

A young girl with curly brown hair, wearing a yellow bow, has colorful paint splatters on her face and chest. She is smiling and looking upwards against a green background.

**LPP**

Local Pensions Partnership  
Investments

**Responsible Investment and  
Stewardship Annual Report**

**2020/21 – Highlights**



# Welcome



**Frances Deakin**  
Head of Responsible Investment

Signatory of:



PRI is an investor initiative in partnership with UNEP Finance and the UN Global Compact.

It is my pleasure to introduce highlights from our [Annual Report on Responsible Investment and Stewardship 2020/21](#). Its aim is to provide a short informative review of our activities over the past year and looking forward to the next.

The story of the year has been COVID-19 including how we as an employer have adapted to the pandemic. Despite this, LPPI has continued to build on strong foundations and seek improvements that will continue to deliver sustainable performance, support our clients and demonstrate responsible investment and stewardship.

COVID-19 has shone a bright light on social inequalities and the negative impacts of human activity on a fragile global ecosystem. Questions about what a truly sustainable economy and society means have focused attention on post-pandemic planning to protect the planet and build a better world.

For our part, we've taken the decision to set net zero emissions by 2050 as a long-term goal for our portfolio. We know this is a challenging aspiration, but we recognise its importance to long-term portfolio resilience. We are optimistic that through co-operation, partnership and the active ownership of assets we invest in, we can work effectively with clients, peers, providers, policy-makers, standard setters and investee companies, to address the many challenges that lie ahead.

# About LPPI

Local Pensions Partnership Investments manages investment portfolios for Local Government Pension Scheme funds. Our in-house investment business is responsible for managing £20.5 billion of retirement savings on behalf of three pension funds with an emphasis on long-term viability, consistent outperformance and internal management, complemented by the selection and monitoring of external managers where specialist expertise is required.

LPPI's investment team also manages the investments for GLIL Infrastructure, a £2.5 billion fund investing in renewable energy, water and ports, trains, hospitals and schools.

We are also the portfolio manager for The London Fund investing in infrastructure, real estate and regeneration projects that provide social and environmental benefits for Londoners alongside financial returns for our client pension funds.

[Read more](#)

**“Managing £20.5 billion of pension fund assets, on behalf of our clients.”**



The foyer of LPPI's City of London head office.

## Our investment clients

Our clients are institutional local government pension scheme (LGPS) investors. As LGPS funds, they have placed their portfolios under pooled investment arrangements and have appointed LPPI as their investment adviser and asset manager.



We operate under a partnership and delegated management approach, which means our clients have retained their strategic responsibilities (they set strategic asset allocations) but have fully delegated the implementation of investment management to LPPI.

Ensuring we manage assets fairly for the equal benefit of all clients invested in our pooled funds involves consistently seeking to promote the long-term value and success of the companies we invest in, and to support the course of action most likely to deliver value creation, risk management and portfolio resilience.

[Read more](#)



London East Village development, part of The London Fund portfolio.

Source: Delancey

## LPPI as an asset manager

Our aim is to deliver first class value for money investment outcomes aligned to our clients interests. We bring our expertise and spirit of collaboration together to help our clients achieve their objectives of investing efficiently, responsibly, and sustainably for the long-term.

Our goals are to help our pension fund clients:

- Achieve their funding strategy goals through improved investment outcomes
- Manage their assets and cash flows to meet future benefit payments
- Invest sustainably.

**£20.5bn**

Assets under management

**100%**

Client assets transitioned

**£74m**

Cumulative net cost-savings

**50+**

Investment professionals

**7**

Major asset classes

**8**

Investment funds managed in-house

**3**

Local Government Pension Scheme clients

**3**

Funds in Authorised Contractual Schemes

Source: LPPI, as at 31 March 2021

# Our stewardship approach

Our approach to investment management is shaped by our investment beliefs and stewardship remit, which in turn are guided by our core principles of responsible investment.

## Our goals and core principles

We help pension funds achieve their investment objectives to meet future benefit payments and achieve these goals in a sustainable way.

Our investment philosophy reflects the context and position of client pension funds as long-term asset owners.

Our responsible investment and stewardship arrangements address the rights and responsibilities flowing from the asset ownership we undertake on their collective behalf.

## The core principles that drive our investment thinking:

- Long horizon investing underpinned by solid governance
- Stable ownership and alignment with clients
- Experienced, collaborative team
- Lowering costs without compromising on quality
- Clear investment beliefs.

[Read more](#) about our stewardship approach in the full report.

## Foundations of LPPI stewardship

Our purpose, values and behaviours

Our goals and core principles

Our investment beliefs

Our RI beliefs, processes and benchmarking

# Our active portfolio management

As providers of capital, big investors like LPPI have influence.

We exercise this influence through our asset management and stewardship activities, which include how we consider and select assets, asset managers and providers, how we exert a positive influence on directly held companies, and how we work with our peers, via networks, and in partnership with other responsible investors.

One of our core responsible investment beliefs is that institutional investors should use their

influence where necessary to protect the long-term financial interests of pensioners.

By collaborating with other investors on important issues, our influence is amplified. And through our partnerships with global organisations of investors, we are actively engaging with influential companies, policy makers and standard setters to ensure our voice is heard.

[Read more](#) about our approach to responsible investment and examples of our work in our report.





At LPPI a concern for sustainability informs how, where and what we invest in on behalf of client pension funds and how we act as responsible stewards and an active asset owner on their behalf.

# Review of the year

Adapting to COVID-19 was the big challenge of 2020/21 for all of us.

We recognised the importance of prioritising the physical and mental wellbeing of our employees. This is not just because our people are our top priority but also as we believed that was the best way to provide continuity of service for clients. We supported employees to make the transition from office-based to 100% home-working as smoothly as possible and we're incredibly proud of the way everyone rose to the challenge. Clients were very grateful for this too.

Despite the challenges posed by the pandemic, we continued to push forward, building on previous foundations and progress already made.

## Our big achievements for the year

### Continuing to build resources, increase capacity and embed expertise

- We appointed a new senior leader overseeing investment due diligence with a full review/refresh of our processes.
- We updated procedures for investment recommendations and decision making by the LPPI Investment Committee.
- We enhanced our in-house operational due diligence capabilities.

### Focus on systematic integration of ESG

- Our team developed two new ESG frameworks to enhance investment research.
- We also produced shareholder voting guidelines for our in-house global equities team, supported by the appointment of a dedicated ESG analyst for global equities.

[Read more](#) about our shareholder voting record.

### Continuing to review regulatory developments, integrate new requirements and adopt appropriate best practice

- We implemented a new engagement policy which ensures LPPI is compliant with requirements under Shareholder Rights Directive II.
- We also established a working group to review new disclosure requirements flowing from the Sustainable Finance Disclosure Regulation (SFDR) and how these were likely to affect LPPI as an FCA regulated asset manager if they applied post Brexit.

[Read more](#) about our engagement record.

### Developing and participating in collaborative partnerships

It is one of our core responsible investment beliefs that we should be active in ownership as an institutional investor on behalf of client pension funds, and it is one of [our six targeted outcomes](#) to be active in a range of organisations that represent the collective interests of like-minded investors.

We joined the Institutional Investor Group on Climate Change (IIGCC) and have been a participant in the Paris Aligned Investment Initiative, and a supporter and signatory to multiple collaborative investor initiatives.

We are a participant and advocate of Climate Action 100+ and a member of the investor group engaging Nestlé.

[Read more](#) about our climate change partnerships and activities.

[Read more](#) about The London Fund.

[Read more](#) about GLIL Infrastructure.

### Developing our stewardship reporting

We have evolved the format and scope of our reporting on responsible investment and stewardship. This incorporated an upgrade to the existing quarterly reporting we provide to client pension funds and preparations for the challenges posed by material changes to two of the three external standards we report against.

[Read more](#) about our stewardship activities.

### Engagement insights

Directly owned assets typically provide us with a seat at the Board table. This level of influence means we can actively encourage sustainable business practices and behaviours.

For shares in listed companies, the right to vote at company meetings provides a direct and frequent opportunity for oversight and interaction.

[Read more](#) about our engagement insights and shareholder voting in the full report.

In 2020/21 the LPPI Global Equities Fund voted at 574 company meetings on 6,762 resolutions.

LPPI supported 92% of company proposals and 66% of shareholder proposals. We voted against management (on at least one resolution) at 39% of company meetings in the period.



92%

Company proposals



66%

Shareholders proposals



39%

Meetings with a vote against management

# An example of our influence in infrastructure

## Active ownership in practice - Semperian

Semperian is a UK-focused social infrastructure company with £1.9 billion invested in 95 assets, providing essential public services to local communities.

### Semperian's portfolio includes:



**2.8 million**  
square metres of accommodation



**15,000**  
hospital beds



**1,600**  
car parking spaces



**163**  
schools



**764+**  
kilometres of road



**750,000+**  
tonnes of waste managed

LPPI interacts directly with Semperian, with our support and engagement on material matters being exercised through our head of asset management who is a director on the board of the company.

Our priorities have included a sustained emphasis on strong governance and processes, which identify material ESG issues. We have directly supported a focus on improving board oversight of ESG issues with the aim of securing information that provides a clear understanding of the risks and opportunities faced and supports action planning to address these.

LPPI provided the leadership, process and support to develop an ESG strategy and policy for the business. This included defining the appropriate metrics and identifying what should be measured and reported to the board. Time and resources invested included engaging an external consultant to undertake a Materiality Review and assist the company with the development of an ESG Policy and Key Performance Indicators.

Progress has been good and the board has now adopted a policy and agreed metrics (KPIs) that will be implemented and monitored during 2021/22.

# Collaborating to encourage best practice – Nestlé

## Nestlé on climate change

LPPI is a member of the Climate Action 100+ group engaging with Nestlé.

As part of a direct engagement conducted by the group (led by Ethos Foundation), LPPI signed a letter to the Board Chairman in December 2020 asking the company to voluntarily submit its climate transition plans to a shareholder vote.



**“95% of shareholders voted in support of the climate plan.”**

Whilst initially hesitant to support the request for a “Say on Climate” the company reconsidered in response to further dialogue and a shareholder resolution filed by Ethos and seven other Swiss pension funds. The board of directors announced on 16 March 2021 that it would support an advisory vote based on plans set out under Nestlé’s Net zero Roadmap published in February 2021. Following this welcome decision, the shareholder resolution was withdrawn. At the AGM on 15 April 2021 LPPI voted to approve Nestlé’s Climate Action Plan which sets clear milestones for achieving net zero by 2050 under a detailed, timebound roadmap. 95% of shareholders voted in support of the climate plan.

The engagement with Nestlé involved encouraging an acknowledged leader to be an exemplar for the broader market by voluntarily opting to allow investors a direct say on the adequacy of net zero planning.

LPPI’s support for asking this of Nestlé was an early step in what has subsequently become support for the benefit of companies allowing shareholders to consider and vote on the quality of climate planning. LPPI has contributed insights to work underway by IIGCC on the articulation of investor expectations for evaluating the quality of corporate net zero planning and disclosure, which includes allowing shareholders to vote on the quality of planning through a “Say on Climate”.



# Looking ahead

For this current year of 2021/22, we are focussing on priorities arising from our drive for continuous improvement, our commitment to net zero by 2050, working in partnership and implementing industry and regulatory best practice.

## **ESG focus on infrastructure and real estate**

Related to our net zero commitment is our ongoing focus on integrating ESG into all aspects of our investment decision-making. For our in-house investment teams working on infrastructure and real estate in particular, this will involve a strong focus on how we select and oversee potential investments so that we can better understand their ESG impact on the portfolios.

## **Net zero commitment**

In September 2021 (ahead of COP26 in Glasgow), LPPI set the goal of achieving net zero portfolio emissions by 2050 in partnership with our client pension funds. In November 2021 we signed the Institutional Investors Group on Climate Change (IIGCC) Net Zero Asset Manager Commitment, which forms part of the IIGCC Net Zero (1.5°C) Investment Framework (NZIF). We have already started the work we need to do and will be working closely with our clients and learning from new industry standards.

Our focus on net zero is a continuation of our work on climate change.

For more information about how we've used our expertise and partnerships on behalf of our client asset owners, take a look at the climate change disclosures in the [full report](#).

## **Mandatory reporting**

The Task Force on Climate-Related Financial Disclosures (TCFD) sets the standards for how the industry reports on climate change as an investment issue. We will be monitoring and providing feedback on proposals for mandatory TCFD reporting by asset managers and UK pension funds. We will seek to encourage the best possible alignment between the reporting regime that will apply to LPPI as an asset manager and the disclosure requirements proposed for our client pension funds as LGPS administering authorities. Seeking resource efficiency through common metrics and complementary timeframes for disclosure is an important priority for the significant planning and data sourcing involved.

## **Department for Work and Pensions – Occupational Pensions Stewardship Council**

We've joined the Council and through our role will be collaborating with like-minded investors and the government to raise the bar, share insights, and contribute to the projects that will help UK pension funds become even better long-term stewards of retirement savings.

## **Asset Owner Diversity Charter**

In general, the investment industry has a poor record of diversity, partly because there is limited information and accountability on actions and outcomes. We have signed the Asset Owner Diversity Charter to support and influence how the industry as a whole develops which also involves a focus on what we can do as a business to be more diverse and inclusive.

[Read more](#)



For more information about LPPI, visit our website or contact us to discuss your specific requirements in more detail.

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