

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

Report of the Director of Finance and Commerce

Responsible Investments Report
Appendix 'A' refers

Part I	Corporate Priorities: Better Lives for all
Electoral Division(s): N/A;	
Contact: James Almond, Senior Governance Pensions Officer, Tel: 01772 539699, james.almond2@lancashire.gov.uk	

Summary

Purpose of the Report

This report provides an overview of Responsible Investment related activity by Local Pensions Partnership Investment Limited (LPPI) and the Lancashire County Pension Fund. Appendix 'A' is a dashboard style report from LPPI which provides the Committee with an update on responsible investment matters during the third quarter of 2024 (1st October to 31st December 2024.)

Recommendation

The Pension Fund Committee is asked to consider and comment on the detail within this report.

Background

1. Responsible Investment (RI) 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.
2. The report at Appendix 'A', prepared by LPPI, 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 RI Policy.

Key points from LPPI Report (Appendix A)

3. **Climate Change Metrics** – compared with Q2 2024, the following climate change metrics are:



- Brown exposure has dropped from 2.06% to 2.03% due to a reduced mark-to-market valuation of some existing Brown assets.
 - Green exposure has also dropped from 3.99% to 3.90% this is also due to a reduced mark-to-market valuation of existing Green assets.
 - This is detailed on page 5 of the appendix and is relevant to the climate change priority in the Fund's RI policy.
4. **Transition Pathway Initiative (TPI)** – this is relevant to the Funds climate change priority. TPI assesses the highest emitting companies globally on their preparedness for a transition to a low carbon economy.
 5. An expansion to the TPI assessment universe has occurred, which saw the number of companies exceed double the number prior to the expansion. This has resulted in more companies that the Fund invests in (through the LPPI Global Equity Fund) to be included in scope. Compared with Q1 2024, the breakdown in Management Quality ranking is proportionately the same as previous quarter. This expansion means numerous companies with lower emissions are covered and therefore, LPPI are to review their monitoring approach to ensure sensible calibration. Further detail is on page 3 of the appendix.
 6. **Stewardship Code** – this is relevant to the Fund's stewardship responsibility outlined in the RI Policy. LPPI has received confirmation from the Financial Reporting Council (FRC) that their submission to the UK Stewardship Code, in the form of the Responsible Investment & Stewardship Annual Report 2023-24, was successful. This means LPPI has retained signatory status to the UK Stewardship Code, with no areas requiring further improvement identified. The outcome was announced on 11th February 2025 on the [FRC website](#) where LPPI is named as part of an updated list of signatories.
 7. LPPI's stewardship code report is a comprehensive account of its investment beliefs, strategic focus areas, stewardship resourcing and governance, ESG integration processes and the engagement activity it undertakes with the full spectrum of market actors the LPPI interact with.

Local Authority Pension Fund Forum (LAPFF)

8. The LAPFF regular business meeting took place on 29th January and was attended online by a representative of the Fund. The following are some of the items discussed at the meeting:
9. **Conflict Affected and High-Risk Areas (CAHRAs)** – focused work continues in this area by LAPFF, and a proposal was brought to the group to approve additional resources are allocated to this area of work. Work has predominantly been centred around Palestine however it is recognised that CAHRAs is a worldwide issue, and the additional resources will allow appropriate attention to the wider issues.
10. **LAPFF Member Survey / LAPFF Workplan 2025/26** – ahead of the 2025/26 workplan being formed a survey of LAPFF member priorities was conducted. The results of the survey informed the draft workplan which was then approved at the business meeting.



11. Fund officers provided a response to the survey on behalf of the Fund based of the current and draft RI policy. LAPFF confirmed that the complete survey results indicated that member priorities generally aligned with the LAPFF workplan and provided useful feedback on other areas for consideration.
12. The top RI priorities identified from the survey were:
13. **Environment** – Climate Change, Nature and Biodiversity, and Water Stewardship.
14. **Social** – Human Rights in the mining sector, Human Rights in supply chains, CAHRAs.
15. **Governance** – Executive Pay, Board Diversity, Bribery and Corruption.
16. In general, these priorities align with the Fund's RI priorities, providing assurance that the work planned to be undertaken by LAPFF in the coming year is meaningful to the Fund and supports in meeting the Fund's RI priorities.

Fiduciary Duty

17. At the last meeting of the Committee, an update on developments on fiduciary duty was provided. Since then, on 15th January 2025 the Scheme Advisory Board has received an updated opinion on the fiduciary duty in the context of the LGPS entitled “Local Government Pension Scheme: Investments and Non-Financial Considerations from Nigel Giffin KC.
18. The KC’s opinion on fiduciary duty is wide-ranging but notably includes observations on how current powers to integrate environmental social and governance considerations and non-financial considerations may be affected by the Government’s 'Fit for the Future' proposals. The interpretation of proposals is that they will involve the two tests (of no significant risk of financial detriment, and good reason to think scheme members would be supportive) becoming a more integral part of the investment strategy setting process if administering authorities wish to incorporate non-financial considerations and will lead to greater specificity within the investment strategy about requirements deliverable by the pool. Further detail is on page 15 of the appendix.

Options and Proposals

19. This report and its appendix are for consideration and comment. There are no options or proposals available for the Pension Fund Committee to consider.

Consultations

20. LPPI and LAPFF have been consulted in relation to the context in this report and appendix.



Context and Implications

Legal (including Human Rights)

21. The Statutory Guidance for the LGPS Regulations sets out that “those responsible for making investment decisions must comply with general legal principles governing the administration of scheme investments” and “The law is generally clear that schemes should consider any factors that are financially material to the performance of their investments, including social, environmental and corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise”.

Financial

22. 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.

Equality and Diversity

23. The various engagements undertaken by both LPPI and LAPFF have potential impact on making positive change to equality and diversity matters within the companies which the Fund hold investments.

Risk Management

24. 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.

Appendices

Appendix	Title
Appendix 'A'	LPPI RI Report Q4 2024.

List of Background Papers

Paper	Date	Contact/Tel
None	None	None

Part II Reason

25. N/A

