

## **Pension Fund Committee**

Meeting to be held on Friday, 26 November 2021

Electoral Division affected: (All Divisions);
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### **Responsible Investment Policy**

(Appendices 'A' and 'B' refer)

Contact for further information:

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#### **Executive Summary**

Within its terms of reference, the Committee is required to consider and (if appropriate) approve key policy documents, including the Responsible Investment Policy. On the 18<sup>th</sup> June 2021 the Committee established a Task & Finish Group to review and produce a revised Responsible Investment Policy, a copy of which is attached at Appendix 'A'.

#### **Recommendation**

The Committee is asked to approve the revised Responsible Investment Policy as set out at Appendix 'A'.

#### **Background**

It is a requirement under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 that an administering authority demonstrates that it considers any factors that are financially material to the performance of the Fund's investments, including social, environmental, and corporate governance (ESG) factors, depending on the time horizon over which their liabilities arise. This can be done as part of the Investment Strategy Statement or as a separate, supplementary document.

Responsible Investment is an approach to investment which recognises that the consideration of ESG factors forms an important part of the evaluation of the future risks and opportunities facing investee companies. Responsible investors seek to understand the influences that are likely to impact the performance of investments during their period of ownership in order to assess the balance of risks relative to returns (this definition is included in the LCPF Annual Report Glossary).

The current Responsible Investment Policy<sup>1</sup> ('RI Policy') was updated and approved by the Committee in November 2018. A copy is enclosed for ease of reference at Appendix 'B'. In line with the requirement to review the Investment Strategy Statement at least every three years, the RI Policy has been reviewed by the Responsible Investment Task and Finish Group ('the Group').

### **Task and Finish Group**

At the Pension Fund Committee on the 18th June 2021, it was resolved to establish the Group, comprising four members of the Committee (as determined by the Chair of the Committee), to review the existing RI policy and ensure it best reflects the values and beliefs of the Fund. The following four members of the Committee were selected to serve on the Group:

- County Councillor - A Schofield (Chair)
- County Councillor - M Brown
- County Councillor - G Dowding
- Co-opted member - Ms J Eastham

The aims of the Group were as follows.

1. To review the current LCPF RI Policy (approved by Pension Fund Committee on 30th November 2018) and ensure it best reflects the values and beliefs of the Fund, whilst being mindful of the County Council's duties as an administering authority under the LGPS regulations.
2. To identify any gaps in the current LCPF approach to responsible investment relative to the current regulations, prospective developments, and best practice.
3. To review the current reporting on responsible investment to the Pension Fund Committee via reports/Dashboard provided and make any recommendations for amendments or enhancements.

The Group have met on four occasions, supported by officers and Aoifinn Devitt, Independent Investment Adviser and Francis Deakin, Head of Responsible Investment at LPPI.

At the point of finalising the revised RI Policy, the 2021 UN Climate Change Conference of the Parties (COP26), was taking place in Glasgow between 1<sup>st</sup> and 12<sup>th</sup> November 2021. The COP brings together, once a year, governments who have signed the UN Framework Convention of Climate Change (UNFCCC) to discuss how to jointly address climate change. At the point of drafting this report, a draft COP26 text has been released, which it's hoped will form the basis of an agreement at the end of the conference. Future consideration will be given by the pensions team and LPPI to any implications for local government pensions, including the Lancashire County Pension Fund, arising from COP26.

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<sup>1</sup> The RI Policy is supplementary to the Fund's Investment Strategy Statement and they are necessarily and demonstrably linked.

## ESG Priorities

The Group has reviewed the priorities within the current RI Policy and recommends that the RI Policy be updated to reference the broad range of ESG factors as detailed in the table in section 4 of the revised RI Policy at Appendix 'A'.

Furthermore, key priorities were reidentified within section 5 of the RI Policy. These priorities ensure coverage of all three components of ESG with refreshed or additional text relating to the priorities:

- **Climate Change** – the Fund continues to recognise that climate change is to be managed as a systemic and long-term investment concern.
- **Depletion of Natural resources** – encouragement of sustainable business practices which avoid the reduction of over-exploitation of natural resources.
- **Human Rights** – it is important to recognise and protect human rights in line with international, legal and regulatory obligations.
- **Modern Slavery** – which involves the severe exploitation of people for personal or commercial gain, including forced labour and child labour.
- **Local Investment and Affordable Housing** - projects which meet our investment requirements whilst also delivering a positive impact are favourable.
- **Corporate Governance** – the Fund supports the case for well managed companies which promote fair and just employment practices.
- **Tax strategy** - Fair tax treatment is important to the Fund as a responsible investor.

The revised RI Policy goes on to outline how the priorities are implemented in practice and any priorities under ESG would be subject to the Fund's preferred method of engagement, litigation and active investment before any consideration was given to divestment.

## Other considerations

During its meetings, the Group considered several other matters which are referenced below.

It was noted that the overall investment objective of the Fund was to ensure that over the long term there would be sufficient assets to meet all pension liabilities as they fall due and in order to do this the Pension Fund Committee maintained an investment policy to (i) maximise the returns from investments whilst keeping risk within acceptable levels and ensuring liquidity requirements are at all times met and (ii) contribute towards achieving and maintaining a future funding level of 100%.

Importantly, fiduciary responsibility suggests that financial return needs to have primacy to ensure the payment of pensions as they fall due and to enable ongoing affordability of contributions to the scheme. Whilst the funding level is currently above 100% this does not mean that more risk can be taken and other objectives inserted into the mandate (e.g. allowing other non-financial outcomes to have primacy in the investment process). To support this understanding, an additional definition is included in the revised RI Policy covering fiduciary duty. A definition of 'stewardship' is also included.

The Group discussed the issue of including explicit mention of occupied territories within the Human Rights priority and confirmed it should be in line with UK foreign policy.

The Group considered the issue of the Living Wage (as referred to in the revised RI Policy in section 6 Priorities / Governance / (a) corporate governance) and noted that there were currently two definitions used in the UK. Several options were discussed, and it was agreed that the term "appropriate" would be added before "Living Wage".

Whilst the Group has been in operation, Local Pensions Partnership Limited (LPPI) has made its net zero greenhouse gas emissions by 2050 commitment in September 2021. This commits LPPI to:

- Set net zero targets and measures and reporting on progress towards portfolio decarbonisation;
- Set an interim target for 2030 for the decarbonisation of the initial assets in scope;
- Seek to progressively increase the share of assets in scope, with a view to reaching 100% by 2050;
- A stewardship and engagement programme, which encourages investee companies to set and disclose robust net zero targets; and
- Advocacy for public policy supportive of net zero as a global outcome.

This commitment by LPPI will ensure that the investment within the Fund can transition to a low-carbon economy and a sustainable climate for the future.

### **Local Pensions Partnership Investments Limited**

The role of LPPI has been noted within the RI Policy (including in section 3) and involvement of the Head of Responsible Investment within the Group was important and ensured that there are no unintended consequences of the revised RI Policy and it is coherent with LPPI's approach to pooling and managing the joint portfolio for the common good of all clients

### **Lancashire Local Pension Board**

A draft of the RI policy was shared with the Lancashire Local Pension Board, and the Chair of the Group attended their meeting on 19<sup>th</sup> October 2021. Feedback was provided by Board members and this was in line with the Board's role of reviewing the key policy documents for the Fund to ensure they are fit for purpose. The Group considered this feedback at its meeting on 9<sup>th</sup> November 2021 and, where appropriate, amendments were included within the final draft of the RI policy.

### **Dashboard**

The Group noted that the Pension Fund Committee receive from LPPI quarterly reports on responsible investment which includes a dashboard and were asked to provide feedback on the Dashboard.

Feedback was classified as follows:

### **a) Substantive items**

These items will require further analysis by LPPI to determine how the amendment could be implemented within the Dashboard. An example of such an amendment is ensuring that data within the Dashboard clearly reflects the identified priorities within the revised RI Policy. A further meeting of the Group will take place to agree these changes once the analysis has been undertaken by LPPI and the Officers and any relevant changes will be recommended to the Committee.

### **b) Annex to Dashboard**

Several items have been identified that can be dealt with by additional content being added to the Dashboard in the form of an annex. For example, a brief explanatory note on the Transition Pathway Initiative.

### **Potential Future Amendments**

The Group acknowledged that, given the pace of change within the Responsible Investment space, more frequent refreshes of the RI policy may be required in future. The Group agreed to raise the following specific points with the Pension Fund Committee as these may need to be considered as part of future refresh work:

- Taskforce on Climate related Financial Disclosure (TCFD) - mandatory reporting for LGPS Funds under this disclosure framework will be required from 2023. A consultation on this is due to be published by the Department for Levelling Up, Housing & Communities (DLUHC) imminently.
- Re-entry into DLUHC Guidance of a restriction on LGPS Funds setting policy or strategy stances (boycotts) not aligned with UK government policy is expected.
- Expectation (though perhaps not an actual requirement) for disclosure which exemplifies the revised (much tougher standards) of the UK Stewardship Code (2020).
- Dashboard, as detailed above, further analysis is required before development of substantive changes to the Dashboard.

The officers will monitor and review these matters and report back to the Pension Fund Committee as appropriate.

### **Consultations**

Local Pensions Partnership Investments Limited, Local Pension Board, Independent Investment Adviser

**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 from 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 Limited.

**Local Government (Access to Information) Act 1985  
List of Background Papers**

Paper	Date	Contact/Tel
N/A	N/A	N/A

Reason for inclusion in Part II, if appropriate

N/A