

Investment, Governance and Engagement Committee

Meeting – 22 November 2021

Item 7 – Paper D

Greening Finance: Roadmap to Sustainable Investing

Recommendations:

- To note the contents of the roadmap as set out below

Background

1. On the 19th October 2021 the government published its paper “Greening Finance – A Roadmap to Sustainable Investing”. A copy of the paper can be found at

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1026224/CCS0821102722-006_Green_Finance_Paper_2021_v5_Bookmarked_48PP.pdf

2. In his foreword, the Chancellor of the Exchequer explains that greening the financial system is an integral part of the government’s plans for the future of the UK’s financial services and that aligning the financial system with a sustainable future will bring real benefits for the environment and society. He goes on to say that the measures set out in the roadmap will put UK businesses in a better position to withstand climate-related risks and further seize the opportunities presented by the transition to net zero.

The Roadmap

3. The aims of the roadmap are:

- To set out more details on the Sustainability Disclosure Requirements to help businesses prepare for what they will have to report and by when (Chapter 1);
- To set out more details on the UK Green Taxonomy (Chapter 2);
- To highlight the importance of investor stewardship in green finance and set out the government’s expectations (Chapter 3), and
- To reiterate the UK’s commitment to international leadership on green finance (Chapter 4).

4. A detailed summary of the roadmap is beyond the scope of this paper but of particular relevance to the committee is the section of the paper (Chapter 3) regarding investor stewardship.

Investment, Governance and Engagement Committee

Investor Stewardship

5. The roadmap defines investor stewardship as the responsible allocation, management and oversight of capital to create long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

6. Particular emphasis is given to the pensions and investment sectors seeking to integrate ESG considerations into:

- **Investment decision-making** – when deciding where to allocate capital and which companies to invest in;
- **Monitoring and engagement strategies** – When challenging investee companies, boards and management on their strategies to generate long term, sustainable value; and when setting clear expectations and monitoring the investment managers, intermediaries and those that support stewardship and operate on their behalf;
- **Escalation and collaboration** - By collaborating with other investors, firms can amplify their stewardship, especially for smaller investors and pension funds, and
- **Voting practices** – When exercising their shareholder rights; this includes being ready to vote against directors, corporate actions or other resolutions.

7. In terms of what is expected by government in this area the road map sets out a number of targets for pension funds and the investment sectors. Of particular relevance to the LGPS are:

- Progress work on stewardship within their organisation to become a signatory of the UK Stewardship Code 2020 and encourage or require their service providers to sign up to the Code;
- Take into account the information generated by Sustainability Disclosure Requirements when allocating capital;
- Actively monitor, encourage and challenge companies by using their rights and direct/indirect influence to promote long term sustainable value generation, and
- Be transparent about their own and their service providers' engagement and voting, including by publishing easily accessible, high-quality quantitative and narrative reporting.

8. The government has undertaken to assess progress in these sectors on the above points at the end of 2023.

Investment, Governance and Engagement Committee

Conclusion

9. The roadmap published by the government includes several elements that are of direct and timely relevance to the LGPS, for example, investor stewardship. Other elements such as Sustainable Disclosure Requirements will have a less direct impact on the scheme for now but will, over time, help to ensure that fund authorities, asset pools and investment managers receive the relevant, quality data they need on financial disclosures to enable them to report against and comply with TCFD reporting regulations.