/2023
Jane Cryer	Principal Lawyer (Litigation) and Deputy Monitoring Officer	24/11/2023	
<i>Other consultees:</i>			
Cllr Simon Bond	Chairman – Berkshire Pension Fund Committee	24/11/2023	
Alan Cross	Chairman – Local Pension Board	24/11/2023	

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
--