

Pension Fund Committee

Meeting to be held on Friday, 12 March 2021

Electoral Division affected: (All Divisions);
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Responsible Investment Report

(Appendices 'A' and 'B' refer)

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Executive Summary

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

Set out at Appendix 'A' is a report from the Local Pensions Partnership which provides the Committee with an update on responsible investment matters during the fourth quarter of 2020 (October to December).

Recommendation

The Committee is asked to note the report.

Background

The report at Appendix 'A' has been prepared by the Head of Responsible Investment at Local Pensions Partnership Investments Ltd (LPPI) 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 meeting in March 2018.

Attached as Appendix 'B' is the dashboard style report together with the qualitative overview of LPPI stewardship activities for the fourth quarter of 2020.

Other matters of note for the Pension Fund Committee:

Robeco Engagement Themes for 2021

The Robeco engagement themes for 2021 have now been determined. These were selected after consultation with clients, a process for which LPPI actively participated with. The themes for the year include:

- Climate Transition of Financials;
- Labor Rights in a post-Covid World;
- Acceleration to Paris Agreement;
- Enhanced Human Rights Due Diligence;
- Social Impact of Gaming.

LGPS Scheme Advisory Board – Responsible Investment Advisory Group

The LGPS Scheme Advisory Board have established an advisory group in relation to responsible investment. Subject to a nomination process two Pool representatives were appointed as members of the group. LPPI's Head of RI is one of these appointed members.

Task Force on Climate-related Financial Disclosure

The Pensions Scheme Bill 2021 received royal ascent on 11th February 2021 and became the Pensions Scheme Act 2021. The Act does not directly apply to LGPS schemes but is an indication that it may do in due course. There is a consultation on new proposed regulations which runs to the 10th March 2021. These regulations do not extend to the LGPS however a consultation on regulations for the LGPS is set to substantially mirror the requirements set out in this document are expected from MHCLG in 2021.

Local Authority Pension Fund Forum (LAPFF)

LAPFF business meetings continue online. The last meeting covered topics such as:

- Covid-19 and the S in ESG;
- Pay Gaps and diversity;
- Mining and Human Rights;
- Batteries for Energy Storage and Units of Energy.

Papers from the meeting can be made available on request.

PRI's Inevitable Policy Response

Appendix A references LPPI's participation in an investor initiative co-ordinated by the PRI which sent letters to the Prime Minister and the Secretary of State for Transport calling for strong policy ambition on climate change in the lead up to the UK's Presidency of COP 26 coupled with planning for a just transition for impacted workers and sectors.

The letters are an example of LPPI's advocacy for clear government policy on climate change which will deliver on the UK Government's commitments under the Paris Agreement and provide investors with the information required to make informed decisions on the sustainable deployment of capital. The wider context is a mounting expectation of policy intervention on climate change (anticipated by the Taskforce on Climate-related Financial Disclosure and the PRI's Inevitable Policy

Response) without clarity or predictability around how, when, and what measures will be introduced.

Action from last Pension Fund Committee: 7 principles of sustainable development

In follow-up to the Divestment/Investment workshop for Pension Fund Committee members held on 19th November 2020, the Acting Head of Fund reached out to Cary Krosinsky (one of the participants) and asked to be connected with officers at New York State Common Retirement Fund in order to arrange a follow-on call around their thinking (and work underway) on what Cary had described as 7 principles of sustainable investment.

The Fund's Independent Adviser and invited officers from LPPI were put in touch with Eri Yamaguchi (ESG Officer from NYSCRF) who offered a call on the Fund's work on developing a minimum standards approach. A call took place on 3rd December 2020 during which Eri provided a brief introduction to work underway, which is against a roadmap set out in the Fund's [Climate Action Plan 2019 \(state.ny.us\)](https://www.state.ny.us/records/record.cfm?id=142444)

The Action Plan was described as a strategy for understanding the current position and transitioning the Fund to a lower carbon and more sustainable position over time. Observations from the interaction are that NYSCRF have identified logical actions to deliver what they are aiming for, but the approach is to frame an evaluation process rather than to create an absolute set of minimum standards NYSCRF will hold the portfolio (or their managers) up to.

A key point to emerge from the conversation is that NYSCRF invests solely in Public Equities and Corporate Fixed Income (public market assets) and within listed equities they are passive investors (their Global Listed Equities investments moved to track a low carbon index 3 years ago). NYSCRF are not a natural comparator for LCPF, which has a diversified investment portfolio principally based on active management. This said, the prioritisation of ways to objectively determine which companies pose risk (by virtue of their main activities – so based on sector) and to review whether companies in identified sectors are planning for and well placed to meet the needs of the future with a viable strategy for value creation and risk mitigation is certainly common ground.

On the subject of divestment, Eri clarified that their process will identify sectors and companies at risk, and may ultimately lead to divestment, but this is not the goal of their minimum standards approach, which is best understood as a monitoring framework the Fund is resourcing and developing itself to assess what is brought into ownership as a result of the mandates they have specified and awarded and the implementation of these by managers. The framework is at an early stage of evaluating sectors (has begun with thermal coal) and is intended to provoke questions, produce insights and may result in strategy change and adjustments to the Fund's investment requirements (actioned through targeting, tilting, and exclusions) over time.

Consultations

Frances Deakin the Head of Responsible Investment at the Local Pensions Partnership was consulted regarding this report, together with Aoifinn Devitt, the Fund's Investment Advisor.

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.

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 the Funds fiduciary responsibilities to Fund beneficiaries and are implemented in practice through the advisory and investment management services provided by Local Pensions Partnership Investments.

Quarterly Reports provide information to the Pension Fund Committee on the stewardship of the Fund's assets by Local Pensions Partnership Investments 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
Robeco Active Ownership Report Q4-2020	1/10/20 to 31/12/20	Mukhtar Master (01772) 532018

Reason for inclusion in Part II, if appropriate
N/A