

Pension Fund Committee

Meeting to be held on Friday, 15 September 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 long-term interests of Fund beneficiaries. Set out at Appendix 'A' is a report from Local Pensions Partnership Investments Limited (LPPI) which provides the Committee with an update on responsible investment matters during the second quarter of 2023/24 (April to June).

Recommendation

The Committee is asked to consider and comment on this report.

Detail

The report at Appendix 'A' has been prepared by the Head of Responsible Investment at 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.

Attached as Appendix 'B' is the dashboard style report together with the qualitative overview of LPPI stewardship activities for the second quarter of 2023/24 (April to June).

Other matters of note for the Committee:

Key Points from LPPI Responsible Investment Report

- Compared with Q1 2023, the following Climate Change metrics are:



- Brown exposure has decreased from 2.52% to 2.38% of the portfolio. The biggest contribution to the reduced exposure comes from the Infrastructure asset class. The figures reflect a mark-to-market decrease in the value of Brown positions held in the portfolio. This has reduced Infrastructure's Brown exposure from 2.00% in Q1 to 1.90% of the portfolio in Q2 2023. Other contributions were from the GEF asset class, where there has also been a small mark-to-market decrease in the value of Brown positions held in portfolio.
- There has been an increase in green activities from 5.23% to 5.34%. The biggest contributor to the increased exposure is from the Infrastructure asset class. The figures reflect new companies identified as Green being added to existing funds. Infrastructure's contribution also reflects a positive mark-to-market increase, demonstrating a net increase in the value of Green positions held in the portfolio. This has increased infrastructure's share of Green exposure from 5.06% in Q1 to 5.14% of the portfolio in Q2.

Investments in renewable energy generation from wind, solar, hydro, and waste make up 85% of total Green exposure, and 96% of Green exposure is via Infrastructure assets.

- As part of the investor-led engagement phase of the IIGCC Net Zero Engagement Initiative, LPPI has been selected as part of the engagement group for three companies. Further information is outlined in section 5 of Appendix A.
- LPPI has made a response to the Financial Conduct Authority's consultation on proposals to make changes to UK Listing Rules. Further details regarding LPPI's submission is outlined in section 5 of Appendix A.

Taskforce on Climate-related Financial Disclosures (TCFD)

LPPI is participating in a 'climate risk reporting' working group convened by the Scheme Advisory Board's Responsible Investment Advisory Group to review the proposals set out in the Department for Levelling Up, Housing and Communities (DLUHC's) November 2022 consultation. The group is working to develop shared interpretations which support clear and consistent guidance for LGPS pension schemes, supporting their production of annual Climate Risk Reports.

Arrangements have been made for a pensions workshop on Responsible Investment and TCFD reporting to be held on 3rd October 2023, between 1.00pm to 2.30pm in Exchange Room 7, The Exchange, County Hall, Preston.

Local Authority Pension Fund Forum (LAPFF)

The Local Authority Pension Fund Forum (LAPFF) business meeting and mid-year conference was held at Church House, Westminster on 12th July 2023.

LAPFF have had a busy AGM season and advised that they've drafted a record number of voting alerts including over 50 climate-related shareholder resolutions and



an additional 55 voting recommendations in respect of mining and technology companies.

Due to concerns about the quality of the UK Listing regime, it was recommended that LAPFF respond to the FCA's consultation regarding 'Primary Markets Effectiveness' and continue to monitor this area as well as engage with the London Stock Exchange, the CEO of the FCA and set up a working group from the LAPFF Executive in respect of capital markets. LPPI have also made a response to the Financial Conduct Authority's consultation regarding the proposals as referenced above. Further detail is on page 12 of Appendix A.

Other key points to note are:

- Engagement during April-June 2023 included Shell, BP, Barclays, HSBC, Addidas, Next, Rio Tinto, Kingfisher, to name but a few, with the majority of engagements focusing on climate change, human rights, and environmental risk. For example, the engagement with HSBC focused on ensuring that the company shows leadership in respect of climate and addresses human rights concerns arising from the increasing integration of Hong Kong into mainland China. Fewer engagements have related to governance, supply chain management and more detail is available in LAPFF's Quarterly Engagement Report (QER02) which is available on their website.
- LAPFF will be formally seeking nominations for the LAPFF Executive with elections taking place ahead of the October Business Meeting and AGM. If you would like to know more about the role of being on the LAPFF Executive, there is a [short note](#) on the member's section of their website.
- ACCESS pool has joined LAPFF so membership now comprises 87 LGPS funds and seven pooled companies.
- LAPFF were intending to engage with investment pools regarding the recently launched consultation into the future of pooling arrangements.

The conference covered a wide-range of topics including: -

- A look back at the 2023 AGM season, analysing the results and LAPFFs voting alerts.
- Linking climate metrics with executive pay and incentives for environmental action.
- The role of investors in ending modern slavery
- Investor litigation, and
- ESG backlash in the US

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

Boycotts, Divestment and Sanctions

DLUHC has introduced primary legislation prohibiting Boycotts Divestments and Sanctions ("BDS") by public bodies.



The Economic Activity of Public Bodies (Overseas Matters) Bill will prevent public bodies when making decisions about procurement and investment from considering a country or territory of origin or other territorial considerations in a way that indicates political or moral disapproval of a foreign state. The legislation will not prevent public bodies from complying with formal UK Government legal sanctions, embargoes and restrictions.

The Bill is proceeding through parliamentary process so is not yet actual legislation and is therefore subject to change as it progresses through the House of Commons and House of Lords.

LPPI is continuing to monitor the situation and is liaising with LGPS peers and industry groups to share insights and record concerns, aiming for these to be addressed as part of reshaping and refinement of the Bill as it progresses.

Appendices

Appendices 'A' and 'B' are attached to this report. For clarification they are summarised below and referenced at relevant points within this report.

Appendix	Title
Appendix 'A'	LPPI Responsible Investment Report
Appendix 'B'	LPPI Dashboard Q1 2023

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
Robeco Active Ownership Report Q2-2023	01/04/23 to 30/06/23	Catherine Hunt (01772) 533757

Reason for inclusion in Part II, if appropriate

N/A

