

**Lancashire County Pension Fund**

**Appendix A**

**Pension Fund Committee  
Responsible Investment Report**

**15 Sept 2017**

<b>Title of Paper</b>	Quarterly Report on Responsible Investment
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<b>Appendices</b>	None

**1. Executive Summary**

This report provides members of the Pension Fund Committee with a quarterly update on Responsible Investment (RI) matters.

**2. Introduction**

The Fund's approach to RI has been articulated within an Investment Strategy Statement which confirms that the objective of RI is to decrease investor risk, improve risk-adjusted returns and assist the Fund's adherence to the UK Stewardship Code. The Fund's preferred approach to RI encompasses four main areas of activity:

- Voting Globally
- Engagement through Partnerships
- Shareholder Litigation
- Active Investing

Responsibility for practical implementation of the Fund's approach to RI is devolved to Local Pensions Partnership Investments Ltd (LPP I) as LCPF's provider of investment management services. The report which follows provides the committee with an update on RI activity during the period 1<sup>st</sup> April to 30th June 2017 plus insight on current and emerging issues.

**3. Voting Globally**

Through its investment in the LPP I Global Equities Fund (GEF) LCPF owns units in a pooled fund which invests in listed companies globally. Investors in the GEF delegate the control and exercise of shareholder voting to LPP I as part of arrangements which accommodate a pooled fund structure and associated ownership arrangements. This reflects that clients who hold units in the GEF are beneficial owners in common but do not directly own underlying securities. LPP I exercises shareholder voting rights for the GEF centrally rather than delegating voting to individual asset managers. Decisions are

taken in line with protecting the collective best interests of client pension funds as institutional investors. LPP I employs an external provider of proxy voting and governance research services. Institutional Shareholder Services (ISS) provide voting recommendations in line with an agreed voting policy and oversee administration and vote execution on behalf LPP I.

Voting headlines for the GEF in the second quarter of 2017 were as follows:

Total company meetings taking place	164	
Total resolutions (management and shareholder proposals)	2764	
Total company proposals in the period	2616	
Total shareholder proposals in the period	148	
Votes in line with Management recommendations	2603	94%
Votes opposing Management recommendations	161	6%
Shareholder proposals supported by LPP I	89	60%

Votes opposing management proposals reflected concerns over;

- the election (or re-election) of board nominees lacking adequate independence.
- the re-election of Board members dedicating insufficient time (over-boarding).
- compensation and remuneration policies without appropriate performance targets and robust measurement criteria or which were out of step with comparable norms.
- proposals on share issuance or buyback not in the interests of shareholders.

LPP I supported 89 shareholder resolutions in Q2. These continued to reflect what have become familiar Governance themes of importance to shareholders including proxy access, an independent Board Chairman, rights of shareholders to call Special Meetings, adequate reporting on lobbying payments and policy and information on political contributions.

Shareholder resolutions on ESG themes arose at a number of AGMs and were supported by LPP as follows:

### **Climate Change**

Ameren Corporation	Assess Impact of a 2 Degree Scenario
Ameren Corporation	Report on Coal Combustion Residual and Water Impacts
DTE Energy Company	Assess Portfolio Impacts of Policies to Meet 2 Degree Scenario
Duke Energy Corporation	Assess Portfolio Impacts of Policies to Meet 2 Degree Scenario
Duke Energy Corporation	Report on the Public Health Risk of Dukes Energy's Coal Use
PPL Corporation	Assess Portfolio Impacts of Policies to Meet 2 Degree Scenario
The Southern Company	Report on Strategy for Aligning with 2 Degree Scenario
Entergy Corporation	Report on Distributed Renewable Generation Resources

### **Environmental**

McDonald's Corporation	Assess Environmental Impact of Polystyrene Foam Cups
Dr Pepper Snapple Group, Inc.	Report on Plans to Minimize Pesticides' Impact on Pollinators

### **Social/Governance**

The Home Depot, Inc.	Prepare Employment Diversity Report and Report on Diversity Policies
The Travelers Companies, Inc.	Prepare Employment Diversity Report and Report on Diversity Policies
Alphabet Inc.	Report on Gender Pay Gap

As reported to the Committee's last meeting, LPP has begun to publish quarterly voting information for the GEF on its website from where further detail on voting activity is now accessible.

<https://www.localpensionspartnership.org.uk/what-we-do/investment-management>

#### **4. Engagement through Partnerships**

As a responsible asset manager LPP I regularly participates in collaborations which represent the collective interests of institutional investors and seek to make progress on issues which impact shareholder value. Key partners include the Local Authority Pensions Fund Forum (LAPFF) the Pensions and Lifetime Savings Association (PLSA) the Principles of Responsible Investment (PRI) and the Institutional Investor Group on Climate Change (IIGCC).

##### **LAPFF**

LAPFF has historically been LCPF's preferred engagement partner and LCPF has been a Forum member of long standing.

On a quarterly basis LAPFF provides Forum members with a summary of the engagement activities undertaken on their behalf. The engagement programme reflects an assessment of key priorities from across the collective equity holdings of LAPFF members. The annual holdings survey was undertaken in Q2 and LPP I submitted data on LCPF's behalf indicating the Fund's interests in listed companies via the Global Equities Fund.

A copy of LAPFF's Q2 2017 Engagement Report has been placed in the Member's Reading Room for reference. Highlights from the report include the following matters:

- **Executive pay**  
Following the introduction of new regulations in 2014 requiring a binding vote on companies' pay policies at least every three years, a majority of companies held votes on their pay policies at their 2017 AGMs. LAPFF issued voting alerts for seven companies where it judged inadequate progress had been made on executive pay arrangements.
- **Environmental and Carbon risk**  
LAPFF issued a number of voting alerts recommending members back shareholder resolutions on climate change disclosure at US energy firms. During the quarter, LAPFF also held several meetings with companies about their strategies for the low carbon transition.
- **Reliable Accounts**  
LAPFF continues to have detailed involvement in a campaign addressing inaccuracy within company accounts as a result of the misinterpretation of certain aspects of the Companies Act and the approach to requirements set out within accounting guidance.

Quantified across thematic topics, Q2 engagement activity by LAPFF was as follows:

## Company Engagement



LAPFF's most recent quarterly Business Meeting took place on 27<sup>th</sup> June 2017 and was attended by the RI Manager. Headlines from the meeting included the following matters:

- **Membership**  
The number of member funds now stands at 72 following one fund's decision not to renew its membership in 2017/18. The decision apparently reflected a perception of a broadening of the focus of LAPFF outside the ESG/engagement area.
- **Retirement**  
Geik Driver will retire from her role at West Midlands Pension Fund in September 2017 and consequently from her role as LAPFF Honorary Treasurer and as a LAPFF Executive member.
- **LAPFF Constitution**  
LAPFF's Constitution Sub-Committee will meet in September 2017 to consider any new issues/proposals brought forward by member funds. Member funds are invited to contact the LAPFF Executive with their thoughts on any areas requiring review by the end of August.
- **LGPS Pools**  
The LAPFF Chair and members of the LGPS Cross Pool Collaboration Group's Responsible Investment Sub-Group will meet to discuss how pools might liaise and work with LAPFF going forward. This recognises that the LAPFF constitution does not currently recognise the pools within its membership. Pool representatives are only permitted to be observers at present. It is recognised that the future financial viability of LAPFF depends on arrangements which recognise and integrate pools (to the degree appropriate) whilst continuing to ensure that Funds remain members in their own right.

### Principles of Responsible Investment (PRI)

As detailed in the last report to the committee, the PRI is co-ordinating an engagement on Cyber Risk. The project will aim to improve risk management from the Board's perspective and is to be targeted from a governance point of view. Cyber Risk is recognised as an area of technical complexity and Boards need to be fully aware of the risks this brings, and have the knowledge to proactively question management, and ensure the risks are being actively monitored across the organisation.

LPP I has been in discussion with PRI to explore options for joining the engagement as a supporting investor acting on behalf of LCPF and LPFA (as PRI signatories). After reflection the PRI have recently confirmed that whilst this is unorthodox (since LPP is not a PRI member in its own right) it will be permitted on this occasion. Further information will be provided to the committee on this collaborative engagement once details have been agreed and activity commences.

### **Pensions and Lifetime Savings Association**

LPP I has produced and submitted a response to the PLSA's Annual Survey of Local Government Pension Schemes 2017 on behalf of LCPF. The survey provides PLSA with up to date information about the pension industry that helps it to campaign effectively with the Government and regulators on behalf of members.

### **ShareAction Workforce Disclosure Initiative (WDI)**

LPP has become a named supporter of WDI which is an initiative that aims to "bring together institutional investors behind a call for comparable workforce reporting by publicly listed companies on their global operations and supply chains". Supporting the initiative offers an opportunity for LPP to demonstrate collaboration in line with the UK Stewardship Code and encouragement for corporate disclosure in line with investor needs.

WDI is modelled on the Carbon Disclosure Project in being survey based and focussed on collecting data to aid investor analysis. Data requested from companies will cover employees in companies' global operations and workers in their supply chains. The data will cover workforce composition, workforce development, and worker engagement. The first year's pilot survey will go to the FTSE 50 and an additional 25 mega-cap firms on other global exchanges.

ShareAction is being funded by the UK's Department for International Development (DFID) to pilot two rounds of a survey of companies, prepare analysis for investors based on the resulting data, and support collaborative engagements with surveyed companies.

## **5. Shareholder Litigation**

LPP I employs Institutional Protection Services (IPS) as an external provider of litigation monitoring services to ensure shareholder litigation cases affecting securities owned by the GEF are known about, claims are filed in a timely way and progress is monitored and followed up with Claims Administrators. In addition, IPS will monitor cases relating to shares held by LCPF in the period before the Fund pooled its listed equity investments from November 2016. Litigation can arise quite some time after shareholdings have been sold and monitoring new cases and referring back to historic holdings records to establish rights of ownership is an ongoing task.

IPS provide LPP I with monitoring information on a quarterly basis detailing the number of cases investigated. The monitoring report provided for Q2 2017 confirmed that no new cases have been detected in the period April to June 2017 where the Fund has an entitlement to join an action.

## 6. Active Investing

This section of the RI report is dedicated to updating the Committee on new developments within stewardship and RI and interpreting these within the context of the Fund's responsibilities and interests.

### **Pension Funds and Social Investment**

The Law Commission has published the outcome of its review of the law governing how far pension funds may or should consider issues of social impact when making investment decisions. The Commission was asked to consider whether there are legal or regulatory barriers to using pension funds for social impact (including investment in social enterprises) and to set out options for reform if appropriate.

<https://www.lawcom.gov.uk/project/pension-funds-and-social-investment/>

The report confirms that the barriers identified to social investment by pension funds are, in most cases, structural and behavioural rather than legal or regulatory. Where the possibility of a reform of the law has been identified as a way to address current barriers the changes suggested would align regulations for trust-based and contract-based pension funds with those already in place for the LGPS and reflected within guidance on Preparing and Maintaining Investment Strategy Statements from the Department for Communities and Local Government issued in September 2016.

### **Climate Change Reporting**

The Task Force on Climate related Financial Disclosures (TCFD) released its Final Recommendations report on 29 June 2017. The Taskforce's objective has been to develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders. The work and recommendations of the Task Force will help firms understand what financial markets want from disclosure in order to measure and respond to climate change risks, and encourage firms to align their disclosures with investors' needs. <https://www.fsb-tcfd.org/>

### **New Guidance on Responsible Investment**

The LGPS Scheme Advisory Board is due to make recommendations to DCLG on issuing new guidance on Responsible Investment to LGPS funds. The guidance will be in addition to the requirements already set out within the DCLG's guidance on investment strategy statements which was issued in September 2016 but amended in July 2017 to comply with a High court judgement on the part of regulation 7(2)(e) relating to policies to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries which was deemed unlawful.

When further details about the content of the new guidance become available these will be shared with the Committee.