

Lancashire County Pension Fund (LCPF)

DRAFT Responsible Investment Policy

1. Introduction

This policy defines the commitment of Lancashire County Pension Fund (the Fund) to responsible investment (RI). Its purpose is to detail the approach that the Fund aims to follow in integrating environmental, social and governance (ESG) issues into its investments. This is consistent with the LGPS Management and Investment of Funds Regulations (2016) and the Fund's fiduciary duty to act in the best long-term interest of our members. The Policy reflects the Fund's Investment Strategy Statement and our approach to complying with the UK Stewardship Code.

2. Responsible Investment Values and Principles

The Funds' values and principles reflect the need to deliver sustainable investment returns in order to pay pension benefits. They recognise the importance of assessing sources of risk and opportunity over an extended time horizon and emphasise the importance of diligent stewardship as part of engaged asset ownership.

Responsible Investment Values:

| | |
|------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Consultative | The Funds' RI priorities are a reflection of the views of its members (through consultation with the Local Pension Board), and of evolving best practice within the pension arena. |
| Being Proactive | A proactive approach to evaluating ESG risks and opportunities is more likely to result in long term benefits for the Fund and is aligned with fulfilling our fiduciary duty. |
| Engagement | The Fund considers engagement to be a route for exerting a positive influence over investee companies and encouraging responsible corporate behaviour. We will be supportive of targeted dialogue in situations where positive changes can be brought about to align governance standards with our investment needs. |
| Collaborative | The Fund recognises that working collaboratively can achieve greater influence than acting unilaterally. The Fund seeks to align itself with likeminded investors through collective organisations such as the Local Authority Pension Fund Forum (LAPFF) of which the Fund is a member. |
| Flexible | The Fund considers that its RI policy and approach should be reviewed regularly in order to continue recognising and reflecting best practice and addressing emerging priorities. |

Responsible Investment Principles

The Funds' RI principles translate our values and commitments into responsible investment practices which can help to deliver a sustainable and sufficient return on all our investments. Our RI principles inform the stewardship arrangements we have agreed with the Local Pensions Partnership as our provider of pensions administration and investment management services.

A summary of the key Responsible Investment principles:

- Effective management of financially material ESG risks will support the Fund's requirement to protect returns over the long term;
- Apply a robust approach to effective stewardship;
- Seek sustainable returns from well governed and sustainable assets;
- Responsible investment is core in our skills, knowledge and advice;
- Seek to innovate, demonstrate and promote RI leadership and Environmental, Social and Governance (ESG) best practice;
- Achieve improvements in ESG through effective partnerships that have robust oversight;
- Share ideas and best practice to achieve wider and more valuable RI and ESG outcomes.

The implementation of LCPF's RI policy is through the activities of Local Pension Partnership Investments Ltd (LPPI) an FCA regulated Investment Manager responsible for 100% of the Fund's assets which are managed within pooled arrangements.

3. Priorities

Identifying core priorities for RI is an important part of focussing the attention of LPP I on the issues of greatest importance to us. It also helps us to monitor the stewardship activities they undertake on our behalf. The issues we have identified as being of primary concern to us as asset owners are:

- Climate change – engaging with pension funds and other stakeholders to develop and share best practice, recognising and managing the risks and opportunities investments face from climate change;
- Corporate Governance – promoting the case for well managed companies which implement fair and just **employment** practices and address excessive corporate pay differentials;

The above mentioned are our main priorities. However there are a number of other RI issues which are of interest to the Fund:

- **Ethical practices regarding off shore** investments and tax havens;
- Companies with a proven record of supporting the Living Wage;
- Encouraging investment in Lancashire based companies;
- **Reducing investments in products such as plastics, tobacco and alcohol.**

Climate change

LCPF recognise the imperative to address climate change as a systemic and long-term investment concern for the fund, as it poses material risks across all asset classes with the potential for loss of shareholder value. The Fund will endeavour to carry out the following:

- Where existing investments in fossil fuels, are in place and identified, those companies must be able to demonstrate planning for the global transition to a low-carbon economy and for the future emissions reduction targets under the Paris Agreement or other appropriate initiatives. Where opportunities for engagement and reform of the company or project are not possible or do not exist, the Fund will make all reasonable efforts to divest provided that this will result in no material financial detriment (either through increased costs or increased investment risk).
- Where our fiduciary duty allows, the Fund will not consider new investments in fossil fuels companies directly engaged in the extraction of coal, oil and natural gas as sources of energy which are ignoring the risks of climate change.

Corporate Governance

The Fund will, through our asset managers, promote high standards of employment practices and reasonable and equitable pay differentials for employees. This will be done through actively seeking companies who demonstrate such practices and engaging effectively to encourage these standards within existing investee companies.

LPP I is a named supporter of the Workforce Disclosure Initiative (WDI), a project which aims to "bring institutional investors together behind a call for comparable workforce reporting by publicly listed companies on their global operations and supply chains".

4. Responsible Investment Implementation

The implementation of Fund's approach to Responsible Investment divides into four areas of activity.

a) Voting Globally

The Fund recognises that effective stewardship arrangements protect the financial interest of scheme beneficiaries and contributes to enhancing the value of the Fund's investments. All aspects of shareholder voting is a fundamental part of the Fund's compliance with the UK Stewardship Code.

The Fund's stewardship actions are implemented as an integral part of the investment management services LCPF receives from Local Pensions Partnership (LPP). The Fund's entire investment portfolio is under management by Local Pensions Partnership Investments Ltd (LPP I), a subsidiary of LPP and an FCA authorised investment manager.

All aspects of shareholder voting are carried out in line with LPP 'Shareholder Voting Policy'.

<https://www.localpensionspartnership.org.uk/Admin/Public/DWSDownload.aspx?File=%2fFiles%2fFiles%2fLPP+Shareholder+Voting+Policy+July+2017.pdf>)

The policy covers areas including voting arrangements, 'reporting and disclosures' and voting philosophy.

The responsible investment priority areas identified by the fund for voting purposes are:

1. **Action on Climate Change**;
2. Corporate governance with particular emphasis on **reducing** pay differentials;
3. Improving **Employment** Practices.

b) Engagement through Partnerships

The Fund's second approach involves working in partnership with like-minded bodies. The Fund recognises that to gain the attention of companies in addressing governance concerns, it needs to join other investors with similar concerns. It does this through:

- Local Authority Pension Fund Forum (LAPFF);
- Voting on shareholder resolutions;
- Joining appropriate lobbying activities.

In terms of its engagement approach with other investors, it is most significant through LAPFF. This Forum exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance among the companies in which they invest. See the LAPFF website for further details:

www.lapfforum.org

LCPF are members of LAPFF and as such representatives of the fund attend and contribute to the quarterly business meetings.

c) Shareholder Litigation

The third approach, adopted by the Fund in order to encourage corporate management to behave responsibly and honestly, is through shareholder litigation. The Fund, in partnership with two US law firms and other shareholders, submits class actions globally where possible and where appropriate.

d) Active Investing

LCPF do not invest directly but, on behalf of the Fund, LPP I actively seeks sustainable investments which meet LCPF's requirements for strong returns combined with best practice in ESG and corporate governance. Such investments include **renewable and clean energy, and affordable housing.**

As part of its commitment to Active Ownership LPP I seeks to use the ownership rights conveyed by the assets under its management to exert a positive influence in favour of transparent and sustainable management behaviour which recognises and addresses the broader trends which bring both risks and opportunities to their business.

Finally, LCPF does not have any strategic asset allocations in specific areas in relation to RI and ESG. This is reviewed to ensure it is still appropriate by the investment panel on a 12 monthly basis.

e) Divestment

The Fund may at its discretion **prefer to divest from a particular company/sector** due to RI considerations, provided that this would not result in any material financial detriment (either through increased costs or increased investment risks).

5. Definitions

| | |
|-------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Responsible Investment | The integration of environmental, social and corporate governance (ESG) considerations into investment management processes and active ownership practices in the belief that these factors can have an impact on financial performance. |
| ESG | Environmental, social and governance factors which may impact on company performance and therefore investment returns. Examples include resource management and pollution prevention, climate change impacts, labour management, product integrity, executive compensation, board independence and audit function. |
| Governance | The process and principles by which a company or organisation undertakes its business. For LCPF, governance includes how it |

| | |
|-------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | undertakes both its operational and investment responsibilities on behalf of its members. |
| Active Ownership | Refers to the responsibility of LCPF to participate, where appropriate, in the governance decision-making of companies in which it invests by way of voting and by engagement with company management, either directly or via its fund managers. It also recognizes the relevance of engaging with regulatory bodies and other market players to support policies that promote long-term sustainable growth. |