

Pension Fund Committee

Meeting to be held on Friday, 8 March 2024

Electoral Division affected:
N/A;

Responsible Investments Report

Appendices 'A' and 'B' refer.

Contact for further information:

James Almond, Tel: 01772 539699, Senior Governance Officer,
james.almond2@lancashire.gov.uk

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 2023 (1st October to 31st December).

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 fourth quarter.

Other matters of note for the Committee:

Climate Change Metrics

Compared with Q3 2023, the following climate change metrics are:



- Brown exposure has decreased from 2.47% to 2.28%. This is driven by the Infrastructure asset class as one company, identified as a Brown exposure, has left the portfolio. This provides an opportunity to re-deploy capital in other attractive opportunities.
- Green activities have slightly decreased from 5.18% to 4.99% of the portfolio. The figures reflect a mark-to-market decrease in the value of Green positions held in portfolio, predominantly within the Infrastructure asset class.

GLIL

GLIL Infrastructure is a collaboration of investors seeking investment into core infrastructure opportunities predominantly in the UK. The Fund invests via LPPI along with other local government pension funds and NEST. GLIL has entered a new strategic partnership with the Bluefield Solar Income Fund, as part of a commitment to drive investments in UK-focussed solar energy assets in 2024. This commits GLIL to investing - together with Bluefield - into UK focused solar assets, from development through to operational plants.

Principles of Responsible Investment (PRI)

LPPI has been a signatory to the PRI since 2018 and produces and submits detailed reports on their annual activity for assessment and scoring. The results of this activity for 2022/23 have been released and LPPI's scoring has been summarised on page 12 within appendix 'A'. The results indicate LPPI scored significantly higher than the PRI median and either equally or significantly above their peer group median. This is a great outcome and shows a continued strong performance.

Transition Pathway Initiative (TPI)

TPI tracks the quality of companies' governance/management of their greenhouse gas emissions and opportunities related to the low-carbon transition. It scores the companies according to action/preparedness for climate.

Updated Management Quality ratings methodology have been introduced, the number of companies in the TPI assessment universe has increased and a new Level 5 to the assessment staircase has been introduced. This has impacted report in Appendix B as coverage of companies within the Global Equity Fund is up significantly to 41.6% and the proportion of investee companies within the green rating has increased.

Stewardship headlines

Additional themes have been added into stewardship engagement reporting within appendix B. these include Nature Action 100 (covering biodiversity and referenced in the paper presented to the meeting of the Pension Fund Committee on 1st December 2023), modern slavery in supply chains and tax transparency which all align with priorities with the Fund's Responsible Investment policy. This additional insight will allow the Fund to monitor progress against the policy.

Net zero

A client note (uploaded to the pensions library) has been provided to the Pension Fund updating on LPPI's progress in relation to net zero and TCFD. The note



includes an update on progress on Phase One net zero targets, details of Phase Two targets and progress on TCFD reporting.

Local Authority Pension Fund Forum (LAPFF)

The LAPFF business meeting took place online on 31st January 2024 and was attended by a representative of the Lancashire County Pension Fund. The following are some of the items that were covered:

- **Carbon Capture and Storage (CSC) update** – The paper presented in this business meeting showed that the lack of progress has continued into 2024. concerns were raised that (i) CSC’s contribution to emissions reduction is being overplayed to keep fossil fuels in the energy system (ii) little progress in rolling out CCS at scale. (iii) CSC and Carbon Dioxide Removal (CDR) have been cited by fossil fuel producing companies as a means to avoid reducing extraction activities.
- **Human Rights Engagements** – LAPFF have engaged with a number of companies regarding the use of forced labour within their supply chain and what reassurances they have in obtaining supplies/materials from reputable sources. While some of the companies have shown notable progress, LAPFF will continue to engage with companies.

LAPFF papers and dates of future meetings and be made available on request.

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 Q4 2023
Appendix 'B'	LPPI Dashboard Q4 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 Q4-2023	01/10/2023 – 31/12/2023	James Almond 01772 539699

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

