

Pension Fund Committee

Meeting to be held on Friday, 10 March 2023

Electoral Division affected: N/A;

Responsible Investment Report

Appendices 'A' and 'B' refer

Contact for further information:

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Brief 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 Investments Limited which provides the Committee with an update on responsible investment matters during the fourth quarter of 2022 (October to December).

Recommendation

The Committee is asked to note the report.

Detail

The report at Appendix 'A' has been prepared by the Head of Responsible Investment at Local Pensions Partnership Investments Limited (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 November 2021.

Attached at Appendix 'B' is the dashboard style report together with the qualitative overview of LPPI stewardship activities for the fourth quarter of 2022 (October-December).

Other matters of note for the Committee:

Key Points from LPPI Responsible Investment Report Q4 2022

Compared with Q3 2022, the following Climate Change metrics are as follows:



- Brown exposure has increased from 2.52% to 2.72% of the portfolio. The biggest contributor to the increased exposure is mostly from the Global Equities Fund (GEF) and the strong performance of brown positions held in the GEF due to elevated oil and gas prices.
- There has been an increase in green activities from 4.21% to 4.60%. Contributors to the increase in green activities are the private equity asset class which includes some further companies within the existing funds that have not previously been identified as green. Also, infrastructure has seen a positive mark-to-market increase, demonstrating the strong performance of green positions in this portfolio.
- LPPI has applied to join a new engagement programme from the Institutional Investor Group on Climate Change (IIGCC) which supports collaborative engagement with carbon intensive companies that sit outside the top 166 largest emitters in the Climate Action 100+ universe.
- PRI results for the 2020/21 reporting cycle were recently reported in which LPPI achieved over 70% in each module and scored significantly higher than the peer group average.
- Following formal submission to the IIGCC's Net Zero Asset Manager's Initiative in October, LPPI have now released its Net Zero Roadmap.
- Robeco Active Ownership has consulted with clients and have agreed three new engagement themes for 2023. The themes are:
 - Forced Labour and Modern Slavery;
 - Just Transition;
 - Tackling Tax Transparency.
- Robeco also plan to expand coverage of the climate change and biodiversity themes given the long-term, systemic nature of these topics.

After receiving the Responsible Investment report, LPPI have confirmed that they have successfully maintained their status as a signatory to the UK Stewardship Code.

Local Authority Pension Fund Forum (LAPFF)

At the Local Authority Pension Fund Forum (LAPFF) business meeting held on 25 January 2023, the anniversary of the Brumadinho Tailings Dam collapse in 2019 which killed 272 people, the hybrid meeting commenced with a minute's silence in memory of the victims. This tragedy followed a dam collapse in November 2015 which killed 19 people and created the largest environmental disaster in Brazil's history.

In 2022, LAPFF visited Brazil to investigate tailings dam safety, and a report regarding the findings has now been produced. It was agreed that the report will be published pending any company feedback that needs to be included.



LAPFF confirmed their continuing engagement with electric vehicle manufacturers to gain more understanding of how they are addressing the risks associated with sourcing the minerals they need to produce batteries for their vehicles. They met with Renault, General Motors, and Mercedes to look at the work they're doing regarding risk management and impressing upon them the benefits of transparent reporting and enhanced due diligence.

LAPFF are taking part in a government taskforce on social factors which is running for a year to consider social risks and opportunities by occupational pension schemes. It is expected to culminate in a report with recommendations around the importance of social factors in responsible investment.

Dates of future LAPF meetings and papers from the last meeting can be made available on request.

In addition, the LAPFF conference took place in December 2022 with representation from the Fund. There was a heavy focus on human rights and climate, including discussion on the following areas:

- the dam disasters referred to above;
- asset managers experiences of working to implement sustainability in their operations;
- the growing importance of the 'S' in ESG;
- An LGPS panel on 'levelling up';
- government and societal responses to the pandemic; and
- a synopsis of the state of affairs globally.

Taskforce on Climate-related Financial Disclosures (TCFD) Consultation

In November 2022, LPPI responded to a consultation on governance and reporting of climate change risks for LGPS funds. LPPI has been reporting voluntarily under TCFD and already made a net zero commitment which reflects the integration of climate change considerations into their business model. Although, LPPI is supportive of the direction of travel with regards mandating an approach for LGPS funds to report against climate metrics, there will be some practical challenges to overcome which were shared as part of their consultation response. LPPI have commenced their own internal project to implement the FCAs TCFD reporting requirements, including any requirements arising from the consultation. Also, an initiative within the strategic plan is due to be undertaken by the Fund in the future.

LAPFF also responded to the consultation welcoming the move for TCFD reporting. They stressed the importance of a just transition and called for further consultation on any guidance that might be issued to funds.

It is anticipated that DLUHC will issue the guidance which implements applicable requirements by April 2023.



Responsible Investment Policy

As this report was prepared, discussions have taken place with LPPI regarding investment in the controversial weapons industry. LPPI have a commitment to avoid funding these activities by not investing in companies which are known producers of controversial weapons. This is also a social consideration for the fund as outlined in the Responsible Investment policy. The Fund will consider whether this policy needs to be expanded further on this point.

Public Campaign Queries

The Fund have not received any queries in the last quarter.

Consultations

Local Pensions Partnership Investments Limited.

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 resulting 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.

Quarterly Reports provide information to the Pension Fund Committee on the stewardship of the Fund's assets by Local Pensions Partnership Investments Limited and enable the Committee to monitor the activities undertaken.

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

Paper	Date	Contact/Tel
Robecco Active Ownership Report Q4- 2022	01/10/2022 to 31/12/2022	Catherine Hunt 01772 533757

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

