

Open Report on behalf of Pete Moore, Executive Director of Finance and Public Protection

Report to:	Pensions Committee
Date:	5 October 2017
Subject:	BCPP Responsible Investment Policy and Corporate Governance Voting Guidelines

Summary:

This report presents the proposed Border to Coast Pensions Partnership (BCPP) Responsible Investment Policy and Corporate Governance Voting Guidelines for the Committee to consider.

Recommendation(s):

That the Committee

- 1) Approves the proposed BCPP Responsible Investment Policy and Corporate Governance Voting Guidelines;
- 2) Agrees to create and align a Lincolnshire RI Policy and Voting Guidelines to BCPP's; and
- 3) Notes the report.

Background

1. The 2016 Investment Regulations required that all funds state their approach to environmental, social and corporate governance (ESG) factors and how they exercise the rights attached to investments (including voting rights) in their Investment Strategy Statement (ISS). Lincolnshire's ISS was approved at the March meeting of this Committee.
2. Whilst the Fund does not currently have a specific Responsible Investment (RI) Policy, the Fund's approach to ESG is shown below:

The Fund considers itself to be a responsible investor and takes ESG matters very seriously and monitors investment managers' approach to ESG.

All of the Fund's investment managers consider that ESG factors can have a material impact on an investment's financial return. As a result, ESG factors are fully incorporated into their respective investment processes.

The Fund's external Investment Managers also consider the impact of climate change risks and opportunities in the investment process to engage with companies in which they invest to ensure that they are minimising the risks and maximising the opportunities presented by climate change and climate policy. External investment managers are required to report quarterly on their engagement activity.

The Fund does not hold any investments that it deems to be social investments.

The Fund will take non-financial considerations into account when making investments, but not where it is considered to have a detrimental financial impact.

The Fund has not excluded any investments on purely non-financial considerations and will continue to invest in accordance with the Regulations in this regard.

3. In respect of voting rights, the Fund currently votes on all its segregated assets (where possible) through the use of Manifest Voting Services, against a template agreed by this Committee, that is aligned with best practice in good corporate governance. The Fund does not currently have a specific set of voting guidelines that would be easily published.
4. The Fund has also produced a Stewardship Code Statement, showing compliance to the Financial Reporting Council's (FRC) code, and has been awarded a tier one assessment by the FRC.
5. The Government's decision requiring LGPS funds across England and Wales to work together to pool their investment assets, led to the formation of a number of investment pools. This Authority made the decision to join the Border to Coast Pensions Partnership (BCPP), a grouping of 12 funds with assets totalling in the region of £40 billion. Pooling offers an opportunity to develop and improve RI and stewardship for all the partner funds, with a specific post being created in the company's structure of RI and Voting Manager.
6. The initial transfer of assets is timetabled to begin from June 2018. Although the responsibility for RI will remain with the administering authority, the implementation will be fulfilled by BCPP under the new pooling arrangements. Lincolnshire will still have its own RI policy and Voting Guidelines, as will other partner funds. BCPP will develop its policies through collaboration with Partner Funds at Authority and Joint Committee level to ensure all are aligned. Voting will be done at pool level in order to have a consistent approach; therefore a collaborative RI and voting policy will be put in place which will be enacted by BCPP on behalf of all Partner Funds.
7. Attached at appendices A and B are the proposed BCPP RI Policy and Voting Guidelines. Work has been done within the project team to bring together the existing policies and practices across all partner funds, to create a draft policy and guidelines that reflect both current and best practice. Once approved by

all partner funds, these will be presented for approval to the BCPP Joint Committee.

8. The introduction in the **RI Policy** sums up the objective and benefits of BCPP acting as a responsible investor for the partner funds:

The primary objective of the Border to Coast Pensions Partnership (BCPP) is to ensure that all funds can meet their pension liabilities. This has to be achieved by producing superior financial returns whilst not undertaking undue levels of risk and protecting returns over the long term. Environmental, social and governance (ESG) issues can have a material impact on the value of financial assets and on the long term performance of investments, and therefore need to be considered across all asset classes in order to better manage risk and generate sustainable, long term returns. Well-managed companies with strong governance are more likely to be successful long-term investments. BCPP will be an active owner and steward of its investments, both internally and externally managed, across all asset classes.

9. The RI policy covers the areas below:

- What is RI?
- Governance and implementation
- Skills and competency
- Integrating RI into investment decisions
- Climate change
- Stewardship
- Voting
- Engagement
- Litigation
- Communication and reporting
- Training and assistance
- Conflicts of interest

You should note that BCPP will not divest from companies principally on social, ethical or environmental reasons.

10. There may be occasions when an individual fund wishes BCPP to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this. However this is expected to be an exception, rather than the norm.
11. The policy is very closely aligned to how the Lincolnshire Fund considers it should act as a responsible investor, with no contentious issues.
12. The **Corporate Governance Voting Guidelines** sets out the framework within which BCPP would administer and assess company and shareholder resolutions, on a case-by-case basis, to ensure that all votes are cast in accordance with the RI Policy. The introduction sets out the principles behind the voting guidelines:

Border to Coast Pensions Partnership (BCPP) believes that companies operating to higher standards of corporate governance along with environmental and social best practice have greater potential to protect and enhance investment returns. As an active owner, BCPP will engage with companies on environmental, social and governance (ESG) issues and exercise its voting rights at company meetings. When used together, voting and engagement can give greater results.

An investment in a company not only brings rights but also responsibilities. The shareholders role is to appoint the directors and auditors and to be assured that appropriate governance structures are in place. Good governance is about ensuring that a company's policies and practices are robust and effective. It defines the extent to which a company operates responsibly in relation to its customers, shareholders, employees, and the wider community. Corporate governance goes hand-in-hand with responsible investment and stewardship. BCPP considers the UK Corporate Governance Code and other best practice guidelines in formulating and delivering its policy and guidelines.

13. The Voting Guidelines covers the areas below:

- Company boards
 - Composition and independence
 - Leadership
 - Non-executive directors
 - Diversity
 - Succession planning
 - Directors' availability and attendance
 - Re-election
 - Directors' remuneration
 - Annual bonus
 - Long-term incentives
 - Director's contracts
- Corporate reporting
- Audit
 - Non-audit fees
- Political donations
- Shareholder rights
 - Dividends
 - Voting rights
 - Authority to issue shares
 - Disapplication of pre-emption rights
- Share repurchase
- Memorandum and Articles of Association
- Mergers and acquisitions
- Articles of Association and adopting of report and accounts
- Investment Trusts

14. The guidelines are very closely aligned to the current template that the Lincolnshire Fund currently uses with Manifest, and there are no contentious issues.
15. Officers recommend that the Committee approves the proposed BCPP RI Policy and Voting Guidelines, and agrees the creation of an aligned RI Policy and Voting Guidelines for the Lincolnshire Fund.

Conclusion

16. The Fund's chosen asset pool, Border to Coast Pensions Partnership (BCPP), will have the responsibility for implementing the RI policy and voting guidelines of the partner funds within it. BCPP has combined the underlying funds' policies and best practice within corporate governance, and created a draft policy and guideline framework.
17. The Committee are recommended to approve the draft documents, ahead of them being approved by the BCPP Joint Committee. In addition, as the Lincolnshire Fund does not currently have a specific RI Policy or set of publishable voting guidelines, it is recommended that the BCPP documents are used to create and align Lincolnshire Pension Fund documents.

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the author of this report.

Appendices

These are listed below and attached at the back of the report	
Appendix A	BCPP Responsible Investment Policy
Appendix B	BCPP Corporate Governance Voting Guidelines

This report was written by Jo Ray, who can be contacted on 01522 553656 or jo.ray@lincolnshire.gov.uk.

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