

Lancashire Local Pension Board

Meeting to be held on Tuesday, 11 April 2017

Electoral Division affected: None

Stewardship Update

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Executive Summary

This report provides the Board with a brief update on stewardship matters.

Recommendation

The Board is recommended to note the matters outlined within the report.

Background and Advice

This report is for information and provides members of the Lancashire Local Pension Board with a brief update on two stewardship related matters;

1. Annual reporting against the Principles of Responsible Investment;
2. Statement of Compliance with the UK Stewardship Code.

1. Annual Reporting against the Principles of Responsible Investment

Lancashire County Pension Fund (LCPF) became a signatory to the UN-backed Principles of Responsible Investment early in March 2015.

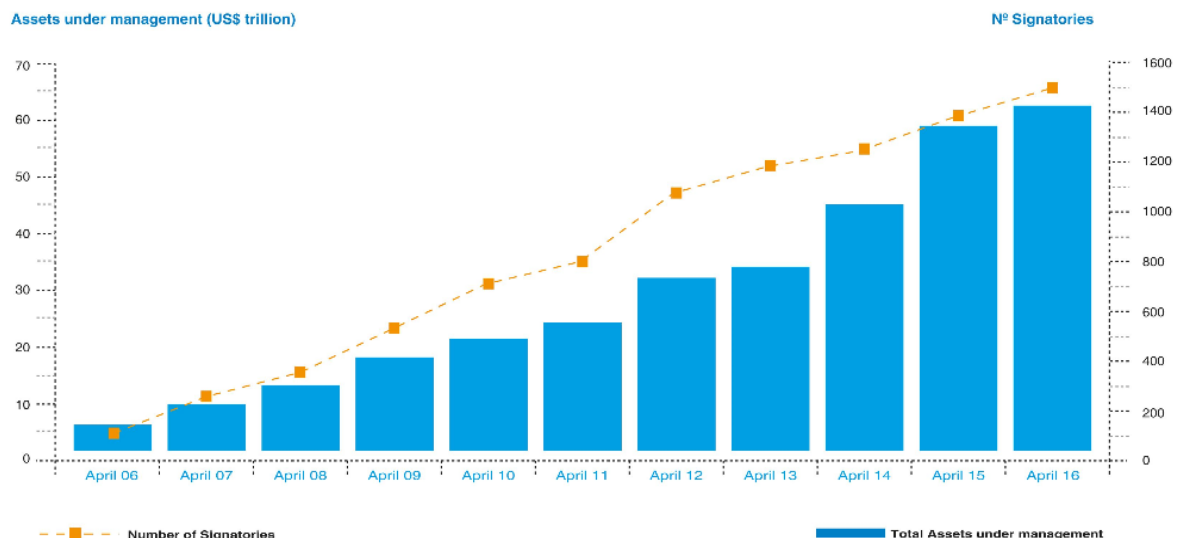
The decision to become an Asset Owner signatory marked the Fund's commitment to implementing a set of aspirational investment principles for incorporating environmental, social, and corporate governance (ESG) issues into investment practice in line with the following PRI Signatories' Commitment:

"As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that ESG issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

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| Principle1 | We will incorporate ESG issues into investment analysis and decision-making processes; |
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Principle2	We will be active owners and incorporate ESG issues into our ownership policies and practices;
Principle3	We will seek appropriate disclosure on ESG issues by the entities in which we invest;
Principle4	We will promote acceptance and implementation of the Principles within the investment industry;
Principle5	We will work together to enhance our effectiveness in implementing the Principles;
Principle6	We will each report on our activities and progress towards implementing the Principles.

In the ten years since the PRI was launched the number of asset owner and asset manager signatories has grown steadily reflecting a conviction ESG considerations are material to investment decision-making is becoming significantly more widespread and mainstream. There are now nearly 1,600 signatories from over 50 countries, cumulatively representing assets of US\$62 trillion.



Each PRI signatory commits to publicly reporting their progress in implementing the Principles on an annual basis, the annual reporting deadline being 31 March.

The outcome of the reporting process is a "Transparency Report" specific to each signatory which is made publicly available from the PRI website. Transparency Reports contain the signatory's responses to all completed indicators other than those set as private on the basis of confidentiality. Each signatory separately receives a Private Report containing their responses to all indicators and a confidential Assessment Report which confirms the PRI's scoring of their efforts against an underlying assessment methodology and their position relative to their peer group.

The reporting framework and assessment process are designed to provide feedback, to support ongoing learning and development, and to maintain an underlying impetus for demonstrating continuing progress whatever the stage of maturity as a PRI

signatory. Signatories are not aiming for a single formulaic view of perfection but an approach and processes matched to their underlying purpose and local investment beliefs. It is recognised that signatories will be at varying stages and will have different methods for making progress and seeking to evolve their approach.

LCPF has not previously been required to report against the PRI framework (there being a grace period for the first 12 months of being a signatory). LCPF's first reporting year is 2017 and during February and March 2017 considerable work has gone into responding to a detailed array of indicators designed to capture the Fund's overall approach and specific efforts and activities undertaken during the 12 months to 31st December 2016. It has been a particular priority to explain the Fund's relationship with the Local Pensions Partnership and the division of responsibility for setting policy, implementing procedures and delivering and monitoring performance.

Reporting against the framework is undertaken entirely online and has been overseen by the Responsible Investment Manager (Local Pensions Partnership Investments Ltd) drawing information from the Investment Team, wider LPP and a broader network of agents and suppliers. The Fund's full return was reviewed by the LPP Stewardship Committee before the detailed Private Report was shared for review and sign off by the Head of Fund in consultation with the Chair of the Pension Fund Committee.

Following submission online, the Fund's response will be assessed by the PRI and any questions followed up before LCPF's "Transparency Report" is made publicly available via the PRI website and its Assessment Report is made available privately. We are advised by the PRI that both events are likely to happen during June 2017.

This first experience of reporting as a signatory to the PRI has shown the process to be very detailed and to require considerable time and effort to complete. The requirement to both explain underlying arrangements and provide detail on specific examples of activity is particularly onerous first time around but dedicating adequate time and attention to reporting was essential for creating an accurate account at what remains a formative stage for the Local Pensions Partnership, especially since the overview received by the public will be a composite of responses to more than 60 individual indicators.

The Pension Fund Committee will receive a copy of the draft Private Report for information at their next meeting (unless the final version of the Transparency Report and the Assessment Report are released by the PRI in the interim). The report to the Committee will draw out some specific learning points from the experience of working through the detailed reporting framework. It will briefly highlight the areas which were most difficult to report against and where some action might be appropriate to improve the comprehensiveness of the next annual return (helping to demonstrate progress in line with the Fund's commitment as a signatory).

The PRI reporting process is an important milestone for the Fund because a commitment to the 6 principles forms an important plank of LCPF's approach to Responsible Investment as set out within its Investment Strategy Statement published in October 2016. A further key plank is adherence to the principles of the UK Stewardship Code. Taken together these two external standards provide an

objective framework for the delivery of the Fund's expectations in relation to the stewardship of Fund assets and help to shape the processes for monitoring and reporting against them.

2. Statement of Compliance with the UK Stewardship Code

An updated Statement of Compliance with the Stewardship Code currently remains under drafting. The level of work connected with reporting comprehensively against the PRI framework by the 31st March deadline is the cause of the delay.

A revised statement is required for two reasons;

- to reflect the practical and regulatory changes which have accompanied the establishment of the Local Pensions Partnership and the transition to assets under pooled management arrangements
- the introduction of "tiering" by the FRC to encourage greater detail and transparency of disclosure

Under the new approach, signatories to the Code are tiered according to the quality of the reporting in their statements based on the seven principles of the Code and the supporting guidance. Asset managers are categorised into one of three tiers and asset owners and other signatories into either Tier 1 or Tier 2.

Tier 1

Signatories provide a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary.

Tier 2

Signatories meet many of the reporting expectations but report less transparently on their approach to stewardship or do not provide explanations where they depart from provisions of the Code.

Tier 3

Significant reporting improvements need to be made to ensure the approach is more transparent. Signatories have not engaged with the process of improving their statements and their statements continue to be generic and provide no, or poor, explanations where they depart from provisions of the Code.

Once a revised statement has been drafted it will be shared with the Head of Fund and Chair of the Pension Fund Committee and Board members for comments and approval before being submitted to the Financial Reporting Council (FRC) for assessment.

It is important to stress that what is outstanding is a statement of how the Fund is complying with the Stewardship Code. The arrangements in place for managing the Fund's assets in line with the fiduciary responsibilities owed to scheme members and beneficiaries are fully compliant with the principles of the Stewardship Code.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

The report addresses the Administering Authority's fiduciary responsibility for implementing arrangements which secure the prudent stewardship of pension fund assets in protection of the long term best interests of fund members and beneficiaries.

The stewardship arrangements described form part of the Fund's commitment to Responsible Investment, the objective of which is to decrease investor risk and improve risk-adjusted returns.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Tel
N/A	N/A	N/A

Reason for inclusion in Part II, if appropriate

N/A