

LOCAL PENSIONS PARTNERSHIP INVESTMENTS LIMITED



Lancashire County Pension Fund

Pension Fund Committee Responsible Investment Report

14 September 2018
Appendix A

Title of Paper	Quarterly Report on Responsible Investment (2018 Q2)
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Appendices	None

1. Executive Summary

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

2. Introduction

The Fund's approach to RI is articulated within an Investment Strategy Statement (ISS) 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. LCPF's ISS is supplemented by a Responsible Investment Policy adopted in June 2018 which explains that the Fund's preferred approach to RI encompasses four main areas of activity:

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

Responsibility for the 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 1st April to 30th June 2018 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. This reflects that clients owning units

in the GEF are beneficial owners in common but do not directly own shares in underlying companies.

LPP I exercise shareholder voting rights for the GEF centrally rather than delegating voting to individual asset managers and take account of voting recommendations received from an external provider of proxy voting and governance research (ISS) in accordance a Sustainability Voting Policy designed to ensure the consideration of ESG factors within analysis. LPP I review voting recommendations and take the final decision on all voting.

In the second quarter of 2018 (the height of "voting season") shareholder voting headlines for the GEF were as follows:

LPP Global Equities Fund (GEF)

Total company meetings taking place	297
Total resolutions (management and shareholder proposals)	4252
Total company proposals in the period	4102
Total shareholder proposals in the period	150

Company Proposals

Voting was in line with Management recommendations	3631	89%
Voting was against Management recommendations	471	11%

Shareholder Proposals

Shareholder proposals supported by LPP I	102	68%
Votes against shareholder proposals	48	32%

The table below summarises resolutions by type and indicates

- where opposition voting was concentrated in Q2
- the broad subject matter of shareholder resolutions

Summary of Q2 Voting

	Meetings	Proposals	Votes For	Votes Against	Votes Abstain	Votes Withhold	"Say on Pay" frequency			Do Not Vote
							One Year	Two Years	Three Years	
Antitakeover Related	28	32	27	3	0	0	0	0	0	2
Capitalization	99	284	215	62	0	0	0	0	0	7
Director Related	279	2581	2340	135	6	30	0	0	0	70
Non-Salary Compensation	202	371	292	65	2	0	1	0	0	11
Reorg. and Mergers	20	32	25	7	0	0	0	0	0	0
Routine/Business	287	789	726	20	0	0	0	0	0	43
SH-Compensation	10	13	9	4	0	0	0	0	0	0
SH-Corp Governance	2	4	3	1	0	0	0	0	0	0
SH-Director Related	45	69	46	18	1	0	0	0	0	4
SH-Health/Environment	15	17	12	3	0	0	0	0	0	2
SH-Other/Miscellaneous	20	25	19	6	0	0	0	0	0	0
SH-Routine/Business	18	28	12	14	0	0	0	0	0	2
SH-Soc./Human Rights	3	3	3	0	0	0	0	0	0	0
Social Proposal	3	4	3	1	0	0	0	0	0	0
Totals for the report :	297	4252	3732	339	9	30	1	0	0	141

LPP voted against management resolutions in 471 instances. This figure includes 133 resolutions from 5 meetings where LPP I did not vote (in accordance with the LPP I Shareholder Voting Policy) due to the presence of share blocking arrangements which limit flexibility to buy and sell shares in the lead-up to company meetings.

LPP opposed management nominations in the election / re-election of 135 directors. Voting reflected individual Board members (and their degree of personal independence) as well as the composition and independence of company boards considered as a whole.

Management proposals on compensation arrangements prompted 65 opposition votes. 35 of these were advisory votes seeking shareholder ratification for the compensation of named Executive Officers but 11 were on Remuneration Policies presented for Shareholder agreement. Examples include:

Moët Hennessy Louis Vuitton (French multinational luxury goods conglomerate)

LPP voted against the Remuneration Policy for Executive Corporate Officers because;

- The cap on Long Term Incentive Plans (LTIP) was significantly increased, without any rationale being disclosed;
- The remuneration policy did not specify a cap on exceptional remuneration;
- There was insufficient information on long-term compensation arrangements in the event of an executive's departure.

15.8% of shareholders opposed the resolution which passed at the meeting.

Unilever (British-Dutch consumer goods company)

LPP voted against a policy proposing to move to a consolidated "fixed pay" structure which would bring increases to both fixed pay and annual bonus calculations.

26.9% of shareholders voted against the updated policy.

Vinci (French construction and engineering firm)

LPP opposed a Remuneration Policy for the Chairman and CEO which would allow the company to apply a 20 percent salary increase and expand the LTIP cap by 100% without having disclosed a compelling rationale for doing so. 45.8% of shareholders voted against the proposed policy.

Capitalisation (share issuance) proposals attracted 62 opposition votes in Q2. 17 were at the AGM of a single company - Haitong Securities Co - and related to planning for the non-public issuance of A class shares without pre-emptive rights. Pre-emptive rights allow existing shareholders the right to purchase additional shares in a company prior to shares being made available for purchase by the general public.

In this case, LPP voting reflected that, at 20%, the proposal would allow management to issue twice the aggregate share issuance limit recommended by our governance advisor for ensuring an appropriate balance between allowing a company flexibility and maintaining reasonable protection for existing shareholder interests. All 17 resolutions passed at the meeting after receiving 93% support.

LPP supported 102 shareholder proposals across 60 company meetings in Q2.

Familiar themes from prior proxy seasons arose again in 2018 through resolutions which called for:

- improved shareholder rights (one share one vote, reduced thresholds for calling meetings and submitting shareholder resolutions, proxy access /the right to nominate candidates);
- greater transparency (reporting on political lobbying, pay differentials, human rights within supply chains, climate change management); 2018 additionally saw resolutions on gender pay gap reporting at Facebook and Alphabet (Google).
- corporate governance best practice (Separation of Chair and CEO roles, independent chairman, performance-linked remuneration, nomination practices to address board diversity and sustainability).

In addition to these established themes, there were shareholder resolutions on more individual issues at some company meetings. Examples of those likely to be of greatest interest to the Committee are shown below (with the results). All were supported by LPP.

Company	Sector	Detail of Shareholder Requirement
The Middleby Corp	Industrial Machinery	Issue a report describing the company's environmental, social, and governance (ESG) policies, quantitative performance metrics, and improvement targets, including a discussion of greenhouse gas (GHG) emissions management strategies and metrics. (57% support)
Kraft Heinz	Packaged Foods & Meats	Assess environmental impact of non-recyclable packaging, reputational, operational and financial risks of continuing to use non-recyclable packaging and evidence of substantive actions taken to make materials recyclable (13.5% support)
Old Republic International Corp	Property and Casualty Insurance	Report on Steps Taken to Improve Board Oversight of Climate Change Risk (49% support)
McDonalds	Restaurants	Report on the business risks associated with the continued use of plastic straws, and the company's efforts to develop and implement substitutes for plastic straws in its restaurants. (10% support)
Imperial Oil	Integrated Oil & Gas	Respond to the CDP Water questionnaire in 2018 or issue a standalone report to shareholders detailing the company's assessment of its water related-risks and its mitigation plan related to those risks
Illinois Tool Works	Industrial Machinery	Adopt quantitative science-based GHG reduction goals and report to shareholders on plan for achieving these goals (25% support)

Flowserve Corp	Industrial Machinery	Establish quantitative science-based greenhouse gas (GHG) reduction goals, and publish a report outlining its plan for achieving such goals and progress to-date. (25% support)
Entergy Corp	Electric Utilities	Report on how the Company could adapt its enterprise-wide business model to significantly increase deployment of distributed-scale noncarbon-emitting electricity resources as a means of reducing greenhouse gas emissions consistent with limiting global warming to no more than 2 degrees Celsius over pre-industrial levels. (38% support)
C.H Robinson Worldwide Inc	Air Freight & Logistics	Adopt quantitative GHG reduction goals and report to shareholders on its plan for achieving these goals. (38% support)
Ameren Corp	Multi-Utilities	Prepare a report on the company s efforts, above and beyond current compliance, to identify and reduce environmental and health hazards associated with past, present and future handling of coal combustion residuals, and how those efforts may reduce legal, reputational and financial risks to the company (54% support)
Berkshire Hathaway Inc	Multi-Sector Holdings	Report on the management of methane emissions, including reduction targets (10% support) Encourage more Berkshire subsidiary companies to issue annual sustainability reports (13% support)

Members can view details of voting for all meetings via the LPP website where quarterly reports for the GEF are made publicly available.

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

4. Engagement through Partnerships

LPP I regularly participates in collaborations which aim to make progress on commonly held issues by co-ordinating the efforts of multiple investors. Key partners include the Local Authority Pension Fund Forum (LAPFF) the Pensions and Lifetime Savings Association (PLSA) the Principles of Responsible Investment (PRI) the Institutional Investor Group on Climate Change (IIGCC) the LGPS Cross Pool RI Group, and the UK Pension Fund RI Roundtable.

LAPFF

LAPFF has long been LCPF's preferred engagement partner.

The Forum's AGM and most recent quarterly Business Meeting took place on 19 July 2018.

The AGM confirmed the outcome of the LAPFF Executive nominations process which saw both the Head of the Lancashire Fund and the Chair of the Lancashire Pension Fund Committee elected to seats on the Forum's Executive.

The Business Meeting received a range of papers including:

- a report on research into Asset Managers and ESG which reflected outcomes and observations from a survey of member fund experiences of current asset management practices;
- a scoping paper for future work on the risks posed by plastics which will inform the forum's future engagement plans

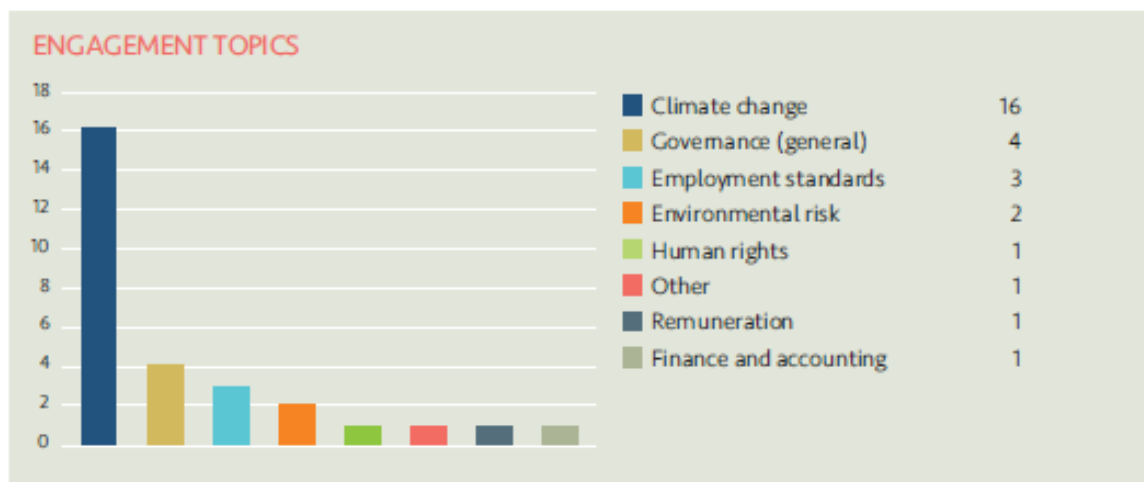
LAPFF Q2 Engagement Report

The LAPFF engagement programme reflects the Forum's assessment of key priorities from across the collective equity holdings of LAPFF members. LPP has recently responded to the Forum's annual request for up to date data on LCPF's listed equity holdings. The data submitted reflected the companies currently held within the Global Equities Fund.

On a quarterly basis LAPFF provides Forum members with a summary of the engagement activities undertaken on their behalf which is available from the LAPFF website.

<http://www.lapfforum.org/publications/qtrly-engagement-reports/>

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



The companies engaged with and the topics raised by LAPFF in Q2 were as follows:

Q1 2018 ENGAGEMENT DATA

Company	Activity	Topic	Outcome
Anadarko Petroleum Corporation	Alert Issued	Climate Change	Substantial Improvement
Anglo American plc	AGM	Climate Change	Moderate Improvement
Banco Santander SA	Meeting	Employment Standards	Dialogue
Bayerische Motoren Werke AG	Meeting	Environmental Risk	Change in Process
Centrica plc	Meeting	Governance	Dialogue
Chevron Corporation	Alert Issued	Climate Change	Dialogue
Exxon Mobil Corporation	Letter	Climate Change	Dialogue
Ford Motor Company	Letter/Meeting	Climate Change	Dialogue
G4S plc	Meeting	Human Rights	Moderate Improvement
General Motors Company	Letter/Meeting/Alert Issued	Climate Change	Dialogue
Lloyds Banking Group plc	Meeting	Finance and Accounting	Moderate Improvement
National Grid plc	Meeting	Climate Change	Moderate Improvement
Rio Tinto Group (AUS)	Alert Issued	Climate Change	Dialogue
Rolls-Royce Holdings plc	Meeting	Climate Change	Satisfactory Response
Royal Dutch Shell plc	Alert Issued	Climate Change	Dialogue
Southern Company	Letter	Climate Change	Substantial Improvement
Tesla Inc.	Alert Issued/Meeting	Governance/ Employment Standards	Dialogue
Unilever plc	AGM	Environmental Risk	Satisfactory Response
WPP plc	Alert Issued	Remuneration	Dialogue

Quarterly statistics show that Climate Change continues to be the issue attracting greatest attention from LAPFF on behalf of member funds.

Principles of Responsible Investment

At its meeting on 8th June the committee approved a proposal that LPP should become a signatory to the PRI, replacing LCPF and LPFA. An application for membership was submitted and has been successful. LPP is now listed as a signatory on the PRI website and LCPF and LPFA have been delisted. The PRI Annual Report 2018 will contain details of this change and record that delisting was due to a transfer of signatory status. LPP will report publicly against the Principles for the first time in Feb/March 2019.

Since it became a PRI signatory in June, LPP has become member of the PRI Climate Action 100+ Global Working Group which is newly formed and will be one of the network level initiatives through which investors can engage with CA100+ companies. A first call has taken place explaining how the working group will operate and how it will link with the other investor networks around the world which are co-ordinating to deliver the initiative's goal of securing commitments from company management to the following:

1. Governance: Implement a strong governance framework which clearly articulates the board's accountability and oversight of climate change risk.
2. Disclosure: Provide enhanced corporate disclosure in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and sector-specific Global Investor Coalition Investor Expectations on Climate Change guidance.
3. Action: Take action to reduce greenhouse gas emissions across their value chain, consistent with the Paris Agreement's goal of limiting global average temperature increase to well below 2 degrees above pre-industrial levels.

Transition Pathway Initiative (TPI)

LPP has been a supporter of the TPI since its inception, recognising that the initiative is working in an important space focussed on providing investors with reliable information from which they can assess the relative position of investee companies based on how they are planning for and managing the risks faced from the transition to a lower carbon economy.

As a supporter and user of the TPI toolkit, LPP was invited to attend a TPI investor summit at the London Stock Exchange in July where the CEO and RI Manager shared experience on the usefulness of the toolkit and insights on the ways in which it is being used.

LPP I is currently reflecting on appropriate measures for use as part of ongoing monitoring and evaluation of climate change risk management by individual companies and is considering setting soft targets for the Global Equities Fund based on TPI scores. The TPI toolkit rates companies on a scale from 0 (Unaware) to 4 (Integrating into strategic planning) based on the information they are releasing publicly on the management of climate change and transition risk. Targets would communicate minimum expectations for fossil fuel companies and provide a basis for dialogue with external managers on their assessment of how individual fossil fuel companies are planning for transition where this differs from the TPI assessment.

Shareholder Litigation

LPP I employ 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 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 shares 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 for Q2 2018 confirms that of 13 potential cases identified where the Fund might have an entitlement to join a class action, further analysis had discounted 10. There is 1 case where eligibility is still being assessed and 2 where eligibility has been identified and a claim will be filed.

5. Active Investing

The LCPF Responsible Investment Policy (approved by the Committee in March 2018) describes active investing as the search for sustainable investments which meet LCPF's requirements for strong returns combined with best practice in ESG and corporate governance. The Fund has not set allocations for investments within specific sectors but favours investments with positive social characteristics and expects LPP to use the ownership rights attached to assets in ownership to influence in favour of sustainable business practices which reflect the needs of shareholders, customers, employees, and wider stakeholders.

Going forward, this section of the report will offer insights into active investing which will incorporate quantitative and qualitative information on assets owned by the Fund.

This is dependent on assembling new types of information and represents a significant task for the portfolio as a whole. During Q2, first steps have been taken with the commencement of work to identify companies within the Global Equity Fund (Listed Equities) which are contributing positive social outcomes through the products and services they provide. The outcomes of ongoing analysis will be presented to the committee in forthcoming reports and as part of the development of a dashboard style of presentation which is currently under development.

Analysis is at an early stage, but initial insights include that the fund has interests in global infrastructure assets which include renewable electricity (£3.4m) and water utilities (£9.1m) through the shares LPP holds in listed companies via the GEF.