Revised November 2024 – Draft (Highlighted Amendments)

Key	The **additions** are highlighted yellow in this document
	The **deletions** are shown in red throughout
	The rationale for substantial changes made – either additions or deletions – are shown in green. This is provided to support the understanding of the task & finish Group (and the Pension Fund Committee for its decision making). This content will not be included in the final draft of the Policy that is disclosed externally)

Note: Only material changes are shown in yellow or red. Minor drafting matters are not highlighted. Where relevant commentary is provided on rationale for amendments.

Lancashire County Pension Fund (The Fund)
Responsible Investment Policy

Rationale for amendment
Lancashire County Pension Fund (LCPF) has been removed throughout this document and is now referenced as the Fund. Previous version had reference to LCPF and the Fund at various points. Making this change allows consistent referencing to LCPF and is in line with other strategy/policy documents.

1. Introduction

This policy defines the commitment of Lancashire County Pension Fund (the 'Fund') to responsible investment (RI). Its purpose is to detail the approach that the Fund aims to follow in integrating environmental, social and governance (ESG) issues into its investments. This is consistent with the Local Government Pension Scheme (Management and Investment of Funds) Regulations (2016), Ministry of Housing Communities & Local Government (MHCLG) – Local Government Pension Scheme: Guidance on Preparing and Maintaining an Investment Strategy Statement (2017*)* and the Fund's fiduciary duty to act in the best long-term interest of our members.

The Policy reflects the Fund's Investment Strategy Statement and its approach to complying with the UK Stewardship Code.

The scope of this policy is wide reaching and intended to be considered across all of the Fund's investment portfolio.

Introduction - Rationale for amendment
Assist the reader in understanding what the reach of this policy is.

2. Governance

Lancashire County Council as Administering Authority delegates responsibility for the administration and management of the Fund to the Pension Fund Committee.

The Committee has overall responsibility for investment policy, including setting and approving the Responsible Investment Policy. The Investment Panel advise the Pension Fund Committee in relation to investment strategy

Local Pensions Partnership Investments Limited ("LPPI") is responsible for the implementation of investment strategy, including day to day decision-making around the appointment of asset managers, the selection of investment products, and the exercise of ownership responsibilities. As part of that role, LPPI integrates RI into the investment process. LPPI is responsible for 100% of the Fund's assets, comprising mostly pooled investment vehicles, with a smaller non-pooled allocation.

Governance - Rationale for amendment
This is a new section added to the policy. Assists the reader in understanding how decisions are made in relation to the Funds investment strategy. This clarifies roles and responsibilities. Aligns RI Policy with the Funds Investment Strategy Statement. Content which covered governance elsewhere in the Responsible Investment Policy has been bought together here.

3. Definitions

Responsible Investment	The integration of environmental, social and corporate governance (ESG) considerations into investment management processes and active ownership practices in the belief that these factors can have an impact on financial performance. (Based on UN Principles on Responsible Investment)
Fiduciary Duty	A core responsibility, of such as trustees or equivalent persons, to act in the best interests of the pension scheme beneficiaries in order to assure that such Fund members in retirement, or dependants in the case of member death, can enjoy the expected benefits. It includes the requirement that all participants should act in good faith, in the best long-term interests of the Fund and its beneficiaries, with loyalty and prudence, and in line with generally prevailing standards of decent behaviour (including honesty, impartiality and integrity). ~~The term "fiduciary duty" is used in different ways by different people. The above definition is intended to reflect the ethos of the Fund and is based on definitions in the UKSIF's trustee best practice guide 2017 (UK Sustainable Investment and Finance Association www.uksif.org) and a Law Commission Report 2014.~~
Environmental, Social and Governance - ESG	ESG is an industry wide acronym and refers to environmental, social and governance factors which may impact on company performance and therefore investment returns. Examples of ESG factors are set out in section 6 of this policy. ~~Environmental, social and governance factors which may impact on company performance and therefore investment returns.~~

	~~Examples include resource management and pollution prevention, climate change impacts, labour management, product integrity, executive compensation, board independence and audit function.~~ ~~Specific examples of each are in section 5.~~
~~Governance~~	~~Corporate Governance is the authoritative rules and controls in place within an organisation required to promote openness, inclusivity, integrity and accountability. (per Glossary in LCPF Annual Report)~~
Active Ownership	To participate, where appropriate, in the governance decision-making of companies in which it invests by way of voting and by engagement with company representatives, either directly or via its fund managers. It also recognises the relevance of engaging with regulatory bodies and other market players to support policies that promote long-term sustainable growth.
Stewardship	The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. (UK Stewardship Code 2020 of the Financial Reporting Council)
Net Zero	Net zero refers to a global state of balance between the amount of greenhouse gases being emitted into the atmosphere and the amount being absorbed or removed from it. The timeframe for addressing the current imbalance through decisive action to avoid potentially irreversible consequences is limited. Scientific consensus recognises warming of 1.5°C above pre-industrial levels as a critical threshold.

Definitions - Rationale for amendment
The Task and Finish Group were given options for the definition which stemmed from the current RI Policy, LOLA training on 'Responsible Investment' and, where included, from within the definitions section of the Fund's Annual Report and Accounts. ***Responsible Investment** - The group agreed to retain the existing definition.* ***Fiduciary Duty** - The group chose to retain the definition with a minor addition and removal of the different ways the definition is used.* ***ESG** – The group combined the definition from the current policy with wording from the LOLA Training module. The group opted to remove example ESG factors from here as this is covered in section 6.*

Governance – *This is a defining corporate governance and has been removed from the definitions section as it is covered under the Corporate Governance priority. See section 7.* ***Net Zero*** *– As Net Zero is an important aspect in relation to climate change a new definition has been introduced to clarify for the reader what net zero refers to. This is a definition taken from an LPPI publication.*

4. Responsible Investment Context

The Fund is part of the Local Government Pension Scheme (LGPS). It is a defined benefit (DB) pension scheme. To remain affordable, sustainable levels of investment income, and growth in asset values, are essential to sufficiently supplement contributions to the Fund from employers and active members (contributing employees). Thus, the primary focus of investment is achieving strong risk-adjusted returns.

There is an underlying fiduciary duty to protect the financial interests of the Funds' beneficiaries which is exercised through the approach to investment and the evaluation of risks and opportunities as part of investment stewardship.

Where possible and compatible with this, the Fund also wishes to support positive social outcomes both locally and globally. For example, the Fund has non-pooled investment allocation in property/real estate focused on Lancashire.

~~The implementation of LCPF's RI policy is through the activities of Local Pensions Partnership Investments (LPPI), a Financial Conduct Authority (FCA) regulated Investment Manager responsible for 100% of the Fund's assets, comprising mostly pooled investment vehicles, with a smaller non-pooled allocation.~~

~~All investment asset allocations, pooled or non-pooled, are subject to Investment Panel advice, with regard to the LCPF Investment Strategy Statement approved by the Pension Fund Committee, and to operational investment selection and management by LPPI as part of agreements of the Local Pensions Partnership joint venture (LPP).~~

Responsible Investment Context - Rationale for amendment
Section 2 (Governance) now covers how the investment decisions are made therefore the two paragraphs here have been removed.

5. Responsible Investment Beliefs ~~Values~~ and Principles

The Funds' beliefs ~~values~~ and principles reflect the need to deliver sustainable investment returns in order to pay pension benefits. They recognise the importance of assessing sources of risk and opportunity over an extended time horizon and emphasise the importance of diligent stewardship as part of engaged asset ownership.

~~**Responsible Investment Values:**~~	
~~Consultative~~	~~The Funds' RI priorities are a reflection of the views of its members (through consultation with the Lancashire Local Pension Board), and of evolving best practice within the pension arena.~~
~~Being Proactive~~	~~A proactive approach to evaluating ESG risks and opportunities is more likely to result in long term benefits for the Fund and is aligned with fulfilling our fiduciary duty.~~
~~Engagement~~	~~The Fund considers engagement to be a route for exerting a positive influence over investee companies and encouraging responsible corporate behaviour. We are supportive of targeted dialogue with appropriate representatives of investee companies in which the Fund invests, in situations where positive changes can be brought about to align governance standards with our investment needs.~~
~~Collaborative~~	~~The Fund recognises that working collaboratively can achieve greater influence than acting unilaterally. The Fund seeks to align itself with likeminded investors through collective organisations such as the Local Authority Pension Fund Forum (LAPFF) of which the Fund is a member.~~
~~Flexible~~	~~The Fund considers that its RI policy and approach should be reviewed regularly in order to continue recognising and reflecting best practice and addressing emerging priorities.~~

Responsible Investment Beliefs

The Fund's Investment Strategy Statement, which can be accessed by clicking **here**, outlines the Fund's investment beliefs that guide the investment strategy of the Fund.

The Fund's beliefs are detailed in Appendix 'A' of the Investment Strategy Statement.

Responsible Investment Principles

The Funds' RI principles translate our ~~values and commitments~~ beliefs into RI practices which can help to deliver a sustainable and sufficient return on our investments and ~~LCPF's RI principles~~ inform the stewardship arrangements. ~~agreed with LPPI, as our provider of investment management services. LPPI is wholly owned by Local Pensions Partnership Limited (LPPL), a joint venture between Lancashire County Council (LCC) and London Pensions Fund Authority (LPFA).~~

The Fund's Responsible Investment Principles are as follows:

~~A summary of the key Responsible Investment principles:~~

- **Principle 1 –** The Fund effectively manages financially material ESG risks to support the Fund's requirement to protect returns over the long term.
- **Principle 2** – The Fund engages in active and ~~Apply a robust approach to~~ effective stewardship of our investments to protect and enhance their value.
- ~~Seek sustainable returns from well governed and sustainable assets.~~
- ~~RI is core in our skills, knowledge and advice.~~
- **Principle 3 –** The Fund seeks to innovate, demonstrate and promote RI leadership and ESG best practice through effective partnerships and developing/sharing ideas and best practice.
- ~~Achieve improvements in ESG through effective partnerships that have robust oversight.~~
- ~~Share ideas and best practice to achieve wider and more valuable RI and ESG outcomes.~~

Responsible Investment Beliefs and Principles - Rationale for amendment
Values and Beliefs *- Since the 2021 review of the Policy the Investment Strategy Statement has been updated to incorporate a series of investment beliefs. The Head of Fund undertook an analysis of values V beliefs and what other Funds applied in the LGPS. The analysis of 7 Funds showed that they used the term 'beliefs' over 'values'. The Task and Finish Group considered the analysis and agreed to refer to 'beliefs' and remove reference to 'values'.* ***Principles*** *– Streamlined and incorporated what the Fund does in relation to ESG Risk Management, Stewardship and RI leadership. Principle 3 was removed as it had a similar theme to the new Principle 1 and 2. Principle 4 was removed as the meaning was unclear. Principle 5 – 7 were merged.* *The above amendments were voted for by the Task and Finish Group*

6. Environmental, Social and Governance (ESG) Factors

ESG issues are important to the Fund for a number of reasons. ESG factors can be financially material and, as such, should be part of the assessment and monitoring of investments in all asset classes, with an overarching goal of achieving resilience to ESG risks at the Portfolio level. Achieving sustainable, long-term financial returns underpins the ability to pay pensions. A focus on ESG issues helps reduce risks to the Fund and its beneficiaries.

Examples of ESG factors:

Environmental	**Social**	**Governance**
Animal Welfare	Affordable Housing	Accounting and Audit
Climate Change	Alcohol	Board Diversity/Structure
Deforestation	Betting/gaming	Board Independence and Audit Function
Depletion of Natural Resources	Child Labour	Bribery and Corruption
Energy Efficiency	Community Relations	Executive Pay

Plastics	Controversial Weapons*	Lobbying and donations
Pollution	Customer Satisfaction	Political Contributions
~~Resource Depletion~~	Data Protection	Shareholder Rights
Waste Management	Diversity	Tax Strategy
Water Stress	Employee Relations/Wellbeing	Transparency
	Health and Safety	Treatment of Employees
	Human Rights	
	Modern Slavery	
	Tobacco	
	Working Conditions	

*Controversial Weapons are those that have an indiscriminate and disproportional humanitarian impact on civilian populations where the effects can be felt long after military conflicts have ended.

Environmental, Social and Governance (ESG) Factors – Rationale for amendments
This section of the policy provides examples of ESG factors which are considered across the industry. The 2021 review incorporated majority of these factors however different examples are referenced in the LOLA training. The group agreed to incorporate the LOLA examples as these are terms which members will come across. The group requested that a reference was made to clarify what was meant by controversial weapons.

7. Priorities

Identifying core priorities for RI is an important part of focussing the attention of LPPI on the issues of greatest importance to the Fund. It also helps the Fund to monitor the stewardship activities LPPI undertake on our behalf. The issues we have identified as being of primary concern to us as asset owners are listed below.

ENVIRONMENT

a) Climate change

Climate change is a systemic and financially material risk the poses a threat which could negatively impact economic growth, inflation, and investment return over the long-term.

Climate change is a critical issue for the Fund because it affects the financial performance of investments, regulatory compliance and our long term ability to meet pension obligations.

The Fund recognises the imperative to manage climate change as it poses material risks across all asset classes (with the potential for loss of shareholder value, including via stranded assets), as well as opportunities.

The approach includes the following:

~~The Fund will endeavour to carry out the following:~~

- ~~Engage with pension funds and other stakeholders to develop and share best practice.~~

- Our continued commitment is to have a net zero carbon footprint across all assets managed from 2050. LPPI has made a voluntary commitment to align their investment portfolio with net zero emissions by 2050. As the LPPI manages the Funds' investments through their pooled arrangements this supports the Fund in aligning with net zero.

- Where existing investments in fossil fuel companies are ~~in place and~~ identified, we expect those companies to ~~be able to~~ demonstrate planning for the global transition to a low-carbon economy ~~and for the future emissions reduction targets under the **Paris Agreement 2015** or other appropriate initiatives~~. Where they are not, and opportunities for engagement and reform of the company or project are not possible ~~or do not exist~~, the Fund will make all reasonable efforts to divest provided that this will result in no material financial detriment to the Fund (either through increased costs or increased investment risk).

- Where our fiduciary duty allows, the Fund will not consider new investments in fossil fuel companies directly engaged in the extraction of coal, oil and natural gas as sources of energy which are ignoring the risks of climate change.

- The Fund is committed to seeking sustainable investments which include projects that support the global transition to lower carbon products, services and infrastructure including renewable energy generation.

- ~~LCPF expects LPPI to take steps to ensure that the level of exposure to climate change investment risks are evaluated and monitored, and also to remain current with the revised reporting standards and targets such as those set out in the **Paris Agreement 2015** as may be amended from time to time by subsequent international agreements. This will involve the use of appropriate investigative and analytical tools such as the Transition Pathway Initiative to increase information and provide appropriate input around investment decision making and will be reflected in regular reporting and assurance provided to LCPF. LCPF also expects LPPI to research suitable investment opportunities being developed to address these standards and assess their suitability for the Fund.~~

b) Depletion of Natural Resources

The depletion and degradation of natural resources, such as plants, water, air and soil, poses risk to businesses, economies and society.

This is a priority for the Fund as there is an increased expectation from stakeholders to align our activities with biodiversity goals and this priority is strongly linked with climate risk.

~~As part of supporting good environmental stewardship by investee companies~~ The Fund places an emphasis on engaging to encourage sustainable business practices which support biodiversity and avoid the over-exploitation of natural resources and contribute to a more circular economy (through efforts to reduce waste creation and keep materials capable of re-use within economic circulation through recycling).

SOCIAL

~~**a) Human Rights**~~

~~Societal expectations of companies increasingly include a positive record of recognising and protecting human rights in line with international, legal and regulatory obligations across all territories. As investors we recognise a responsibility to support this principle and to urge improvement in company practices through voting and engagement where this is warranted. We recognise an obligation as an investor to encourage practices which recognise human rights and protect against exploitation. This extends to expecting compliance with normative standards and relevant legislation.~~

~~**b) Modern Slavery**~~

~~Modern slavery is the severe exploitation of people for personal or commercial gain, including forced labour and child labour, and is a grave violation of human rights. Modern Slavery breaches fundamental international law, as well as in most national jurisdictions and poses a material business risk to companies and ultimately investors. As investors it is our responsibility to consider that we have an obligation to contribute to improving company practices. LCPF should seek to investigate the practice of the companies it invests in, or is looking to invest in, and hold these to appropriate standards, including (in the UK) the Modern Slavery Act 2015 (which introduces a number of measures to combat slavery and human trafficking and requires certain commercial organisations to publish an annual statement setting out the steps they take to prevent modern slavery in their supply chain).~~

a) Local Investment

Investing locally can assist in building and supporting the local area and encouraging growth.

This is a priority for the Fund as such investment can directly support the people and economy of Lancashire whilst providing an appropriate level of investment return and risk.

A proportion of the assets of the Fund are invested in real estate in Lancashire - termed the 'Lancashire County Portfolio'. The Fund reviews this target level of Local Investment to ensure it has scope to invest in new local opportunities as and when they arise and provided such ~~The Fund already encourages investment in property/real estate in Lancashire where suitable~~ projects meet the Fund's investment criteria. Through owning real estate ~~(in the capacity of landlord)~~ the Fund's investments will help to provide employment, premises and wider accommodation ~~(including affordable housing) which directly supports the people and the economy of Lancashire.~~

b) Affordable Housing

Affordable housing is an issue due to the demand for housing being greater than the supply. This can lead to higher housing costs, social inequality, homelessness and create pressure on the rental market.

This is a priority for the Fund as investing in affordable housing strategies makes a tangible positive impact on social issues in the UK.

The Fund will invest in affordable housing where the opportunities can offer a resilient risk-adjusted financial return. The Fund will consider options on investing in the affordable housing market which can have a social impact in the areas in which we invest.

GOVERNANCE

a) Corporate Governance

Corporate Governance is the authoritative rules and controls in place within an organisation required to promote openness, inclusivity, integrity and accountability. It includes factors such as corporate structure, board composition, business ethics and anti-corruption.

This is a priority for the Fund because governance factors can be financially material to the performance of investee companies.

The Fund, through its asset managers, supports the case for well managed companies which promote fair and just and transparent employment practices, the importance of a diverse and inclusive workforce and reasonable and equitable pay differentials for employees (including appropriate Living Wage). This is done through actively seeking to invest in companies who demonstrate such practices and engaging effectively to encourage these standards within existing investee companies.

~~LCPF supports the signing by LPPI of the Asset Owner Diversity Charter in August 2021, which aims to improve diversity across the fund management industry.~~

Our expectations of good corporate governance include transparency on lobbying activities undertaken by investee companies as assurance of consistency between publicly-stated positions (communicated through announcements and corporate documents) and influence employed via other routes including trade bodies, and lobbying.

~~**b) Tax Strategy**~~

~~Fair tax treatment is important to us as a responsible investor. Tax provides a direct source of government funding for programmes of social benefit and is a democratic~~

~~function. Tax evasion is an illegal activity where an entity deliberately avoids paying a true tax liability. Aggressive tax avoidance presents reputational and regulatory risks for companies and is misaligned with responsible corporate behaviour.~~

~~As an institutional investor we seek to:~~

- ~~invest in organisations that to pay the right amount of corporation tax at the right time and in the right place, according to the local jurisdiction;~~
- ~~invest in organisations that provide the degree of transparency in tax reporting that investors need to make sound judgements on the tax position of investee companies; and~~
- ~~identify and engage on aggressive tax practices which prioritise the minimisation of tax liabilities without due regard for reputational risk and responsible conduct.~~

Priorities - Rationale for amendment
The task and finish group voted to reduce the priorities from 7 to 5. The group also voted and agreed to retain four of the original priorities and affordable housing added as a new priority. *The statements under each of the priorities has been reviewed with the reader in mind. These statements are intended to clarify the position of the Fund on each of the ESG priorities.* *The Officers proposed that each of the priorities be:* *i. in plain English* *ii. clearly structured* *iii. reason for it being a priority.* *The group agreed to this approach including updates to priority (b) depletion of natural resources at meeting 2. This approach has been applied to all the priorities.*

8. Implementation and Monitoring

The Pension Fund Committee monitors the stewardship of the Fund's assets and RI activities undertaken by LPPI via quarterly reporting including an RI Dashboard, which provides key data on the portfolio's RI attributes and stewardship activities.

The implementation of Fund’s approach to RI priorities divides into five areas of activity.

a) Voting Globally

The Fund's stewardship actions are implemented by LPPI which also manages the Fund's entire investment portfolio.

All aspects of shareholder voting are carried out in line with the LPPI 'Shareholder Voting Policy' which can be viewed **here**. The policy covers areas including voting arrangements, 'reporting and disclosures' and voting philosophy.

b) Engagement through Partnerships

The Fund's second approach involves working in partnership with like-minded bodies. The Fund recognises that to gain the attention of companies in addressing ESG priorities, it needs to join other investors with similar concerns, and it does this through the LAPFF and joining appropriate lobbying activities.

In terms of its engagement approach with other investors, it is most significant through LAPFF. This Forum exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of ESG best practice among the companies in which they invest. See the LAPFF website for further details: www.lapfforum.org

The Fund is a member of LAPFF and as such representatives of the Fund attend and contribute to the quarterly business meetings.

c) Shareholder Litigation

The third approach, adopted by the Fund in order to encourage corporate management to behave responsibly and honestly, is through shareholder litigation. The Fund has agreed arrangements with LPPI which ensure emerging legal cases are monitored and the Funds rights and interests are represented via class actions and other shareholder actions globally where possible and where appropriate.

d) Active Investing

The Fund do not invest directly but, on behalf of the Fund, LPPI actively seek sustainable investments which meet The Funds requirements for strong returns combined with best practice in ESG including corporate governance. Such investments include renewable and clean energy, and real estate/property.

As part of its commitment to Active Ownership LPPI seeks to use the ownership rights conveyed by the assets under its management to exert a positive influence in favour of transparent and sustainable management behaviour which recognises and addresses the broader trends which bring both risks and opportunities to their business.

e) Divestment

The Fund may, at its discretion, prefer to divest from a sector due to RI considerations, provided that this would not result in any material financial detriment to the Fund (either through increased costs or increased investment risks).

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