

**Pension Fund Committee**

Meeting to be held on Friday, 14 June 2024

Electoral Division affected:  
N/A;

**Responsible Investment**

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 (LPPI) which provides the Committee with an update on responsible investment matters during the first quarter of 2024 (1<sup>st</sup> January 2024 to 31<sup>st</sup> March 2024).

**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 first quarter of 2024.

Matters of note for the Committee:

**Climate Change Metrics** - Compared with Q4 2023, the following climate change metrics are:



- Brown exposure has decreased from 2.28% to 2.27%. The reduction in Brown exposure is due to the increase of LCPF's total fund value. The Brown assets within the portfolio saw a slight increase but was outweighed by the increase in the Funds total value.
- Green exposure has also decreased slightly from 4.99% to 4.83%. The increase to the Fund's total fund value also played a part in this reduction but the main contributing factors were the reduced valuation of some existing assets and the sale of two Green assets.

### **LPPI Real Estate Fund**

In 2023 the total number of direct UK properties within the LPPI Real Estate Fund with solar PV installed was 12 sites generating an estimated 485,895kWh of electricity. The real estate team requested an assessment of all properties without solar PV to check if any more of the asset within the Real Estate Fund would be suitable for solar PV installation. An external adviser was appointed to conduct this assessment and determined a potential of 24 additional sites with an estimated 22,000kWh of electricity could be utilised. The next stages of this process are expected to be initiated within 2024.

### **UK Stewardship Code review**

LPPI is a signatory of the Stewardship Code and has been since inception. LPPI consider the standards set by the code an important external quality standard. The Stewardship Code is a code requiring institutional investors to be transparent about their investment processes, engagement with investee companies and voting at shareholder meetings. This code is now up for a review by the Financial Reporting Council (FRC) and LPPI have provided their feedback to FRC, noting the high resourcing demands to meet the reporting requirements. The last review was in 2020, which saw an increase in a range of expectations and disclosure requirements, output from the current review is expected in 2025 with implementation in 2026.

### **Local Authority Pension Fund Forum (LAPFF)**

The LAPFF business meeting took place online on 17<sup>TH</sup> April 2024 and was attended by a representative of the Lancashire County Pension Fund. The following are some of the items that were covered:

- **LAPFF Voting alerts and Push-Through Voting** – there was a discussion on responsibility on voting and essentially whether this should be undertaken by pools on behalf of Funds or by individual Funds. Advantages and disadvantages of the approaches were discussed, and it was agreed that guidance would be helpful to aid discussions with Committee members. It is worth noting that Lancashire County Pension Fund have opted to delegate the voting discretion to LPPI and feel assured the voting decisions are in line with the Fund's Responsible Investment policy. This approach has been acknowledged by LAPFF as an acceptable approach but promote that funds should still retain the opportunity to submit their voting decision if they so wish.



- **TCFD report** – LAPFF have advised they will be providing guidance to LGPS funds on meeting the expected disclosure requirements for TCFD reporting. The guidance is expected to be first provided in the next LAPFF business meeting scheduled for 10<sup>th</sup> July 2024. This will potentially be a useful tool for the Fund.
- **Banking engagements** – LAPFF have engaged with Barclays and HSBC on numerous occasions during 2023 to discuss their continued lending to fossil fuel projects. These engagements along with additional pressures from others within the industry played a part in the issue of an updated climate change statements from Barclays. LAPFF feel the statement is a major step forward but there is a concern from members of LAPFF that the opportunities to lend to fossil fuel related projects will be taken up by other banks only moving the issue elsewhere rather than resolving the issue.

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

### **Global Controversy Engagement**

At the last Pension Fund Committee, it was asked what it meant by Global Controversy Engagement within Appendix B (under stewardship headlines within the Responsible Investment dashboard). This is defined as below, which is provided by Robeco, LPPI's engagement provider:

'In evaluating corporate behaviour, we expect companies to comply with internationally accepted codes of conduct for corporate governance, social responsibility, the environment and transparency, such as the UN Global Compact and OECD Guidelines for Multinational Enterprises, which make explicit reference to the United Nations Universal Declaration of Human Rights, the International Labor Organization's (ILO) labour standards, the United Nations Guiding Principles for Business and Human Rights (UNGPs). A severe and structural breach of such codes of conduct triggers an enhanced engagement with the respective company (under the 'Global controversy' engagement theme), consisting of a high intensity three-year engagement with accelerated escalation processes if the company does not undertake adequate action to eliminate and remediate the breach and does not adequately enhance management processes necessary to avoid repetition of the breach.'

### **Pension Fund forthcoming activities**

Planning activity will take place during the Summer regarding Taskforce on Climate-related Financial Disclosures (TCFD). These requirements have already been introduced for pension schemes within the private sector and the Government's view is that the requirements for the LGPS should set as high a standard as for private schemes but take account of the unique features of the LGPS. However, the Government has yet to issue a response to the Consultation on TCFD and guidance.

Part of this activity will involve planning for the triennial review of the Fund's Responsible Investment Policy which is expected to commence in October 2024.



## 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 Q1 2024
Appendix B	LPPI Dashboard Q1 2024

## 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	01/01/2024 – 31/03/2024	James Almond 01772 539699

Reason for inclusion in Part II, if appropriate

N/A

