

How ESG issues are reflected in our investment advice



We are a signatory of the Principles for Responsible Investment and support integration of environmental, social and governance (ESG) considerations into investment practices.

+ We support the six Principles for Responsible Investment

The UN-supported [Principles for Responsible Investment \(PRI\)](#) recognise that institutional investors have a duty to act in the best long-term interests of their beneficiaries. LCP shares the belief underlying the Principles, namely that ESG issues affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).

Signatories publicly commit to adopt and implement the following Principles where consistent with their fiduciary responsibilities:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

As investment advisers, we do not manage any assets ourselves. As such, we promote these Principles to our clients and aim to support our clients in meeting the Principles. We ourselves are also signatories of the UK Stewardship Code and Net Zero Investment Consultants Initiative, which means we are committed to supporting good stewardship practices and integrating advice on net zero alignment into all our investment consulting services.

LCP believes that the successful implementation of the Principles, strong stewardship and achieving global net zero greenhouse gas emissions by 2050, will improve investors' risk-adjusted returns and, where applicable, their ability to meet commitments to beneficiaries as well as better align their investment activities with the broader interests of society. This document summarises how LCP supports the Principles, other than Principle 2 which is covered by our [Stewardship Report](#). We will report separately on our net zero commitments in due course.

We help our clients meet their investment objectives

Our clients include pension scheme trustees, charity trustees, insurers, sovereign wealth funds, central banks and the sponsoring employers of pension schemes. Many of them are long-term asset owners, holding investments in equities (company shares), government and corporate debt, and other asset classes such as property and infrastructure. Most of our clients appoint external investment managers, although some of our largest clients manage assets in-house. They rely on their managers to identify which ESG issues are relevant to particular assets, take account of ESG issues as appropriate when deciding which individual securities to buy and sell, and exercise ownership rights such as voting at company AGMs.

We provide advice and support to our clients in setting investment policy and strategy, selecting and appointing managers, and regularly reviewing investment processes and performance. When providing investment advice, we don't have a single "house view" – our clients have individual requirements, so we consider their goals and needs and tailor our services accordingly.

Our clients typically invest their assets to meet long-term liabilities such as paying benefits to pension

scheme members. To do this efficiently, they seek to maximise the long-term returns on their assets whilst managing and maintaining investment risk at an appropriate level. The generation of long-term sustainable investment returns depends upon stable, well-functioning and well-governed environmental, social and economic systems. We therefore believe it is important that ESG issues are considered throughout the investment chain and so we seek to incorporate them in our advice to clients.

We reflect ESG issues in our investment advice

ESG is relevant throughout much of the investment advice we give to clients (see diagram). The approach we take, and the emphasis we place on ESG, varies according to client preferences. However, ESG is integral to our investment manager research (see next section), so as a minimum ESG considerations are reflected in our views of investment management services, and hence influences our advice on manager selection and review exercises. We believe climate change is a material systemic financial risk and encourage all of our clients to take appropriate action to manage this risk.



Investment beliefs

We help our clients to reach a consensus view on the financial relevance of ESG factors and use this as the basis of their ESG policy.



Investment strategy

We use climate-aware assumptions in the modelling underlying our investment strategy advice and offer scenario analysis that helps clients understand how resilient their strategy might be to different climate pathways. We include ESG considerations in a model strategic portfolio that we use with clients to discuss new investment ideas and strategic allocations, as a starting point to provide advice tailored to clients' specific circumstances.



Manager selection

We assess fund managers' services to help our clients select a suitable manager for their objectives. We consider the manager's approach to incorporating ESG factors; its approach to stewardship, and how it views and manages climate risk.



Manager oversight

We help our clients review how their managers incorporate ESG factors by providing updates on our manager research, offering monitoring of ESG metrics, and facilitating clients' own discussions with managers.



Communication

We assist our clients with documenting their approach to ESG factors and, where appropriate, communicating it to beneficiaries and other stakeholders. For some clients, this includes reporting in line with the Taskforce on Climate-related Disclosures (TCFD) recommendations.

Our ESG Panel provides strategic oversight of LCP's ESG-related activities, reporting into LCP's Executive Committee (ExCo) which is ultimately responsible for our work in this area. All of our investment partners and consultants are able to advise clients on ESG matters, with access to specialist support as required.

Every two years we invite the investment managers in our research programme to complete a responsible investment (RI) survey. Our survey covers managers' approach to ESG issues, plus their active ownership (stewardship) practices such as voting at AGMs and engaging with the management of companies they invest in. The box below shows the characteristics that score highly on the ESG-related parts of the survey. We supplement the managers' responses with discussions at our regular research meetings with managers, enabling us to take account of subsequent developments and fund-specific considerations.

Our expectations of managers

Managers with the following characteristics score highly when we assess their ESG credentials:

- + ESG integrated throughout the investment process
- + All relevant staff receive ESG training, including board members
- + Specialist staff provide in-depth ESG expertise as required
- + Senior management accountable for ESG integration and show RI leadership
- + ESG included in investment professionals' job descriptions
- + ESG considerations affect buy/sell decisions
- + Steps taken to ensure the quality and robustness of ESG data
- + ESG risk exposures analysed at the portfolio level
- + Climate-related risks and opportunities embedded throughout the investment process
- + Working towards net zero emissions with appropriate interim targets
- + Robust voting and engagement policies on issues like climate-related risk, executive pay, boardroom responsibilities and diversity
- + Evidence of strong collaboration, as appropriate, with other investors
- + Signatory or member of relevant codes and initiatives

We believe that stewardship can enhance investment performance by encouraging companies to act in the long-term interests of their shareholders (eg pension schemes) and their ultimate beneficiaries (eg pension scheme members). As such, we are a signatory of the UK Stewardship Code 2020 and support the adoption of stewardship best practices by trustees and their investment managers. More information on how we implement the principles of the UK Stewardship Code and support our clients on stewardship can be found in our [Stewardship Report](#).

We assign a responsible investment score between 1 (weak) and 4 (strong) for each manager and fund that we research, covering ESG, climate and stewardship practices. We incorporate the fund RI score in our overall product grading for most asset classes, directly impacting whether funds are recommended to clients. We also have a system of red flags which indicate potential areas of concern based on managers' responses to our RI survey. They highlight where the manager falls significantly below our expectations in a particular area.

We provide clients with the RI scores and red flags for their own managers and funds, for example as part of their ongoing investment monitoring, and support them in discussions with managers. We can supplement the scores with the detailed underlying research data, which is particularly useful for clients wishing to explore specific aspects in more depth.

For more information on our latest responsible investment survey, see our [survey report](#).

In addition to considering ESG, climate and stewardship issues across all of the funds we research, we review various specialist funds for clients who wish to place particular emphasis on ESG issues. These include:

- + Actively and passively managed funds that invest in a broad range of global equities but only include companies that meet threshold levels of ESG practices;
- + Passive equity funds that incorporate a climate or ESG "tilt" to reduce their exposure to climate risks or increase their exposure to good ESG practices;
- + Buy and maintain credit funds that incorporate specific climate change and/or sustainability guidelines; and
- + Specialist funds that invest in solutions to environmental and social challenges.

We use our influence as advisers to many clients to raise responsible investment standards across the industry. We do this in our discussions with managers, and have also raised issues more formally. For example, we have published our expectations for [stewardship practices](#), both firmwide and for specific asset classes, as well as [net zero](#). We also require managers to be signatories to the Net Zero Asset Manager Initiative for their products to be eligible for an LCP buy rating.

We inform our clients about ESG topics

We provide training for our clients on ESG and stewardship matters, through our events programme, [trustee training](#) courses and bespoke sessions for individual clients. For example, our main 2021 conference featured two ESG sessions, one related to net zero and the other to social factors. Our publications include a [report on climate risk profiling of UK institutional investors](#), an educational [climate centre for pension trustees](#); and a series of [blogs and videos](#) relating to responsible investment, including topics such as stewardship, climate change and green bonds.

We help our clients keep abreast of ESG developments through our weekly Pensions Bulletins, quarterly investment updates and bi-annual Vista magazines. In particular, our quarterly investment updates include an ESG section covering topical stories, companies in the news, and questions for clients to ask their managers. We provide more detailed updates to clients on request, tailored to their specific requirements. For example, we can provide ESG and climate dashboards summarising the ESG and climate characteristics of their listed equity and corporate bond portfolios, annual reviews of their managers' ESG practices and quarterly summaries of their managers' voting activity.

We encourage consideration of ESG issues throughout the investment chain

LCP actively promotes collaboration with other organisations on ESG topics. One way we do this is through our representation on relevant industry groups. We also respond to relevant consultations and are supportive of initiatives that facilitate consideration of ESG.

LCP is a founder member of the Investment Consultants Sustainability Working Group ("ICSWG") with four of LCP's Responsible Investment team contributing to initiatives in that group. The ICSWG aims to improve sustainability practices across the investment industry. LCP is also a founder member of the Net Zero Investment Consultants Initiative, supported by the PRI, committing to nine specific actions and supporting the global goal of net zero greenhouse gas emissions by 2050 or sooner.

Our Head of Responsible Investment was heavily involved in the Pensions Climate Risk Industry Group (PCRIG), set up as part of the UK Government's Green Finance Strategy, that published climate guidance for UK pension scheme trustees in January 2021.

Our Head of Defined Contribution chaired an industry group in 2020, convened by the Pensions and Lifetime Savings Association (PLSA), that developed a UK guide for pension scheme trustees on producing annual statements on the implementation of their Statement of Investment Principles (with emphasis on ESG, voting and engagement) and a voting reporting template to facilitate collection of the necessary information from investment managers.

Want to find out more?

If you would like further information, please contact your usual LCP adviser or one of the people below.



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