

Pension Fund Committee

Meeting to be held on Friday, 8 June 2018

Electoral Division affected: (All Divisions);
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Responsible Investment

(Appendix 'A' refers)

Contact for further information:

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Executive Summary

Responsible Investment (RI) encompasses a range of stewardship activities associated with Lancashire County Pension Fund (LCPF) fulfilling its fiduciary duty to act in the best long-term interests of fund beneficiaries.

Both LCPF and LPFA are currently asset owner signatories to the Principles of Responsible Investment (PRI) which is recognised as a standard of good practice. For practical reasons it is recommended that LPP should become an asset owner signatory to the PRI in place of LCPF and LPFA; the context which recommends this as an appropriate course of action for the partnership to take are explained in this report. The report at Appendix 'A' also provides the Pension Fund Committee with an update from LPP Investments Ltd (LPP I) on RI matters during the first quarter of 2018.

Recommendation

The Committee is asked to

1. approve the proposal that LPP should become a signatory to the PRI, replacing LCPF;
2. approve a review of the Fund's current stewardship statement after the new UK Stewardship Code has been issued in Spring 2019;
3. note the report on RI activity at Appendix 'A'.

Background and Advice

The report at Appendix 'A' has been prepared by the Responsible Investment Manager at LPP Investments Ltd and provides information on how the Fund is being supported to fulfil its commitment to long term responsible asset ownership in line with the approach set out within its Investment Strategy Statement and the Responsible Investment Policy approved by the Committee at its last meeting in March 2018.

For the purposes of reporting on voting, engagement and litigation monitoring activities, the information provided relates to the first quarter of 2018/19 and focusses on the period from 1st January to 31 March 2018. For the purposes of reporting on wider matters, more recent developments are also reflected as part of bringing current and emerging issues to the Committee's attention.

Principles of Responsible Investment (PRI)

The PRI reflects the role and RI potential of LGPS Pools as active stewards of the assets brought together to create increased investment scale and enable RI resources and expertise to be shared by partnering funds. The positive benefits of encouraging the participation of Pools as signatories to the PRI have been under consideration, prompted by applications received from Brunel, Central and the London CIV to become asset owner signatories to the PRI on the collective behalf of the funds they represent.

Pools are recognised by the PRI to have significant potential for materially increasing the value of assets being managed in accordance with RI principles. Enabling Pools to be PRI signatories is consequently seen as something to be strongly encouraged by the PRI. A practical challenge has been identified however, which needs to be overcome to achieve this end. This is the duplication within reporting which will occur if underlying LGPS funds and the Pools which manage their assets are signatories of the PRI simultaneously. There are only three pools with underlying LGPS funds who are already signatories to the PRI. LPP is one of these, with both LCPF and LPFA currently being signatories. On reflection, the PRI has concluded that the best solution to this issue is to encourage Pools to become PRI signatories, and, where they do so, require underlying funds to delist in order to avoid duplicated costs and reporting. LPP have been contacted and have responded positively to initial dialogue and encouragement. The committee is asked to support the approach outlined by the PRI.

Membership invoices have been received for the year ahead by all PRI signatories and payment is now due. It is timely for the partnership to take a decision on membership at the beginning of the reporting year - before payment is made – to avoid abortive costs and to allow LPP to apply to be a PRI signatory as soon as practicable.

To provide a balanced view, the positives and negatives of this course of action have briefly been identified below.

Positives	Negatives
Up to 50% cost saving for the partnership. £8.5k max fee per asset owner (£17k) annually v a max cost to LPP of £8.5k annually	LCPF and LPFA could no longer state they are PRI signatories (as evidence of their commitment to RI). Mitigation – LCPF / LPFA can publicise that they require LPP (their asset manager) to be a PRI signatory, to deliver against the principles and to report annually on their RI activities.

Positives	Negatives
<p>Wider Benefit. Signatory status would apply to all assets under management by LPP I which would extend benefits/assurance to other clients as and when the partnership grows.</p> <p>Partnership membership of the PRI is a positive message/symbol of joint working and also removes the attendant cost/bureaucracy of annual reporting for LCPF and LPFA separately (which takes upwards of a week per fund).</p> <p>The PRI reporting process is primarily focussed on practical activity which now sits with LPP rather than with LCPF and LPFA (who set strategy). The PRI reporting process is becoming more onerous each year and it will become ever harder for LCPF/LPFA to score well against the framework measures given the delegated stewardship model now in place to accommodate asset pooling.</p>	<p>LCPF would cease to have direct access to PRI services and signatory-only resources.</p> <p>Mitigation – signposting to useful resources and events can be provided by LPP (as now). LCPF has not historically made direct use of PRI resources and interactions have universally been via LPP/the RI Manager to date rather than by the Fund direct.</p>
<p>Time/Resource Saving</p> <p>LPP I is currently reporting at arms-length for two separate clients both with different local RI policies. This would be replaced by one set of reporting annually by LPP.</p> <p>The annual PRI reporting process would focus specifically on LPP and would capture the policies, procedures, priorities, activities, and collaborations via which RI is being delivered in practice.</p>	
<p>Performance Transparency</p> <p>Annual reporting would relate directly to how LPP is performing. PRI Transparency Reports and Assessment Reports would offer an independent basis for LCPF to hold</p>	

LPP to account (with the benefit of comparison against an objective external measure of best practice which is evolving over time).	
<p>Collaboration</p> <p>LPP would be able to join collaborations and initiatives organised by PRI in its own right. Only signatories are allowed to do this which is currently a barrier to LPP building networks with PRI signatories for collaborative purposes.</p>	

In addition to reflecting the route that is being recommended by the PRI, the practical benefits of LPP becoming a PRI signatory on behalf of the partnership appear compelling. The committee are therefore asked to support LPP becoming an asset owner signatory to the PRI, which will require LCPF to delist as a signatory. Following this course will commit LPP to reporting publicly (via the annual PRI reporting process) on how the 6 principles are being implemented within their stewardship activities as part of the practical fulfilment of LCPF's fiduciary and ownership responsibilities.

UK Stewardship Code

It is good practice for the Committee to review the Fund's statement of compliance with the Stewardship Code to ensure that it remains up to date as an account of how the requirements of the code are being fulfilled. The regularity and timing of the review is not prescribed however. A decision is needed on when the Committee should next review the Fund's statement of compliance, but this could potentially be influenced by the announcement by the FRC (which publishes and oversees the code) of an indicative timetable for a consultation on updating code.

The FRC has indicated that it plans to issue a consultation on a revised Stewardship Code in October 2018 with a final version of the Stewardship Code planned for Spring 2019. The Committee are asked to consider whether, in light of this, a review of the current statement should be postponed until the new code has been issued, reflecting that stewardship arrangements have not materially changed since the statement was refreshed in May 2017 and a delay will avoid abortive work.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

It is an important component of good governance that the Fund is an engaged and responsible investor committed to actions which are in the best long term interests of fund members and beneficiaries.

As an LGPS Fund, LCPF is required to be a signatory to the UK Stewardship Code and to uphold the principles espoused by the code.

The monitoring of investee companies and the promotion of good corporate governance practices can help to reduce the risk of unexpected losses arising as a result of poor over-sight and lack of independence.

Responsible investment practices underpin the fulfilment of LCPF's fiduciary responsibilities to Fund beneficiaries and are implemented in practice through the advisory and investment management services provided by LPP I.

Quarterly RI Reports provide information to the Pension Fund Committee on the stewardship of the Fund's assets by LPP I and enable the committee to monitor the activities undertaken.

Involvement in a non-US type of “class action” may result in the recovery of losses incurred by the Fund but, should the claim be lost, the Fund may incur related costs which may not be known with certainty at the time of filing.

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
N/A