

Pension Fund Committee

Meeting to be held on Friday, 1 December 2017

Electoral Division affected: None;

Update from the Responsible Investment Working Group

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Executive Summary

An update on activity at meetings of the Responsible Investment Working Group on the 20th September and 8th November 2017.

Recommendation

The Committee is asked to note the discussions to date at the Working Group, as set out in the report, which will inform a report with specific recommendations on responsible investment that will be presented to the Committee in March 2018 for consideration and approval.

Background and Advice

On the 30th June 2017 the Committee agreed to establish a Working Group of four members (County Councillor K Ellard, County Councillor S Clarke, County Councillor G Dowding and Councillor R Whittle) with Terms of Reference to be determined by the Chair to explore how to further support responsible investment.

Working Group – 20th September 2017

At the first meeting the Chair of the Working Group, County Councillor Ellard, reported that the Terms of Reference had been agreed as follows:

1. To review whether the current arrangements in relation to Responsible Investment reflect the duties of the Lancashire County Council as an administering authority (the function having been delegated to the Pension Fund Committee) under the LGPS regulations;
2. To identify any gaps in the Lancashire County Pension Fund Responsible Investment approach relative to the regulations or any permissible powers that the Pension Fund Committee may wish to explore;
3. To review current Responsible Investment Reporting to the Pension Fund Committee and make any required recommendations for amendments;

4. To evaluate the possibility of developing a 'dashboard' style report with possible targets/outcomes to summarise LPP's activity and performance in relation to Responsible Investment.

Abbi Leech, the Head of Fund, Mukhtar Master, Governance and Risk Officer and Frances Deakin, Responsible Investment Manager from LPP also attended the meeting to advise the Group.

It was reported that the current position on responsible investment had been developed by a similar Working Group which made recommendations to the Committee in November 2014 and which had subsequently informed the current Investment Strategy Statement (ISS). The Working Group agreed to review the existing ISS to ensure it was compliant with all relevant regulations/guidance and reflected the agreed approach of the Committee as a signatory to the principles of responsible investment.

When considering ways in which the LCPF could improve its position in relation to responsible investment the Group agreed that the current informal approach needed to be strengthened/clarified and agreed the following actions:

- a) To consider the approach of other Funds (such as the LPFA and the Environment Agency) in order to identify any examples of best practice which may be adopted in relation to the LCPF.
- b) To inform the Investment Panel of the Groups comments on responsible investment in order to inform the review of asset allocations within the LCPF portfolio.
- c) That arrangements be made for a meeting with representatives of the LPFA to discuss responsible investment and identify areas where the two authorities can align their policies to strengthen the Partnership and assist with pooling in the future.
- d) To consult the Lancashire Local Pension Board on any recommendations of the Working Group before they are presented to the Committee.

The Working Group also discussed in detail the current LCPF approach to responsible investment in a number of areas of activity and agreed:

- That a proposed policy on Voting Globally, which specified Climate Change, the Pay differential and Employee practices as priorities, be drafted for consideration.
- To note the engagement of the Chair, County Councillor Pope, and Mr Master, the Funds Governance and Risk Officer with the Local Authority Pension Fund Forum (LAPFF).
- That representatives from the Fund should seek to become involved with LAPFF sub groups on climate change and other organisations, such as the Institutional Investor Group on Climate Change and the CDP (formerly known as the Climate Disclosure Project).

- That the Risk Register for the LCPF be updated to include a statement identifying that measures are in place to ensure that advice/action can be taken regarding responsible investment in the event that the current Responsible Investment Manager was unavailable.
- That the current arrangements with LPP regarding shareholder litigation be reviewed in order to expand the opportunities for the Fund to encourage corporate management to behave responsibly/honestly.
- That the Working Group be provided with information regarding the Investment Panel review of asset allocations within the Fund's portfolio and consider identifying specific percentages within each allocation in connection with renewable energy and affordable social housing
- To review the Fund's position on divestment in consultation with the LPFA Board and consider whether the Fund should divest any existing investments in the future.

When considering how information on responsible investment should be reported to the Pension Fund Committee the Working Group acknowledged that the format of reports had not changed following the formation of LPP and agreed that more concise information should be presented in future. It was agreed that use of a 'Dashboard' style report, which would include the following, should be explored and a draft version presented to a future meeting of the Committee for consideration

- a) A breakdown on infrastructure.
- b) The split between local/global real estate
- c) Individual pie charts for each portfolio.

The Working Group also noted that the current Investment Strategy Statement would need to be reviewed before the end of June 2018 and agreed that any revised version should include a clear statement on responsible investment with specific impact sectors identified.

Working Group - 8th November 2017

At the second meeting the Working Group was joined by Sir Merrick Cockell, Chairman of the LPFA Board, Skip McMullen, Deputy Chairman of the LPFA Board, Mike Allen, Managing Director of LPFA and County Councillor E Pope, Chair of the Pension Fund Committee.

The Working Group and representatives from LPFA discussed the development of a collaborative approach to responsible investment which included the following points:

- Attention had primarily been focussed on the establishment of the Local Pensions Partnership (LPP) in order to secure savings in terms of administration and to satisfy the fiduciary duty of each Fund to secure a good return on investments. Now that LPP was operational it was acknowledged that there was an opportunity

to explore additional benefits which could be achieved by both Funds working closer together and establishing a single policy with regard to responsible investment.

- Having a single policy on responsible investment would also assist LPPI in making decisions about future investments and give a clear message to other Funds which may seek to join the Partnership in the future.
- It was recognised that both Funds already had low carbon investments and had adopted similar positions in that they were signatories to the principles of responsible investment and the UK Stewardship Code.
- As the Pension Board for each Fund represented both beneficiaries and employers it should be consulted on any recommendations regarding a shared policy on responsible investment.
- Members should be kept informed of any developments regarding responsible investment via the media and the Annual Report.
- The current publicity regarding offshore investments was also discussed and it was suggested that LPPI be requested to provide both Funds with information in order that a clear explanation can be given should questions arise about any such investments which the Partnership manage.

Following the discussion the Working Group agreed:

1. That the LCPF and LPFA should work towards adopting a single approach and policy for responsible investment.
2. That the Head of Fund and the Managing Director of LPFA have further discussions outside of the meeting to;
 - a) compare existing policies and identify areas of common ground in order to inform the draft policy specified at 1 above.
 - b) develop a more detailed Investment Strategy Statement which includes reference to specific priorities.
3. That the Pension Fund Committee and LPFA Board be kept informed of developments and presented with a draft responsible investment policy and revised Investment Strategy Statement in due course for consideration and approval.

During the discussions it was also suggested that arrangements be made for an event in 2018 where representatives from specific external organisations would be invited to discuss their long term plans and likely future trends with a view to challenging the agreed LPP approach to responsible investment and inform future policy decisions on sustainable investment. The Working Group agreed that such an event should be explored further and recommended to the Committee for consideration in due course.

Arrangements have also been made for the Working Group to meet again on the 12th December 2017 to agree final recommendations which will be presented to the Pension Fund Committee on 23rd March 2018.

Consultations

The Investment Panel/Pension Fund Committee in December 2017 and the Pension Board in January 2018 will receive updates on the activity of the Working Group and have an opportunity to comment.

Implications:

This item has the following implications, as indicated:

Risk management

It is good practice to review LCPFs stewardship and responsible investment approach based on current guidance and regulations.

Local Government (Access to Information) Act 1985 List of Background Papers

Paper	Dates	Contact/Tel
N/A		
Reason for inclusion in Part II, if appropriate		
N/A		