

Reviewed Responsible Investment Policy presented to the Committee in November 2021.

Key:	
	New wording/content is indicated in yellow Deleted wording/content is indicated as strike through in yellow
	Existing wording/content relocated within the policy is indicated in green The original location of Existing wording/content is indicated as strike through in green

**Lancashire County Pension Fund (LCPF)
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 Local Government Pension Scheme Management and Investment of Funds Regulations (2016), Ministry of Housing Communities & Local Government (MHCLG)¹ – Local Government Pension Scheme: Guidance on Preparing and Maintaining an Investment Strategy Statement (2017) 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. 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. (Based on UN Principles on Responsible Investment)
Fiduciary Duty	A core responsibility, of such as trustees or equivalent persons, to act in the best interests of the pension scheme beneficiaries in order to assure that such scheme / fund members in retirement, or dependants in the case of member death, can enjoy the expected income benefits. It includes the requirement that all participants should act in good faith, in the best long-term interests of the client and their beneficiaries, with loyalty and prudence, and in line with generally prevailing standards of decent behaviour. The term “fiduciary duty” is used in different ways by different people. The above definition is intended to reflect the ethos of the Fund and is based on a definitions in the UKSIF's trustee best

¹ From September 2021 renamed Department for Levelling Up, Housing & Communities (DLUHC)

	practice guide 2017 (UK Sustainable Investment and Finance Association www.uksif.org) and a Law Commission Report 2014.
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. Specific examples of each are in section 5.
Governance	<p>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.</p> <p>Corporate Governance is the authoritative rules and controls in place within an organisation required to promote openness, inclusivity, integrity and accountability.</p>
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 representatives, 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.
Stewardship	The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. (UK Stewardship Code 2020 of the Financial Reporting Council)

3. Responsible Investment Context

LCPF is a Local Government Pension Scheme (LGPS). It is a defined benefit (DB) pension scheme. To remain affordable, sustainable levels of investment income, and growth in asset values, are essential to sufficiently supplement contributions to the pension fund from employers and active members (contributing employees). Thus, the primary focus of investment is achieving strong risk-adjusted returns.

There is an underlying fiduciary duty to protect the financial interests of scheme beneficiaries which is exercised through the approach to investment and the evaluation of risks and opportunities as part of investment stewardship. (per Glossary item for Responsible Investment in LCPF Annual Report)

Where possible and compatible with this, the Fund also wishes to support positive social outcomes both locally and globally. For example, LCPF has non-pooled investment allocation in property/real estate focused on Lancashire. Through owning

real estate (in the capacity of landlord) the Fund's investments are helping to provide employment, premises and wider accommodation which directly supports the people and the economy of Lancashire.

The implementation of LCPF's RI policy is through the activities of Local Pensions Partnership Investments (LPPI), a Financial Conduct Authority (FCA) regulated Investment Manager responsible for 100% of the Fund's assets, comprising mostly pooled investment vehicles, with a smaller non-pooled allocation.

All investment asset allocations, pooled or non-pooled, are subject to Investment Panel advice, with regard to the LCPF Investment Strategy Statement approved by the Pension Fund Committee, and to operational investment selection and management by LPPI as part of agreements of the Local Pensions Partnership joint venture (LPP).

4. 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 Lancashire 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 are supportive of targeted dialogue with appropriate representatives of investee companies in which the Fund invests, 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.

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Responsible Investment Principles

The Funds' RI principles translate our values and commitments into RI practices which can help to deliver a sustainable and sufficient return on all LCPF investments. LCPF's RI principles inform the stewardship arrangements we have agreed with LPPI, as our provider of pension administration and investment management services. LPPI is wholly owned by Local Pensions Partnership Limited (LPPL), a joint venture between LCPF, Lancashire County Council (LCC) and London Pensions Fund Authority (LPFA).

A summary of the key RI 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.
- RI is core in our skills, knowledge and advice.
- Seek to innovate, demonstrate and promote RI leadership and 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.

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5. Environmental, Social and Governance (ESG) Factors

ESG issues are important to LCPF for a number of reasons. ESG factors can be financially material and, as such, should be part of the assessment and monitoring of investments in all asset classes, with an overarching goal of achieving resilience to ESG risks at the Portfolio level. Achieving sustainable, long-term financial returns underpins the ability to pay pensions. A focus on ESG issues helps reduce risks to LCPF and its beneficiaries.

Examples of ESG factors:

Environmental	Social	Governance
Animal Welfare	Affordable Housing	Board diversity/structure
Climate Change	Alcohol	Bribery and corruption
Deforestation	Betting/gaming	Executive pay
Plastics	Child Labour	Lobbying and donations
Pollution	Controversial Weapons	Tax strategy
Resource Depletion	Employee Relations	Treatment of employees

Waste	Human Rights	
	Modern Slavery	
	Tobacco	
	Working Conditions	

6. Priorities

Identifying core priorities for RI is an important part of focussing the attention of LPPI 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 listed below.:

- ~~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 and will be subject to review, including:~~

- ~~Companies with appropriate tax practices which incorporate transparent disclosure.~~
- ~~Companies with a proven record of supporting the Living Wage.~~
- ~~Encouraging investment in property/real estate in Lancashire where suitable, according to the investment criteria, and including the dedicated sleeve of Real Estate investment that is invested in the Lancashire and surrounding local area.~~
- ~~Reducing investments in products such as single use plastics, tobacco and alcohol.~~

ENVIRONMENT

a) Climate change

LCPF recognises the imperative to address and manage 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, including via stranded assets), as well as opportunities.

The Fund will endeavour to carry out the following:

- ~~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~~
- Where existing investments in fossil fuel companies are in place and identified, we expect those companies to be able to demonstrate planning for the global

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transition to a low-carbon economy and for the future emissions reduction targets under the **Paris Agreement 2015** or other appropriate initiatives. Where they are not, and 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 **to the Fund** (either through increased costs or increased investment risk).

- Where our fiduciary duty allows, the Fund will not consider new investments in fossil fuel companies directly engaged in the extraction of coal, oil and natural gas as sources of energy which are ignoring the risks of climate change.
- The Fund is committed to seeking sustainable investments which include projects that support the global transition to lower carbon products, services and infrastructure including renewable energy generation.

LCPF expects LPPI to take steps to ensure that the level of exposure to climate change investment risks are evaluated and monitored, **and also to remain current with the revised reporting standards and targets such as those set out in the Paris Agreement 2015 as may be amended from time to time by subsequent international agreements.** This will involve the use of appropriate investigative and analytical tools such as the Transition Pathway Initiative to increase information and provide appropriate input around investment decision making and will be reflected in regular reporting and assurance provided to LCPF. **LCPF also expects LPPI to research suitable investment opportunities products being developed to address these standards and assess their suitability for the Fund.**

b) Depletion of Natural Resources

The depletion and degradation of natural resources, such as plants, water, air and soil, poses risk to businesses, economies and society. As part of supporting good environmental stewardship by investee companies the Fund places an emphasis on engaging to encourage sustainable business practices which support biodiversity and avoid the over-exploitation of natural resources and contribute to a more circular economy (through efforts to reduce waste creation and keep materials capable of re-use within economic circulation through recycling).

SOCIAL

a) Human Rights

Societal expectations of companies increasingly include a positive record of recognising and protecting human rights in line with international, legal and regulatory obligations across all territories. As investors we recognise a responsibility to support this principle and to urge improvement in company practices through voting and engagement where this is warranted. We recognise an obligation as an investor to encourage practices which recognise human rights and protect against exploitation. This extends to expecting compliance with normative standards and relevant legislation.

b) Modern Slavery

Modern slavery is the severe exploitation of people for personal or commercial gain, including forced labour and child labour, and is a grave violation of human rights. Modern Slavery breaches fundamental international law, as well as in most national jurisdictions and poses a material business risk to companies and ultimately investors. As investors it is our responsibility to consider that we have an obligation to contribute to improving company practices. LCPF should seek to investigate the practice of the companies it invests in, or is looking to invest in, and hold these to appropriate standards, including (in the UK) the Modern Slavery Act 2015 (which introduces a number of measures to combat slavery and human trafficking and requires certain commercial organisations to publish an annual statement setting out the steps they take to prevent modern slavery in their supply chain).

c) Local Investment

The Fund already encourages investment in property/real estate in Lancashire where suitable, according to suitable projects meet the Fund's investment criteria. Through owning real estate (in the capacity of landlord) the Fund's investments will help to provide employment, premises and wider accommodation (including affordable housing) which directly supports the people and the economy of Lancashire.

GOVERNANCE

a) Corporate Governance

The Fund, through its asset managers, promotes high standards of employment practice supports the case for well managed companies which promote fair and just employment practices, the importance of a diverse and inclusive workforce and reasonable and equitable pay differentials for employees (including appropriate Living Wage). This is done through actively seeking to invest in companies who demonstrate such practices and engaging effectively to encourage these standards within existing investee companies.

LPPI 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".

LCPF supports the signing by LPPI of the Asset Owner Diversity Charter in August 2021, which aims to improve diversity across the fund management industry.

Our expectations of good corporate governance include transparency on lobbying activities undertaken by investee companies as assurance of consistency between publicly-stated positions (communicated through announcements and corporate

documents) and influence employed via other routes including trade bodies, and lobbying.

b) Tax Strategy

Fair tax treatment is important to us as a responsible investor. Tax provides a direct source of government funding for programmes of social benefit and is a democratic function. Tax evasion is an illegal activity where an entity deliberately avoids paying a true tax liability. Aggressive tax avoidance presents reputational and regulatory risks for companies and is misaligned with responsible corporate behaviour.

As an institutional investor we seek to:

- invest in organisations that to pay the right amount of corporation tax at the right time and in the right place, according to the local jurisdiction;
- invest in organisations that provide the degree of transparency in tax reporting that investors need to make sound judgements on the tax position of investee companies; and
- identify and engage on aggressive tax practices which prioritise the minimisation of tax liabilities without due regard for reputational risk and responsible conduct.

7. Responsible Investment Implementation and Monitoring

The Pension Fund Committee monitors the stewardship of the Fund's assets and RI activities undertaken by LPPI via quarterly reporting including an RI Dashboard, which provides key data on the portfolio's RI attributes and stewardship activities.

The implementation of Fund's approach to RI priorities divides into five four areas of activity.

a) Voting Globally.

~~The Fund recognise 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 compliance with the UK Stewardship Code.~~

The Fund's stewardship actions are implemented by LPPI which also manages the Fund's entire investment portfolio. 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 the LPPI 'Shareholder Voting Policy' which can be viewed at [LPPI Shareholder Voting Policy 2.0 Dec19](#)

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[FINAL_LPPI.pdf \(localpensionspartnership.org.uk\)](#). 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. Strong Corporate Governance, with particular emphasis on reducing pay differentials.
3. Progressive 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 ESG priorities, it needs to join other investors with similar concerns, and it does this through the LAPFF and 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 ESG best practice 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 has agreed arrangements with LPPI which ensure emerging legal cases are monitored and the Funds rights and interests are represented via class actions and other shareholder actions globally where possible and where appropriate.

d) Active Investing.

LCPF do not invest directly but, on behalf of the Fund, LPPI actively seek sustainable investments which meet LCPF's requirements for strong returns combined with best practice in ESG and including corporate governance. Such investments include renewable and clean energy, and real estate/property including affordable housing.

As part of its commitment to Active Ownership LPPI 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.

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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 sector due to RI considerations, provided that this would not result in any material financial detriment to the Fund (either through increased costs or increased investment risks).

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