

NZICI interim report

LCP update

January 2023



At LCP, we help our clients make good decisions based on insightful analysis, industry expertise, and game-changing technology. We are independent, we focus our efforts on making sure that every client gets the right advice for their own unique circumstances.

Working across a wide range of sectors, including pensions and benefits, investments, insurance, energy, health, sports, and data analytics, we help our clients navigate complexity in order to take the action that matters.

Of our work, around 25% relates to investment services where we are responsible for advising on over £140 billion of clients' assets. We do not manage assets ourselves – investment decisions typically rest with the trustees or investment board after considering our advice.

We employ over 850 people in offices throughout UK and Ireland. Our turnover was £149m for the year to 31 March 2022 and this has grown consistently at a rate of about 10% per annum for the last five years. We are structured as a Limited Liability Partnership, which plays an important part in our culture and the experience of our clients since the leaders of our business are also our lead advisers. We have the freedom to focus the attention of our business on what our clients need and value.

In April 2022 we acquired Delta-EE with a clear vision to become a leading energy transition consulting practice globally. LCP and Delta-EE's combined skills and expertise will create a unique offering for companies within the energy sector, including utilities, operators, traders, investors and manufacturers. With LCP's wider experience in providing institutional investors with financial advice and modelling, the combined teams will be able to advise institutional investors on the new landscape and how to invest responsibly.

LCP's key investment services to support Net Zero-aligned investing

In our role as an investment service provider, we influence and support our clients' investment decisions. The key services through which we directly influence and support Net Zero-aligned investing for our clients' assets are:

- Training, development and awareness – for example, we help our clients understand climate-related risks and opportunities, including the importance of Net Zero alignment.
- Helping to establish and review our clients' investment policies – for example covering ESG (environmental, social and governance) factors, Net Zero targets, voting and engagement.
- Setting investment strategy and developing short, medium and long-term investment pathways to meet their objectives and taking into account market-wide and systemic issues such as climate change.
- Selecting, monitoring and reviewing investment management providers and their funds to implement their strategies – including implementing new Net Zero-aligned funds.

We also support Net Zero-aligned investing indirectly through our advocacy and engagement with policymakers, regulators, industry working groups and asset managers.

Interim update on our progress against the 9 NZICI commitments over the year to 30 September 2022



Commitment 1: Integrate advice on net zero alignment into all our investment consulting services as soon as practically possible and within two years of making this commitment

We have a strategic objective to integrate net zero alignment into our investment services. Consistent with this we have set objectives to: communicate to all our clients what net zero means and why it matters to them; build our collective understanding of what net zero-aligned portfolios look like and how they can be achieved; support our proactive clients on implementing net zero plans; develop a streamlined approach for smaller clients who want to commit to net zero; and identify potential alignment approaches for less engaged clients.

To meet this commitment we have identified 8 different service lines that we provide to asset owner clients into which we will individually integrate Net Zero:

- Trustee training and understanding
- Investment policies and beliefs
- Investment strategy
- Manager research
- Manager/provider selection and research
- Monitoring
- Risk management
- Stewardship

We have analysed our advice process in each service line and identified key assets and tools within each service line (such as modellers, checklists and office standards) into which we will separately integrate Net Zero considerations. This will enable all of our advisers to integrate Net Zero consistently.



Commitment 2: Work with our institutional asset owner clients to identify the investment risks from climate change, highlight the importance of net zero alignment and, where applicable, support our clients in developing policies that align their portfolios to a net zero pathway

We are already working with our asset owner clients to identify the investment risks from climate change, particularly UK pension schemes with £1bn+ assets which are subject to TCFD reporting requirements. We are supporting some of them in developing and implementing policies to align their portfolios to a net zero pathway.

For our pension scheme clients, we expect this work to increase over the next year due to the finalisation of the UK Pensions Regulator's new single Code of Practice which increases the expectation on trustees in relation to climate risk management, and a greater focus on net zero alignment in our advice to meet Commitment 1.



Commitment 3: Support efforts to decarbonize the global economy by helping our clients prioritize real economy emissions reductions, reflecting the target of 50% global emissions reduction by 2030 or sooner using existing decarbonization methodologies

We emphasise the importance of real economy emissions reductions in our thought leadership, standard client materials and internal training. We continue to do so, particularly as more of our clients set net zero targets and start implementing plans to meet them.

In particular, in our assessment of managers' approaches to reducing emissions in portfolios, we look for approaches that reduce real economy emissions over those that reduce emissions on an accounting basis only.



Commitment 4: Assess and monitor asset managers on the integration of climate risks and opportunities in their investment decisions and stewardship and reflect this evaluation in our client recommendations

Climate change has formed part of our responsible investment assessment of asset managers for several years and we have made it more explicit over the past two years.

In 2021, we released a set of principles for our current view of best practice by asset managers in managing capital consistent with achieving a net zero emissions global economy.

Since 1 April 2022, we require investment managers to be signatories to the Net Zero Asset Managers Initiative (NZAMI) for any of their funds to receive an LCP "buy" rating (see Case Study on page 4). We are updating our manager assessment framework to include an explicit net zero module, in addition to one on climate risk management.

Interim update on our progress against the 9 NZICI commitments over the year to 30 September 2022



Commitment 5: [With respect to our discretionary services] Align with the Net Zero Asset Manager Initiative as soon as practically possible and within two years of making this commitment

We do not offer fully discretionary services, so this commitment is not applicable to our firm.



Commitment 6: Set emissions reduction targets across all our operational emissions in line with 1.5°C scenarios

LCP committed to become operationally net zero from 1 April 2021. This commitment covers our Scope 1 and 2 emissions (primarily derived from the use of gas and electricity to heat and power LCP's office space). We are initially using fully certified and high-quality carbon offset schemes to achieve net zero.

We have also made significant strides in reducing our carbon footprint through sourcing only renewable electricity for our offices, reductions in commuting and decreasing printing. We are on track to reduce our operational (scope 1, 2, business travel and commuting) emissions in line with 1.5°C scenarios by 2030, and are engaging with our suppliers to consider our wider commitments and reduction trajectory across all scopes.

We continue to work on our carbon reduction trajectory so that we can achieve net zero without reliance on offsets well before 2050 (unless there is no technological and/or viable financial solution to do that).



Commitment 7: Where suitable net zero methodologies do not exist, work collaboratively for the benefit of our clients to address these challenges, seeking harmonized methodologies

We collaborate on climate-related topics through our membership of the ICSWG and IIGCC, and our representation in industry groups such as the IFoA Sustainability Board.

Specifically, we worked with the ICSWG to establish the Net Zero Investment Consultants initiative, nine commitments and reporting structure, are contributing to the IIGCC's Paris Aligned Investment Initiative implementation working group and have been involved with the IFoA's research working party on Net Zero and the implications for investment portfolios.



Commitment 8: Engage, directly or in collaboration, with regulators and policymakers, to facilitate the transition to net zero carbon emissions, addressing any barriers to our clients adopting and achieving their net zero targets

We engage with regulators and policymakers, both through formal routes such as consultation responses and through our informal discussions with them.

Our consultation responses over the last year or so in this area include: the UK Financial Conduct Authority's proposals to require TCFD reporting by asset managers; the UK Pensions Regulator's draft TCFD guidance; and the UK Department of Work and Pensions' consultation on portfolio alignment for climate reporting by large UK pension schemes.



Commitment 9: Report progress by our firm against the commitments made here at least annually in public domain

This report presents an interim update on our progress against the commitments. We expect to provide our first full progress report in 2023 in line with NZICI's agreed reporting framework.



Encouraging net zero-aligned investing

LCP does not directly manage money, instead, we influence and support our clients with their investment decisions. As such, we believe one of the most effective ways in which we can help our clients adopt net zero-aligned investments is through encouraging their investment managers to take that path. Therefore, from 1 April 2022, LCP required investment managers to have joined the Net Zero Asset Managers Initiative (NZAMI) to be eligible for an LCP research “buy” rating. We announced this commitment to the industry in September 2021.

The NZAMI commits asset managers to support a goal of net zero greenhouse gas emissions by 2050. It also requires asset managers to set an interim target for the percentage of assets under management to be managed in line with this goal. We regard this as a minimum standard to ensure that the systemic financial risks from climate change are being addressed. We expect managers to go beyond this by proactively managing climate-related risks to clients’ portfolios over both the short and long-term.

By doing this we are encouraging investment managers to improve their practices and to use their significant influence as stewards of capital to assist with the transition to a net zero economy. The NZAMI commitments include the need to set interim targets for 2030 consistent with a fair share of the 50% global reduction in CO2 identified as a requirement in the IPCC special report on global warming of 1.5°C. Also, the need to prioritise the achievement of real economy emissions reductions within the sectors and companies in which they invest. We see these as valuable elements of NZAMI over and above the overarching net zero goal.

We believe that investing in line with net zero is in our clients’ best interests as investors over the longer term and will help to manage climate-related risks over the shorter term.

Impact of LCP’s actions

Prior to 1 April 2022, LCP had a ‘buy’ rating on investment funds from over 80 asset managers. As a consequence of our requirement for asset managers to be NZAMI signatories, we downgraded the investment funds of 34 asset managers from ‘buy’ to ‘hold’. We alerted the asset managers and our directly affected clients to this downgrade. We also engaged with the affected asset managers to discuss the change and similarly encouraged our clients to do the same. In these discussions with asset managers, we addressed many of the concerns raised with making the NZAMI commitment and highlighted the commercial benefits of becoming a signatory.

We recognise that committing to net zero is challenging for asset managers specialising in private markets where the frameworks and methodologies to support net zero goals are still in development. Nevertheless, collaboration and determination to overcome constraints is an important part of the NZAMI commitment, so we are encouraging these managers to contribute to the development of net zero frameworks and methodologies through initiatives such as NZAMI and IIGCC.

We believe our requirement for investment managers to have joined NZAMI has helped to incentivise earlier and greater net zero-aligned investing. Examples of that include:

- Greater engagement by our clients’ asset managers on the importance of taking account of climate-related risks – particularly US-based asset managers who, in our experience, have been relatively slow to explicitly consider climate-related risk management.
- Initiating active consideration of NZAMI at asset managers who might otherwise have deferred or ignored this important initiative.
- Recommending investment funds from NZAMI signatories, over other funds of non-NZAMI signatories, when advising our clients on the selection of a new investment mandate.

Since September 2021 when we first announced our intention to adopt this new requirement, a total of 145 managers have signed up to NZAMI, including many of our clients’ asset managers.

Some of those asset managers might have elected to sign up to NZAMI even without our influence, but our new requirement is a tangible and significant contribution to the collective effort required to transition the global economy to net zero. We would encourage other advisers to take similar steps.

Contact us

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At LCP, we fuse human instinct with analytical insight to identify sparks of opportunity. We help our clients navigate clearly through complexity to make decisions that matter to their business and to our wider society. We are powered by our desire to solve important problems to create a brighter future. We have market leading capabilities across pensions and financial services, energy, health and analytics.

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