

Report to the Pension Fund Committee
Meeting to be held on Friday, 7 March 2025

Report of the Director of Finance and Commerce

Responsible Investment Task and Finish Group
(Appendices 'A' to 'C' refers)

Part II	Corporate Priorities: Thinking differently;
Electoral Division(s): N/A;	
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Summary

Purpose of the Report

This report provides members of the Pension Fund Committee (PFC) with the conclusions of the activity undertaken by the Responsible Investment Task and Finish Group (T&F Group).

Recommendation

The Pension Fund Committee is asked to:

- i. Approve the draft RI Policy attached at Appendix 'B';
- ii. Approve the Implementation Plan for the activity required under the draft TCFD Regulations attached at Appendix 'C'.

Background

1. Responsible Investment (RI) is the integration of Environmental, Social and Governance (ESG) considerations into investment management processes and active ownership practices in the belief that these factors can have an impact on financial performance.
2. Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, mandates that the Investment Strategy Statement (ISS) for a Fund must include their approach to ESG factors in investment decisions.
3. This can be done as part of the ISS or as a separate supplementary document and the Fund achieves this by having specific RI Policy.
4. It is necessary for the Fund to review the ISS every 3 years and, as the RI Policy is part of the ISS, the Fund must undertake a periodic a review of the RI Policy to



ensure it reflects continually evolving ESG factors and is compliant with any new legal requirements.

5. The current Responsible Investment Policy was updated and approved by the Committee in November 2021. A copy is enclosed for ease of reference at Appendix 'A'.
6. At the meeting on 13th September 2024 the Pension Fund Committee (PFC) approved the establishment of a Task and Finish Group which consisted of the following members:
 - County Councillor Alan Schofield (Chair of the T&F Group)
 - County Councillor Jeff Couperthwaite
 - County Councillor Gina Dowding
 - County Councillor John Fillis
 - Ms Jennifer Eastham (Co-Opted Member)
7. The T&F Group were set two key objectives:
 - To review the current LCPF Responsible Investment (RI) Policy and ensure it best reflects the values and beliefs of the Lancashire County Pension Fund (the Fund), whilst being mindful of the County Council's duties as an Administering Authority under the LGPS Regulations and any RI developments over the past 3 years.
 - To undertake activity to support the Fund in progressing with preparation for implementation of Taskforce on Climate-related Financial Disclosures (TCFD) requirements.
8. The T&F Group was supported by the Fund Officers, The Funds Independent Investment Advisers (IIAs) (Mr David Crum and Ms Marian George) and LPPI Executives.
9. The Group met on five occasions with the focus of the first three meetings being in relation to reviewing and updating the RI policy and the final two meetings mainly focused on the TCFD implementation and Environmental Opportunities.

Responsible Investment Policy Review

10. A draft of the updated RI policy as agreed by the Task and Finish Group is attached at Appendix 'B' to this report.
11. The 2021 version of the RI Policy was effective and provided a solid foundation however required development to incorporate emerging challenges and improvements on the language used throughout.
12. The table below summarises the rationale for the key/substantive changes in the draft RI policy attached at Appendix 'B' (which are highlighted in yellow). All these changes have been approved by the Group as part of the review process.



1. Introduction Page 2	This section has been updated to clarify to the reader the scope of the policy against the Funds Investment Portfolio.
2. Governance Page 2	New section added to the policy which will assist the reader in understanding how investment decisions are made and clarifies roles and responsibilities.
3. Definitions Page 2 and 3	<p>The group reviewed all the definitions and agreed minor changes to some definitions. Material changes to this section were:</p> <ul style="list-style-type: none"> • ESG – reworded to combine the definition from the current policy and the LOLA modules which is the Hymans Training System used by Officers, PFC members and Local Pension Board members. • Net Zero – included as a new definition to clarify to the reader what net zero refers to • Active Ownership – Reworded as previous version was not clear or in plain English • Governance – Removed as this is covered in the priorities section.
4. Responsible Investment Context Page 4	Removal of some content related to investment decision making as this is now in the new Governance section.
5. Responsible Investment Beliefs and Principles Page 4	<p>Beliefs - This section previously referenced values and the group agreed to refer to beliefs rather than values. This aligns the policy to the Investment Strategy Statement as that references the Fund's investment beliefs. It was concluded that 'beliefs' is the term used generally across LGPS as indicated by analysis of terms used by other Funds.</p> <p>Principles – Streamlined the principles from 6 to 3 principles. There was amalgamation of some previous principles and removal of one principle as the meaning was unclear to the reader.</p>
6. ESG Factors Page 5	These are Examples of ESG Factors that are considered across the investment industry when referring to Responsible Investment. New ESG Factors have been added into the table (indicated in yellow highlights), some of these are examples from the LOLA Responsible Investment training module.
7. Priorities Page 5 to 8	The group voted to reduce the priorities from 7 to 6 and voted to retain 5 of the previous priorities with Modern Slavery and Tax Strategy being removed. Tax Strategy was incorporated into the Corporate Governance as this is broad



	<p>subject covering a range of Responsible Investment matters in relation to company practices. The group agreed to incorporate Affordable Housing as a new priority.</p> <p>All the priorities had content redrafted to ensure they are now:</p> <ul style="list-style-type: none"> i. In plain English ii. Clearly structured iii. Why it is a priority for the Fund
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13. As part of the review of the RI Policy the Local Pension Board were presented with a draft version at the January 2025 Board meeting and provided positive feedback with regards to the updates made.

Taskforce on Climate Related Financial Disclosures Implementation Plan

14. The second objective for the Group was to undertake activity to support the Fund in progressing with preparation for implementation of the TCFD requirements.

15. The Group received enhanced training on TCFD from the Fund Officers, LPPI Executives and the IIA's.

16. As part of this work, the officers had requested an external consultant, Hymans Robertson, to undertake a gap analysis on the Fund's compliance on the draft TCFD requirements the government published as part of a 2022 consultation.

17. The TCFD requirements focus on 4 thematic areas summarised below:

- a. **Governance:** The governance framework for managing climate-related risks and opportunities for the Fund;
- b. **Strategy:** Disclosure of the actual and potential impacts of climate-related risks and opportunities for the Fund, where such information is material;
- c. **Risk Management:** Disclosure of how climate-related risks are identified, assessed and managed by the Fund; and
- d. **Metrics and Targets:** Disclosure of the metrics and targets used to assess and manage relevant climate-related risks and opportunities, where such information is material.

18. In addition to the four themes above the Fund is most likely to be required to produce a TCFD report on an annual basis.

19. The Gap analysis highlighted that the Fund is well positioned for implementing TCFD, information and metrics provided by LPPI can be used for TCFD reporting and there is some activity required to be undertaken in each of the above areas.

20. LPPI has undertaken significant work on TCFD from a pool perspective and the Fund can apply a lot of this work to the TCFD report for the Fund.

21. In order to work towards compliance, the Fund Officers proposed an Implementation plan (Appendix 'C' to this report) which was approved by the Group and recommended to the Pension Fund Committee for approval.



22. The plan is structured around the 4 themes with the annual TCFD report included as its own workstream.
23. The plan is developed so that the Fund works towards full compliance with the TCFD requirements by December 2026. This will require the TCFD report to be approved by Pension Fund Committee in September 2026. A working assumption has been made that TCFD will be implemented in 2026 but confirmation of this is awaited from the Government.
24. If approved Fund Officers will progress with executing the plan and provide the Committee with updates at appropriate points. This plan is included in the report on the 'LCPF Strategic Plan – 2025/26' elsewhere on the agenda.

Options and Proposals

25. The Task and Finish Group recommend that the Pension Fund Committee approve the updated RI Policy attached at Appendix 'B' to this report. As outlined in paragraph 4 it is a regulatory requirement to regularly review and update the RI Policy regularly.
26. The Committee is also recommended to approve the TCFD Implementation Plan, attached at Appendix 'C' to this report, which will allow Fund Officers to meet with regulatory requirements (once they are implemented).

Consultations

27. Local Pensions Partnership Investments Limited
Independent Investment Advisers
Local Pension Board

Context and Implications

Legal (including Human Rights)

28. Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, mandates that the Investment Strategy Statement (ISS) for a Fund must include their approach to ESG factors in investment decisions. Non-compliance with Taskforce on Climate Related Financial Disclosures requirements (once implemented for LGPS) could lead to penalties or increased scrutiny by the Pensions Regulator.

Financial

29. There is no direct financial impact for the Fund. However, there may be potential costs if additional data is required for monitoring and reporting. ESG factors are financially material and can impact the Funds investment risks, returns and overall sustainability. ESG integration can help enhance long-term financial performance while aligning with regulatory obligations.



Equality and Diversity

30. There are no equality and diversity implications

Risk Management

31. Without a robust RI Policy the fund may not have a clear direction for consideration of RI within the Funds Investment Portfolio. This could impact investment returns and long-term sustainability.

32. If the Fund does not have a structured approach to the TCFD Implementation, then it could be at risk of not achieving compliance by the regulatory deadline once set by the Government. Non-compliance could lead to penalties or increased scrutiny by the regulator.

Appendices

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

Appendix	Title
Appendix 'A'	2021 Responsible Investment Policy
Appendix 'B'	2025 Updated Responsible Investment Policy (Highlighted)
Appendix 'C'	TCFD Implementation Plan

List of Background Papers

Paper	Date	Contact/Tel
None		

Part II Reason

33. N/A

