Lancashire County Pension Fund

Responsible Investment Policy

Updated March 2025

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Lancashire County Council as administering authority of Lancashire County Pension Fund

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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 the Fund's 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.

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 strategy, including setting and approving the Responsible Investment Policy. The Investment Panel advise the Pension Fund Committee in relation to investment strategy. The Local Pension Board assist the Council in its role as Administering Authority in the good governance of the Fund by ensuring compliance with legislation and statutory guidance.

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[1], with a smaller non-pooled allocation.

3. Definitions

Responsible Investment (RI)	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 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

[1] Pooled Investment Vehicles are Funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.

	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. (based on the Nolan Principles)
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.
Active Ownership	Active ownership means using ownership rights to improve corporate behaviour and make investments more sustainable. Where the focus is an investee company the two main routes are engagement and voting at shareholder meetings. Where the focus is other market participants (such as standard setters, industry bodies, or regulators) the route might involve submitting a consultation response or communicating jointly-held views in collaboration with likeminded investors.
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.

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 appropriate 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.

5. Responsible Investment Beliefs and Principles

The Fund's beliefs 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 Beliefs

The Fund's investment beliefs, which guide the investment strategy, are detailed on Appendix 'A' of the Investment Strategy Statement which can be accessed by clicking **here.**

Responsible Investment Principles

The Funds' RI principles translate the Fund's beliefs into RI practices which can help to deliver a sustainable and sufficient return on the Fund's investments and inform the stewardship arrangements.

The Fund's Responsible Investment Principles are as follows:

- **Principle 1 –** The Fund aims to effectively identify and manage 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 effective stewardship of the Fund's investments to protect and enhance their value.
- **Principle 3 –** The Fund aims to lead on RI and sustainability issues by forming effective partnerships, and continuously developing and sharing best practices and ideas.

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	Corporate Governance
Plastics	Controversial Weapons*	Executive Pay
Pollution	Customer Satisfaction	Lobbying and donations
Waste Management	Data Protection	Political Contributions
Water Stress	Diversity	Shareholder Rights
	Employee Relations/Wellbeing	Tax Strategy
	Health and Safety	Transparency
	Human Rights	Treatment of Employees
	Local Investment	
	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.

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 the Fund's behalf. The issues the Fund has identified as being of primary concern to the Fund as asset owners are listed below.

ENVIRONMENT

Climate Change

Climate change is a systemic and financially material risk that 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 the Fund's 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 Fund's approach to addressing climate change risks in its investments includes the following:

- The Fund monitors the arrangements LPPI has in place to steward the Fund's portfolio of assets in line with the ambition to achieve Net Zero by 2050. LPPI has made a voluntary commitment to align their investment portfolio with net zero emissions by 2050. As 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 identified, the Fund expect those companies to demonstrate planning for the global transition to a low-carbon economy. Where they do not, and opportunities for engagement and reform of the company or project are not possible, 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 the Fund's 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 and environmental opportunities which include projects that support the global transition to lower carbon products, services and infrastructure including renewable energy generation.

Depletion of Natural Resources

The depletion and degradation of natural resources, such as flora and fauna, water, air and soil, poses risks to businesses, economies and society.

This is a priority for the Fund as biodiversity is closely connected to climate change. Both are critical to support sustainable economic systems and societal progress and in line with expectations of the Funds stakeholders.

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).

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SOCIAL

Human Rights

Human Rights are universal rights inherent to all regardless of nationality, sex, national or ethnic origin, colour, religion, language or any other status. They range from the most fundamental right to life to the rights to food, education, work, health, and liberty. (United Nations Human Rights – Office of the High Commissioner)

Human Rights is an issue for the Fund as human rights violations by companies in which the Fund is invested could negatively impact financial returns and have an adverse reputational impact on the Fund.

Considering Human Rights as a priority for the Fund can support the objective of ensuring long-term, sustainable investment performance.

As investors the Fund recognises a responsibility to address this issue and to urge improvement in company practices through voting and engagement where this is warranted.

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, provided such projects meet the Fund's investment criteria. Through owning real estate, the Fund's investments will help to provide employment, premises and wider accommodation.

Affordable Housing

Affordable Housing is a sub-sector of residential property investment which provides homes for individuals who are not well served by private home ownership or private rental markets. Affordable housing is provided by Local Authorities, not for profit registered providers[1] (i.e. housing associations), and for profit registered providers.

This is a priority for the Fund as investing in affordable housing would make 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 in investing in the affordable housing market and which can have a social impact in the areas in which investment is made.

[1] To be a registered provider a specific criterion must be met which is set by the Regulator for Social Housing

GOVERNANCE

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, tax strategy, board composition, business ethics and anti-corruption approach.

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

The Fund, through LPPI, supports the case for well managed companies which have fair and transparent tax strategies, promotes fair, just and transparent employment practices, places importance on a diverse and inclusive workforce and considers reasonable and equitable pay differentials for employees (including appropriate living wage, such as Foundation Living Wage in the UK). 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.

The Fund's expectations of good corporate governance also 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.

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.

i. Active Ownership

The Fund does 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.

ii. Voting Globally

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

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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.

iii. Engagement through Partnerships

This 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 Local Authority Pension Fund Forum (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 its quarterly business meetings.

iv. Shareholder Litigation

This approach was adopted by the Fund in order to encourage corporate management to behave responsibly and honestly 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.

v. 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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