

Pension Fund Committee

Meeting to be held on Friday, 1 December 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 third quarter of 2023 (July to September).

Recommendation

The Committee is asked to comment on this 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.

Attached as Appendix 'B' is the dashboard style report together with the qualitative overview of LPPI stewardship activities for the third quarter of 2023 (July - September).

Other matters of note for the Committee:

- Compared with Q2 2023, the following Climate Change metrics are:



- Brown exposure has increased from 2.38% to 2.47% of the portfolio. The biggest contribution to the increased exposure comes from the Listed Equities asset class. The figures reflect a mark-to-market increase in the value of Brown positions held in the portfolio. This has increased listed equities' Brown exposure from 0.37% in Q2 to 0.44% of the portfolio in Q3 2023.
- There has been a decrease in green activities from 5.34% to 5.18% of the portfolio. The biggest contributor to the decreased exposure is from the Infrastructure asset class. The figures reflect a mark-to-market decrease in the value of Green position held in the portfolio. This has decreased infrastructure's Green exposure from 5.14% in Q2 to 4.92% of the portfolio in Q3 2023.

Investments in renewable energy generation from wind, solar, hydro, and waste make up 83% of total Green exposure, and 95% of Green exposure is via Infrastructure assets.

- In September, LPPI was a signatory to an investor letter to the Prime Minister Rishi Sunak in response to the UK Government's announcement of changes in net zero policy. The letter reinforced the need for an enabling policy environment (providing certainty, consistency, clarity and continuity on policy) which supports investors to make long-term investment and asset allocation decisions in line with their fiduciary duty to clients and beneficiaries, and to manage risk and opportunities to maintain the long-term financial value of their assets.
- LPPI successfully submitted its Annual Report on Stewardship and Responsible Investment (2022/23) to the Financial Reporting Council (FRC). The report will be published on the LPPI website in Q1 2024 and the FRC will assess LPPI's report and confirm (in early 2024) whether it meets the standard required for retaining signatory status.
- LPPI signed up as a founding participant of Nature Action 100 and has put their name forward to be the lead engager on 3 of the initial 100 companies under focus which are within the internal equities portfolio. This is a new global investor engagement effort focused on driving greater corporate ambition and action to tackle nature and biodiversity loss.

Local Authority Pension Fund Forum (LAPFF)

The LAPFF business meeting and AGM on 4th October 2023 was held online due to train strikes. The following items were covered:

- **LAPFF Executive Elections for 2023** - the results of the LAPFF nomination process and election were announced confirming the Chair of the Lancashire Pension Fund Committee (and existing LAPFF executive member) County Councillor E Pope, will continue in his role for a further year.
- **Liability Driven Investment Strategies ("LDI")** – a report was presented at the business meeting following the publication of the findings and conclusions of two Parliamentary Committees (one House of Lords, one House of Commons) into the liability driven investment bond market crisis of September 2022.



- **Water Companies and Sewage Pollution-** LAPFF has engaged with a number of companies regarding the use of storm overflow drains which are intended to stop water backing up into people's homes but have resulted in sewage being released into waterways. LAPFF will be continuing to engage with companies to ensure that reputational risks and regulatory scrutiny around environmental performance are addressed.
- **Mining and Human Rights** engagements continue with Anglo American, BHP, Glencore, Rio Tinto, and Vale and with a new mining company, Grupo Mexico. This new engagement has arisen as LAPFF was approached by community members affected by a 2014 leak at one of the company's tailings ponds in Sonora, Mexico.

Papers from the AGM and dates of future meetings can be made available on request.

The annual LAPFF conference is due to take place between 6th and 8th December 2023. A representative of the Pension Fund will attend, and issues covered will include the listing rules review, modern day slavery, climate emergency, the ESG backlash in the USA, the 'Great Pay Divide, the EV supply chain, biodiversity crisis and 'Getting to net zero: the role of alternatives'.

Taskforce on Climate-related Financial Disclosures (TCFD) Consultation

LPPI delivered a workshop on Responsible Investment and TCFD reporting on 3rd October 2023. This outlined the 'what, why and when' of the new reporting requirements effective from 1st December 2024. A recording of the workshop is available in the Pension Library and the pensions team have included this workstream within the strategic plan.

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 Q3 2023
Appendix 'B'	LPPI Dashboard Q3 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	01/07/23 to 30/09/23	Catherine Hunt (01772) 533757

Reason for inclusion in Part II, if appropriate

N/A

