Responsible Investment Advisory Group

Meeting of the 13th July 2022

Item 2 Paper A
Actions and Agreements - Meeting of the 18th May 2022

Those attending –

Sandra Stewart	Greater Manchester Pension Fund – Chair
Graham Cook	Environment Agency
George Graham	South Yorkshire Pensions Authority
Tim Mpofu	Haringey Pension Fund
Valborg Lie	Central
Frances Deakin	LPP
Piers Lowson	Baillie Gifford
Sarah Wilson	Minerva
Joe Dabrowski	PLSA
Sam Gervaise-Jones	bfinance
Ashley Hamilton Claxton	RLAM
Caroline Escott	Railpen
Debbie Fielder	Clwyd Pension Fund
Teresa Clay	DLUHC
Oliver Watson	DLUHC
Gaudenz Probst	DLUHC
Tom Harrington	Greater Manchester Pension Fund
Jonathan Sharma	COSLA
Joanne Donnelly	Scheme Advisory Board Secretary
Jeremy Hughes	Senior Pensions Secretary
Gareth Brown	Pensions Analyst

Item 1 – Welcome, introductions and apologies

The Chair opened by welcoming members to the meeting. Apologies were received from Kevin McDonald (ACCESS Pool), Ned Whitehead (Redington) and Bob Holloway (Pensions Secretary).

Item 2 – Actions and Agreement from 16th March Meeting

With one minor amendment on p2 (that Caroline Escott's organisation is just "Railpen"), **it was agreed that the actions and agreements paper represented a true and fair account of the meeting.**

Item 3 – Queen's Speech Update

Members were advised that as with last year's Queen's Speech, a BDS bill was expected. Ownership of this bill had shifted from CO to DLUHC, otherwise its scope was the same. In relation to timing, DLUHC confirmed that it would be introduced as early as possible, but there was no confirmed date yet. While the recent Public Service Pensions and Judicial Offices Act BDS amendment covered just investment decisions in the LGPS, it was confirmed that the BDS bill would encompass procurement and purchasing decisions of public bodies, as well as investment decisions.

Item 4 – Letters from Michael Lynk/UKLFI

It was confirmed that the report on the SAB website of the earlier meeting with Professor Lynk had been amended. This was to make clearer the points of disagreement and that SAB was still waiting for the further evidence the Professor had agreed to provide, e.g. on how companies are put onto or taken off the list. The importance of a recent High Court decision on fiduciary duty and ESG considerations was discussed (Butler-Sloss and others v Charity Commission for England and Wales and another).

Agreed – it was agreed to return to this issue should the relevant further information be provided

Item 5 – DLUHC Regulatory Consultation

On levelling up**,** DLUHC said that at this point it was just interested in posing some questions and testing some of its initial ideas. The Levelling Up White Paper suggested that the government would make it a requirement on funds to set out a plan to target up to 5% of investments in local "levelling up" projects. There was no intention for this to cut across existing fiduciary duties and existing holdings that met the definition could be counted. The 5% wasn't intended to be a ceiling and that in terms of geography, investment anywhere in the UK counted as local. Investments in things like affordable housing and infrastructure were likely to count.

The group confirmed that LGPS was on board with the broad thrust of the policy but emphasised the importance of investable opportunities being available. Especially for smaller funds, or those less familiar with private markets investments. A key facilitator of that would be a mechanism for aggregation of projects (possibly by GLIL or the new UK Infrastructure Bank). There was discussion about how potential for conflicts of interest could arise with very local investment, or reciprocal investment. The experience of funds who already had significant local investments was that these issues could be managed with appropriate governance measures, and that there did not need to be a trade-off between impact and returns.

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Beyond the development of a plan, the group also queried the extent to which there would be governmental scrutiny of the content and delivery of these plans. For example, what would happen it a fund chose a target that was at or close to 0%? In response DLUHC said that these issues would be dealt with in the consultation document.

While it was helpful to have some discussion of principles, many in the group felt that a template for how plans needed to be presented would be helpful in focusing responses to the consultation when it came out.

On climate risk and reporting requirements, DLUHC had earlier shared plans on TCFD reporting requirements, based on DWP's requirements for private sector schemes. There were several broad types of metrics that LGPS funds might be asked to report against:

1. Absolute carbon emissions
2. Emissions intensity (emissions per unit of investment)
3. An "optional" metric. This might be set by DLUHC for all funds and the current favourite was data quality, which was an area they felt it was important to make progress on
4. DWP's recent proposal to include alignment with the Paris global temperature increase targets.

The department would prefer where possible to have consistent assessment of progress against the metrics chosen, as these could then be aggregated across the scheme as a whole, allowing production of a scheme-level report by the Scheme Advisory Board. Accuracy and ease of use were also important. Again, there were several broad options for how individual investments might be assessed against the metrics chosen:

1. Binary reporting (is the investment consistent with a chosen metric or not?)
2. Benchmarked divergence models (are the investments consistent with the necessary flight path to achieving a chosen target?); and
3. What is the modelled temperature rise associated with that investment?

Members recognised the importance of data and touched on issues such as; the need not to be dazzled by spurious accuracy in the assessment of whatever metrics were reported on; how inconsistent approaches and assumptions were being used in the calculation of climate impacts; how dynamic the situation was, with varied rates of progress in different regulatory and investment jurisdictions; the need to keep under review the gap between plans and targets set by companies, and progress in delivering those plans.

DLUHC said that the consultation on both levelling up and climate disclosure was likely to go live in the Autumn, with deadlines for the adoption of metrics and reporting of outcomes set accordingly. There was a plea from the group to stagger the various big consultation documents on LGPS that DLUHC was preparing over the summer to allow for proper review and scrutiny by stakeholders. At the same

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time, the Group was concerned that delays in taking forward climate reporting for LGPS could mean others see it as lagging behind other pension schemes, when in reality it was probably very much at the forefront of good practice.

Agreed – for DLUHC to come back to the Group when its thinking was further advanced

Item 6 – AOB and date of next meeting

No AOB items were raised. The next meeting had already been scheduled for 13th July, **at 2pm**.

Agreed – that the Secretariat would take soundings ahead of the next meeting on agenda items and whether there had been sufficient development on the DLUHC proposals to justify a full meeting.

Jeremy Hughes
Senior Pensions Secretary
Scheme Advisory Board