



FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

WEDNESDAY, 4 May 2022

Report of the Interim Director of Finance & ICT

Stewardship Report

1. Purpose

- 1.1 To provide the Pensions & Investments Committee with an overview of the stewardship activity carried out by Legal & General Investment Management (LGIM), one of Derbyshire Pension Fund's (the Fund) external investment managers, in the quarter ended 31 December 2021.
- 1.2 To provide the Pensions & Investments Committee with an update in respect of the Fund's investments in Russia.

2. Information and Analysis

2.1 LGIM ESG Impact Report

- 2.1.1 This report attaches, at Appendix 2, the Q4 2021 LGIM ESG Impact Report to ensure that the Pensions & Investments Committee is aware of the engagement activity being carried out by LGIM. LGIM manages around £1.8bn of assets on behalf of the Fund through passive products covering: Low Carbon Global Sustainable Equities; UK Equities; Japanese Equities; and Emerging Market Equities. The report provides an overview of LGIM's current key stewardship themes and voting and engagement activity over the last quarter.

2.2 LGPS Central Limited Stewardship Report

2.2.1 The quarterly Stewardship Report to the Pensions & Investments Committee generally also includes a quarterly stewardship report from LGPS Central Limited (LGPSC), the Fund's pooling company. Following a change to the LGPSC stewardship reporting cycle, the annual stewardship report for the year to 31 December 2021 will not be available until late April 2022 / early May 2022. The LGPSC annual stewardship report will be presented to Committee in due course.

2.3 Investments in Russia

2.3.1 As reported to Committee in March 2022, the Fund had around £12m invested in Russian companies prior to the start of the conflict between Russia and Ukraine. These investments represented around 0.2% of the Fund's total investment portfolio of over £6bn and were managed through pooled investment vehicles, with a proportion in passive investments which track stock market indices provided by MSCI and FTSE Russell.

2.3.2 The Fund published a statement in respect of its Russian investments on the Fund's website on 9 March 2022, a copy of which is attached at Appendix 3.

2.3.3 As set out in the statement, the Fund, together with its fund managers, is continuing to monitor and assess developments in Russia and Ukraine. In March 2022, both MSCI and FTSE Russell announced that they were deleting Russian classified securities from their indices, meaning that these would be removed from their passive funds. As a result, around £7m of the Fund's Russian investments were written down to zero, albeit the passive funds still own the securities because the Russian domestic stock market remains closed and sanction restrictions limit the ability to sell these securities at present.

2.3.4 The remainder of the Fund's Russian investments largely relate to securities held in the LGPS Central Limited Global Active Emerging Markets Equity Fund. LGPS Central Limited (LGPSC) has instructed the three underlying external investment managers not to increase any of the existing Russian positions and is engaging with the managers regarding the unwinding of these investments, subject to markets

reopening and any sanction restrictions. Any Russian investments have been written down to zero.

3. Implications

3.1 Appendix 1 sets out the relevant implications considered in the preparation of the report.

4. Background Papers

4.1 Papers held in the Investment Section.

5. Appendices

5.1 Appendix 1 - Implications.

5.2 Appendix 2 - Q4 2021 LGIM ESG Impact Report.

5.3 Appendix 3 - The Fund's Statement on Russian Investments

6 Recommendation(s)

That Committee:

(a) notes the stewardship activity of LGIM.

(b) notes the update in respect of the Fund's investments in Russia.

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Appendix 1

Implications

Financial

1.1 The Fund's investments in Russian companies, which were valued at around £12m prior to the start of the conflict between Russia and Ukraine, have been written down to zero. The write-down is not material in the context of the overall Fund.

Legal

2.1 None

Human Resources

3.1 None

Information Technology

4.1 None

Equalities Impact

5.1 None

Corporate objectives and priorities for change

6.1 None

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None