

Pension Fund Committee

Meeting to be held on Friday, 23 March 2018

Electoral Division affected: None;

Report of the Responsible Investment Working Group

(Appendices 'A', 'B' and 'C' refer)

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Executive Summary

This report sets out the recommendations of the Responsible Investment Working Group, including draft Responsible Investment and Climate Change policies, for consideration and approval.

Recommendations

1. That the Responsible Investment Policy set out at Appendix 'A' to this report is approved.
2. That the draft Climate Change Policy set out at Appendix 'B' to this report is approved.
3. That, if approved, the Climate Change policy referred to at 2 above be reviewed after 12 months operation with a view to bringing a report to a future meeting regarding developing a more comprehensive policy.
4. That the response of the Working Group to the request from Councillor M Smith for a reduction in the investments in fossil fuels and tobacco/alcohol referred to it by the Committee on the 1st December 2017 is noted.
5. That future reporting by LPP should be in a 'Dashboard' style, as set out at Appendix 'C' to this report, and focus initially on Global Equities and Infrastructure to be followed by Social Housing and Property in the future.
6. That approval be given to the LCPF hosting a Conference where invited speakers from external organisations could discuss their long term plans and likely future trends in order to challenge the agreed LPP approach to responsible investment and help inform future policy decisions on sustainable investments.

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| 7 | That, if approved, members of the Committee, LPFA Board and the Lancashire Local Pension Board be invited to attend the Conference referred to at 6 above. |
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Background and Advice

The Committee agreed on the 30th June, 2017, to establish a Working Group, comprised of County Councillors S Clarke, G Dowding and K Ellard and Councillor R Whittle to explore how to further support responsible investment. The Terms of Reference for the Working Group, as agreed by the Chair of the Committee, were 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.

Between September 2017 and February 2018 the Working Group met four times to develop a draft Responsible Investment policy and a Climate Change policy for the LCPF, the latest iterations of which are set out respectively at **Appendices 'A' and 'B'** to this report .

The Working Group has also considered how information on responsible investment should be presented to the Committee and agreed that in future reports from the Local Pension Partnership (LPP) should have fewer Appendices and be presented in a 'Dashboard' style, focussed initially on Global Equities and Infrastructure to be followed by Social Housing and Property in the future. An initial draft version of the proposed Dashboard is attached at **Appendix 'C'** for consideration. If the Committee approve the general style and content further work will be undertaken to develop the Dashboard in order to accommodate future reporting on policy priorities.

At the meeting on the 1st December 2017 the Committee was informed of comments received from Councillor M Smith suggesting a reduction in the level of investment by the Fund in fossil fuels, tobacco and alcohol and referred the matter to the Working Group. When considering the suggestion on the 1st February 2018 the Working Group was aware of information provided to Councillor Smith after the Committee regarding the LCPF holdings as at October 2017 and noted that investments in tobacco and alcohol (0.77% and 1.28% respectively) were close to

the 1% requested and the draft RI policy referred to the reduction of investments in fossil fuel companies and in plastics, tobacco and alcohol.

Having considered the request from Councillor Smith for a reduction of investments in fossil fuels and tobacco/alcohol the Working Group agreed to note that

- i) the current level of investment in tobacco and alcohol is already in the region of the requested 1% and
- ii) that the draft Responsible Investment policy elsewhere on the agenda includes reference to reducing investments in fossil fuel companies, tobacco and alcohol.

Consultations

The Working Group recognise that cooperation would be necessary between LCPF and LPFA to ensure that any RI priority areas are effectively implemented by LPP and have therefore consulted with representatives from the LPFA Board and have crafted an RI policy that is aligned with that of the LPFA's policy. Copies of the Responsible Investment and Climate Change policies set out at Appendices 'A' and 'B' respectively have been sent to the LPFA for information.

LPP's Responsible Investment Manager has also attended all meetings of the Working Group and has taken part in discussions regarding the drafting of the policies.

The Working Group have also consulted the Investment Panel and the Lancashire Local Pension Board.

Implications:

This item has the following implications, as indicated:

Risk management

The Lancashire County Pension Fund's (LCPF) current approach to Responsible Investment was agreed in 2014 and is set out in 'Corporate Governance and Socially Responsible Investments'. It is good practice to review LCPF's stewardship and responsible investment approach based on the current guidance and regulations and the delegation of investment functions to LPPI.

Financial implications

The LGPS Management and Investment of Funds Regulations 2016 (as interpreted by DCLG Guidance on Preparing and Maintaining an Investment Strategy Statement) has confirmed that schemes should make the pursuit of financial return their predominant concern and must not involve significant risk of financial detriment to the scheme from taking non-financial factors into account within investment decision-making.

An evaluation of the financial return likely to be foregone in connection with any divestment required under the Policy on Climate Change or to achieve priorities identified by the RI Policy will precede and inform ongoing decision-making on stock selection and retention.

Financial data included in the proposed LPP dashboard will be reviewed against custodian records on a quarterly basis. The practicalities of what the dashboard should or shouldn't have within it to be part 1 and what divestment monitoring is practical/achievable await the committee's consideration of the policy – as logical next steps.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate
NA