

## **Pension Fund Committee**

Meeting to be held on Friday, 18 June 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 first quarter of 2021 (January to March).

### **Recommendation**

The Committee is asked to agree the process by which the LCPF responsible Investment Policy will be refreshed this year and to note the subsequent 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 first quarter of 2021 (January - March).

Other matters of note for the Committee:

### **Review of the LCPF Responsible Investment Policy**

The current Responsible Investment Policy for the Fund was developed and published in 2018. At that time the Committee set up a task and finish working group

to develop the policy which was subsequently presented to the Committee for consideration and was approved in March 2018.

The policy is due to be reviewed and updated this year, with a view to a revised policy being presented to the November 2021 Committee for approval.

The Pension Fund Committee needs to agree the process they wish to adopt for reviewing and revising policy this year.

### **Query from the last Pension Fund Committee Meeting**

At the Committee's last meeting a request was made for a simple synopsis setting out the Fund's position and longer-term ambition in relation to portfolio decarbonisation. The request was for text which can be used in response to queries from residents on the subject.

Following discussion with LPPI, the following text has been produced which reflects that LCPF's ambition on climate change is set out within the Fund's RI Policy, with LPPI responsible for implementing this as the Fund's asset manager.

*LCPF recognises climate change as a systemic risk and a long-term investment concern for the Fund, as it poses material risks across all asset classes with the potential for loss of value including via stranded assets.*

*Understanding and managing the risks faced from climate change is a core priority in our Responsible Investment Policy.*

*We are working with our asset manager Local Pensions Partnership Investments (LPPI) to gain a better understanding of the risks our portfolio faces and to ensure climate change considerations feature within investment decision-making through ESG integration (the evaluation of material Environmental, Social and Governance factors).*

*Our goal is to secure sustainable investment returns in order to pay pension benefits and the consideration of sustainability includes whether current and prospective investments face value risk from climate change and the stages of a shift towards more environmentally sustainable economic activity.*

*The long-term trend we are seeking is a reduction in exposure to brown (fossil fuel related) and an increased investment in green (renewable energy and carbon reducing activities) over time. This reflects that we need investment returns to pay pensions now and into the future through a portfolio resilient to the phases and challenges of the global energy transition underway.*

*We receive reporting from LPPI on how our portfolio is positioned, including information on the share of brown and green investments we hold. Our infrastructure portfolio includes direct investments in renewable energy generation both in the UK and abroad via solar, wind, hydro and waste, but we are also investing in companies and projects which are contributing to decarbonisation through the substitution of more modern and efficient materials and technology.*

*Meanwhile, we have a low exposure to conventional energy (fossil fuel companies) in our listed equities portfolio (0.6%), and the carbon footprint of that portfolio (which is measured annually) is decreasing steadily over time.*

*An external benchmark (the Transition Pathway Initiative) is being used to track the value of our exposure to globally high-emitting listed companies from sectors including not just conventional energy but airlines, auto, cement, steel, shipping, and chemicals.*

*Global high emitters are a relatively low proportion of our listed equities portfolio (<15%) and all these companies are being objectively assessed by TPI on the quality of their transition planning and disclosure, which is helping LPPI to identify the companies which need close monitoring, and engagement to encourage improved performance.*

### **Local Authority Pension Fund Forum (LAPFF)**

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

- Material implications of socio-economic diversity;
- Mining and Human Rights;
- Say on Climate – voting and engagement – fossil fuel extracting companies;
- Climate Change and nature-based solutions;
- Draft LAPFF Workplan 2021/2022.

Papers from the meeting can be made available on request.

### **Lancashire County Pension Fund (“The Fund”) Response to Palestine Solidarity Campaign**

A member of the Committee received an on-line letter campaign arranged by the Palestine Solidarity Campaign (PSC) which is calling on LGPS pension funds to place an embargo on all investments in companies active in occupied Palestine.

As stated above the Fund has a Responsible Investment Policy, the purpose of which is to detail the approach that the Fund aims to follow in integrating environmental, social and governance (ESG) issues into its investments.

A key principle is to effectively financially manage material ESG risks to support the Fund’s requirement to protect returns over the longer term, ensuring that the Fund has sufficient assets to meet its pension liabilities. Another key principle is that a robust approach to effective stewardship is applied. This is important as the Fund considers engagement to be a route for exerting a positive influence over investee companies and encouraging responsible corporate behaviour

The Fund is responsible for setting an overall investment strategy including responsible investment. Local Pensions Partnership Investment Limited (LPPI) as

the provider of pension investment management services has discretion to manage the Fund's assets within the scope of the overall investment strategy. In turn, the Fund oversees investment activity and performance of LPPI via regular performance and RI monitoring.

The Fund currently has a low exposure to companies on the United Nations list of businesses active in Palestine. Investment is limited to two companies from a total of 112 companies on the list which in value equate to less than 0.7% of the Global Equities Fund and these investments are at the global parent company level rather than in specific business segments identified as active in the occupied territories.

LPPI does take account of material investment risks for the companies invested in, which includes the type and extent of their activities in conflict areas.

### **Other relevant areas**

The government is considering new legislation to stop public bodies from imposing their own approach or views about international relations, and preventing boycott, divestment, or sanctions campaigns against foreign countries. Also, the government is consulting on the robustness of occupational pension scheme trustees' policies and practices on social factors. Any sector wide developments in this area will be considered in the development of the Fund's responsible investment policy.

The Fund is a member of Local Authority Pension Fund Forum (LAPFF), a voluntary association of local authority pension funds focusing on corporate governance to protect the long term value of local authority pension funds. LAPFF has engaged with companies operating in the Israeli settlements/occupied Palestinian Territory and intends to continue to engage with companies to promote acceptable human rights conduct and impact, not only in this region but globally. To date, LAPFF's engagement with several companies whereby they are operating in the Israeli settlements/occupied Palestinian Territory has focused on requests for these companies to produce robust, independent, and credible human rights impact assessments (HRIAs) in line with the UN Guiding Principles on Business and Human Rights. The Fund will continue to actively engage with LAPFF.

### **Consultations**

Frances Deakin, the Head of Responsible Investment at the Local Pensions Partnership, was consulted regarding this report.

### **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 oversight and lack of independence.

Responsible investment practices underpin the fulfilment of the Fund's 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.

### **Local Government (Access to Information) Act 1985**

#### **List of Background Papers**

Paper	Date	Contact/Tel
Robeco Active Ownership Report Q1-2021	01/01/21 to 31/03/21	Mukhtar Master (01772) 532018
Reason for inclusion in Part II, if appropriate		
N/A		