
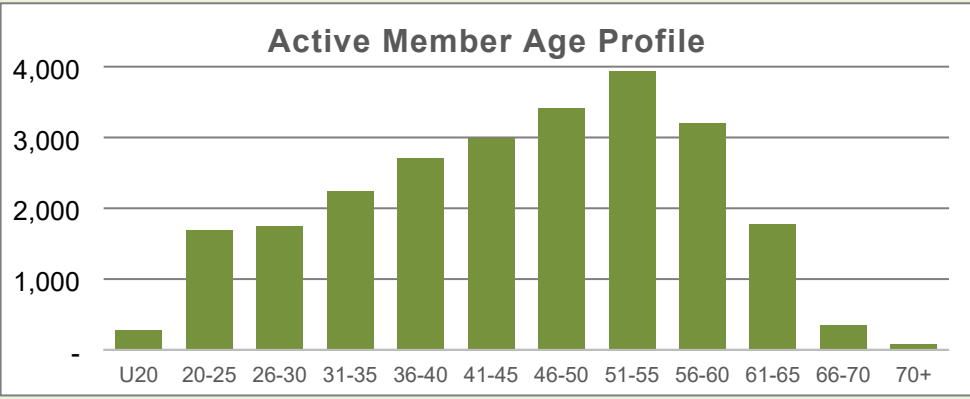


LINCOLNSHIRE COUNTY COUNCIL PENSION FUND

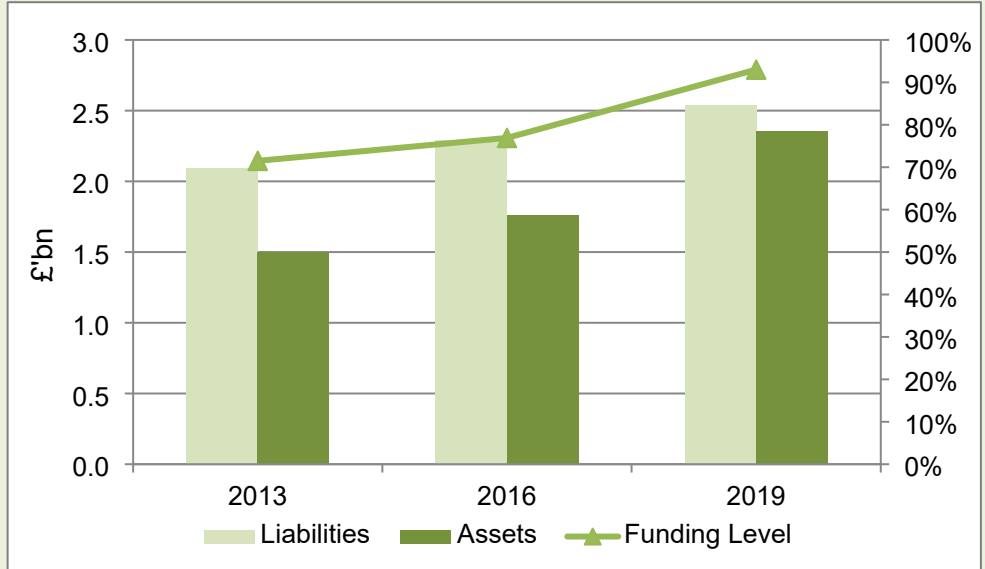
STEWARDSHIP CODE 2021/22

“Stewardship is 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”

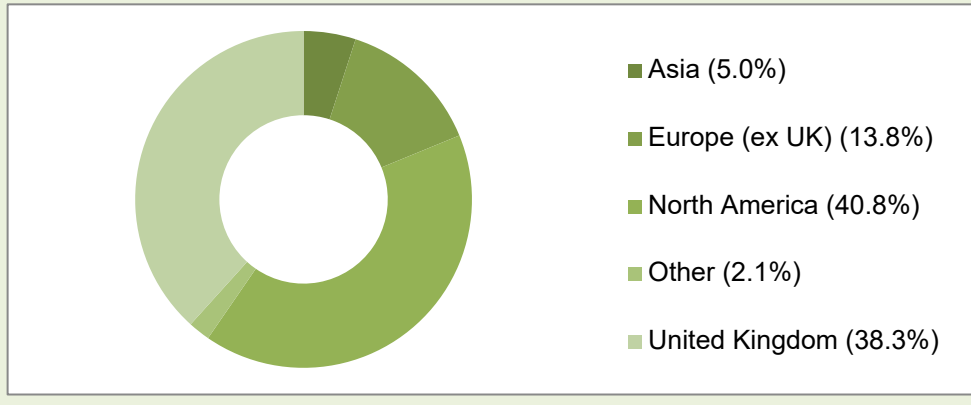
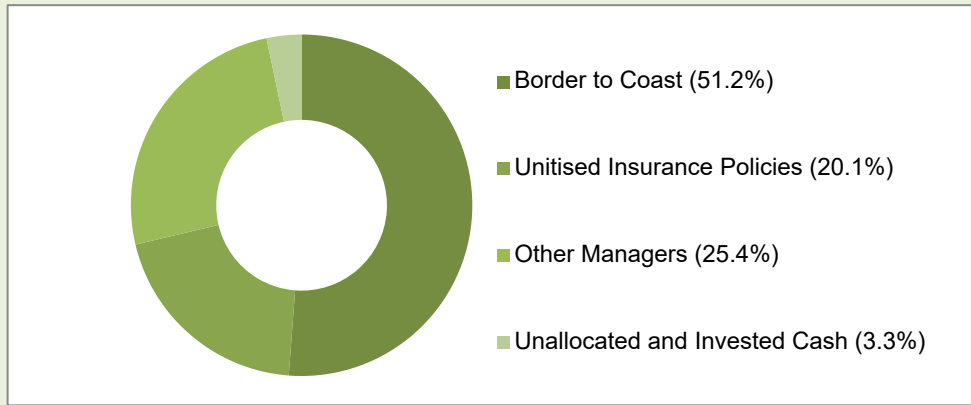
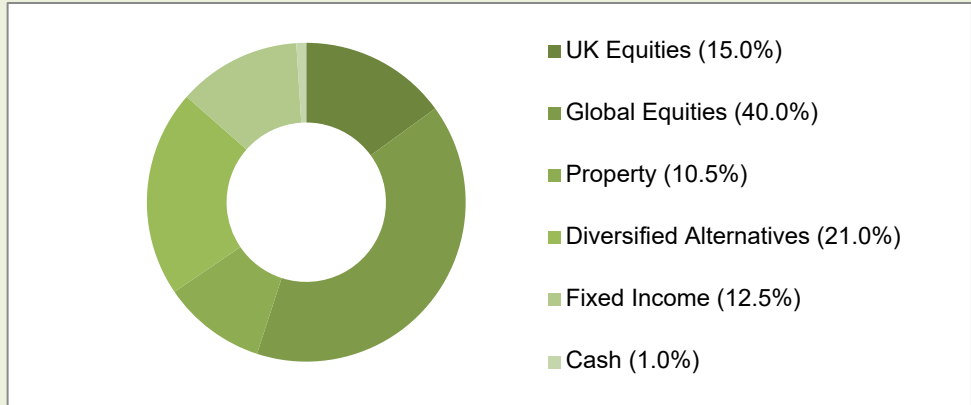
Background and Context

Fund Facts (as at 31 March 2022)																																			
Membership 73,608	 <table border="1"> <caption>Membership Counts</caption> <thead> <tr> <th>Category</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>Pensioner Members</td> <td>23,500</td> </tr> <tr> <td>Deferred Members</td> <td>25,500</td> </tr> <tr> <td>Contributing Members</td> <td>24,608</td> </tr> </tbody> </table>  <table border="1"> <caption>Active Member Age Profile</caption> <thead> <tr> <th>Age Group</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>U20</td> <td>400</td> </tr> <tr> <td>20-25</td> <td>1,700</td> </tr> <tr> <td>26-30</td> <td>1,800</td> </tr> <tr> <td>31-35</td> <td>2,300</td> </tr> <tr> <td>36-40</td> <td>2,800</td> </tr> <tr> <td>41-45</td> <td>3,000</td> </tr> <tr> <td>46-50</td> <td>3,400</td> </tr> <tr> <td>51-55</td> <td>3,900</td> </tr> <tr> <td>56-60</td> <td>3,200</td> </tr> <tr> <td>61-65</td> <td>1,800</td> </tr> <tr> <td>66-70</td> <td>500</td> </tr> <tr> <td>70+</td> <td>100</td> </tr> </tbody> </table>	Category	Count	Pensioner Members	23,500	Deferred Members	25,500	Contributing Members	24,608	Age Group	Count	U20	400	20-25	1,700	26-30	1,800	31-35	2,300	36-40	2,800	41-45	3,000	46-50	3,400	51-55	3,900	56-60	3,200	61-65	1,800	66-70	500	70+	100
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Funding Position



**Invested Assets
£3.1bn**



Lincolnshire Pension Fund

Lincolnshire Pension Fund (the "Fund") is part of the Local Government Pension Scheme (LGPS), which is a statutory scheme established by an Act of Parliament and governed by the Public Services Pensions Act 2013 (PSPA 2013). It is a contributory defined benefit scheme to provide pensions and other related benefits for all eligible employees of local government and other participating employers. The LGPS is a multi-employer scheme which is open to new membership. The LGPS operates on a 'funded' basis, this means that contributions from employees and employers are paid into a fund which is invested, and from which pensions are paid.

As the scheme is well funded and open to new members, with the majority of its employers being secure, tax-backed employers, the Fund is able to take a long-term view on investments and generally looks over a twenty year plus period when assessing its investment strategy. A young scheme member joining today may not be entitled to take their pension for another 50 years, so all investment decisions are made with a long-term focus.

Scheme regulations are set on a national basis, but individual Funds are managed by designated administering authorities at a local level. The LGPS, unlike private pension schemes, does not have Trustees but has a committee made up of elected Councillors and other interested parties, representing other employers in the Fund and scheme members. The Fund's Pensions Committee performs similar duties to Trustees, under the administering authority of Lincolnshire County Council, and is the decision-making body responsible for the investments and the administration of benefits under the scheme.

The Fund has oversight and scrutiny from a Local Pension Board, established under the PSPA 2013. The Board's role is to assist the Committee in securing good governance and administration of benefits for the scheme members and employers.

The purpose of the Fund is to provide pensions and other associated benefits to Lincolnshire's LGPS members when they fall due. In order to do this, it seeks to achieve sustainable, risk-adjusted performance of its investments over the long-term. More information on the Fund can be found in its [Annual Report and Accounts](#).

Fund Governance Structure

Lincolnshire County Council, as Administering Authority for the Fund, has delegated the investment arrangements of the Pension Fund to the Pensions Committee (the "Committee"), who decide on the investment policy most suitable to meet the liabilities of the Fund. Terms of Reference for the Committee are set out in the [Council's Constitution](#) (on page 48).

The Committee is made up of County Councillors, and employer and scheme member representatives as detailed in the table below. This ensures that both employers, who bear the financial risk of the Fund, and scheme members who will be, or are, receiving benefits from the scheme, are involved in the decision-making process. All members of the Committee have full voting rights. All councillors are required to follow the code of conduct set out within the constitution.

Body/category of bodies represented:	Membership
Lincolnshire County Council (elected Councillors)	8
District Council Representative (West Lindsey District Council)	1
Small Scheduled Body Representative (Witham Internal Drainage Boards)	1
Scheme Member Representative (Unison)	1
Total:	11

The Committee meet quarterly to provide oversight and challenge across all areas of the Fund. In addition to this, a further two meetings are held for manager presentations and there are two training meetings each year.

The Committee has a fiduciary duty to its employers and members and is required to take account of financially material considerations, whatever their source, and this includes environmental, social and governance considerations, including climate change. It recognises the vital role of being a responsible asset owner to meet its requirements to be a long-term sustainable investor.

In order to effectively carry out their role, the Committee obtain professional advice as and when required, from suitably qualified persons, including external advisers, investment managers and officers of the Council. The Fund's principle professional advisors are summarised in the table below:

Investment Consultant:	Hymans Robertson
Independent Advisor:	Peter Jones
Main Asset Managers (managing over 5% of assets):	Border to Coast Pension Partnership (Border to Coast) Legal and General Investment Management BlackRock Investment Management Morgan Stanley
Voting and Engagement Advisor:	Local Authority Pension Fund Forum (LAPFF)

Internally, the Committee is supported by Officers of the Council including the Executive Director of Resources (S151 Officer to the Fund), Assistant Director – Finance, Head of Legal Services (Monitoring Officer), Head of Pensions, and Accounting, Investment and Governance Manager. The key officers involved in the day-to-day management of the Fund, are set out below, with relevant qualifications and experience:

Name and title	Experience	Relevant Qualifications	Years Relevant Experience
Jo Ray Head of Pensions	Jo started in the Pensions team in 1999, as an Investment Officer, and has worked through positions of Assistant Investment Manager, Investment Manager and has been Head of Pensions since 2008. She has covered every aspect including internal portfolio management, fund accounting and governance. Prior to the pensions team Jo working in the accountancy and financial systems teams at the Council.	IMC	23
Claire Machej Accounting, Investment and Governance Manager	Claire joined the team in 2018, having previously worked as a Head of Finance for the Council in the Corporate team. She is a fully qualified accountant and has completed stage one of the IMC qualification and expects to complete the second stage in early 2023.	CPFA (studying IMC)	4

Additionally, the County Council established a Local Pension Board (the "Board") under Regulations 105 to 109 of the Local Government Pension Scheme Regulations 2013 (as amended) which operates independently of the Pension Fund Committee. The purpose of the Board is to assist the Administering Authority in its role as a scheme manager, as set out in the Board's [Terms of Reference](#). Such assistance is to:

- a) Secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme, and;
- b) Ensure the effective and efficient governance and administration of the Scheme.

The Board consists of four voting members; two representing Scheme Members and two representing Scheme Employers, and an Independent Chairman.

Pooling – Border to Coast Pensions Partnership

To meet the government's requirement to pool assets, the Fund joined Border to Coast Pensions Partnership ('Border to Coast') with eleven other like-minded Funds. Border to Coast was created in 2018 as a wholly owned private limited company registered in England and Wales, authorised and regulated by the Financial Conduct Authority (FCA) as an alternative investment fund manager (AIFM).

It is the Fund's intention to invest its assets via Border to Coast as and when suitable sub-funds become available. To date, the Fund has transitioned assets into four Border to Coast sub-funds: Global Equity Alpha, UK Listed Equity, Investment Grade Credit and Multi Asset Credit. This represented 51.2% of the Fund assets as at 31 March 2022. As Border to Coast will, overtime, be the main asset manager for the Fund's investments, a strong oversight and governance structure has been created.

The governance structure has been developed to allow Border to Coast to function efficiently and for Funds to control and hold it to account. Each member Fund has two roles with Border to Coast: that of shareholder and owner of the Company (at Lincolnshire this role is carried out by the Executive Director of Resources, the S151 Officer for the Council), and as an investor in the products managed by Border to Coast, which is the responsibility of the Pensions Committee. Oversight of the Company is undertaken through a Joint Committee, made up of the Chairs of the Partner Fund Pensions Committees. On a day-to-day basis, Fund Officers and Border to Coast work together to develop policies, sub-funds and provide continuous feedback to Border to Coast. The roles and responsibilities of Border to Coast, the Fund and its other stakeholders can be found in the Border to Coast [Governance Charter](#).

Employers and Scheme Members

The Fund, as a participant in the LGPS, is a defined benefit scheme. The Lincolnshire Fund has around 74,000 members who will or do receive benefits from the scheme. The Fund also has 260 active employers contributing to the scheme at 31 March 2022.

As a defined benefit scheme, the benefits received by members are set out in statute, as are contribution rates for active members. Unlike a defined contribution scheme, employers, rather than scheme members, bear the investment risk and are responsible for making up any funding shortfall that arises because of poorly performing investments. Contribution rates for employers are calculated at the triennial valuation, alongside the overall funding position.

The Fund regularly engages with both employers and members to ensure they are aware of developments which may have an impact on them.

Funding Strategy Statement and Investment Strategy Statement

Within LGPS regulations, the Fund is required to have and publish a Funding Strategy Statement and an Investment Strategy Statement.

Funding Strategy Statement (FSS)

This document is prepared in collaboration with the Fund's actuary and, after consultation with the Fund's employers and investment adviser, it is approved by the Pensions Committee. It sets out the process for the setting of employer contribution rates. The FSS is reviewed in detail at least every three years as part of the triennial valuation process.

The FSS sets out the objectives of the Fund's funding strategy:

- To ensure the long-term solvency of the Fund, using a prudent long-term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- To ensure that employer contribution rates are reasonably stable where appropriate;
- To minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return;
- To reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- To use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

Investment Strategy Statement (ISS)

This document sets out the primary objective of the Fund, which is to provide pension benefits for members and their dependents, as and when they fall due. It states how the Committee aims to fund the benefits in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets.

The ISS sets out the agreed investment beliefs, responsible investment beliefs, investment strategy, the approach to risk and how it will pool investments.

Round Up of the Year

The Covid-19 pandemic continued to impact markets during 2021, and the investment and administration teams slowly moved back to the office to work in a hybrid style, as much of the UK was moving to. Communication with employers and scheme members remained mainly virtual. The invasion of Ukraine by Russia in early 2022 caused much concern across the globe, and markets reacted accordingly. However, as an open defined benefit scheme, our focus is on the long term and the Funds investment strategy and approach were reviewed but unchanged. During the year meetings with the Committee and Board gradually moved back to in-person, as did some meetings with Border to Coast, Fund managers and other partners.

Key stewardship activity undertaken across the year:

- Working with the alternatives manager to increase the focus on private markets and include a specific bias towards investments in clean and renewable assets;
- Workshops with Border to Coast on Responsible Investment (RI) policies;
- Workshops with Border to Coast on achieving net zero within the investment vehicles;
- Approving the Border to Coast RI policies and aligning our own policies;
- Expansion of the standalone stewardship report, part of the quarterly suite of Committee reports; and
- Voting and engaging on key issues with a wide range of global companies, through our asset pool and LAPFF.

Areas for improvement in the stewardship activities undertaken by the Fund are highlighted in the action plan at appendix A.

PRINCIPLE 1: Purpose, investment beliefs, strategy & culture enable stewardship that creates long-term value for employers & beneficiaries leading to sustainable benefits for the economy, the environment and society

Activity:

The Fund's policies are the mechanism through which it expresses and implements its investment beliefs, strategy, and culture. They provide the framework for effective governance and stewardship – both of Fund assets and of the Fund as a whole. The Fund considers that having investment beliefs clearly defined assists it to choose managers and other service providers whose approach is most closely aligned to our own. These beliefs were developed through facilitated decision-making which challenged Committee members to consider investment and RI beliefs, to develop a strategy for the long-term benefit of the Funds employers and members.

The Fund formally reviews its Investment Strategy Statement and other policies annually in March to ensure that they remain fit for purpose (i.e. continue to reflect the Fund's purpose and investment beliefs as well as meeting regulatory requirements), and to provide an opportunity for the Committee to discuss and reflect on the current policy and consider if any changes are required. Details of the review of the policies in March 2021, in preparation for the year ended 31 March 2022, can be found at agenda item 12 in the [Committee Papers](#).

As a number of the Committee were newly appointed in May 2021, following Council elections, all new Committee members undertook induction training to ensure beliefs and culture are understood and embedded.

In addition, the investment beliefs and the responsible investment beliefs were reviewed in a training session held in February 2022. This involved a three-hour session facilitated by the Investment Consultant, exploring in depth whether the current sets of beliefs were still representative of the Committee's views, and challenging them to ensure that they could be translated into investment strategy.

Following this session, a paper was brought to the March 22 Committee to agree the final beliefs, which can be found at item 10 in the [Committee Papers](#).

The Pensions Committee, whilst being a political Committee under Local Government Regulations, is regularly reminded of its fiduciary duty to the scheme beneficiaries rather than to the Council or the elected members' constituents. The Committee monitors the responses to the members satisfaction surveys carried out by the administration provider, which are reported to each quarterly Committee meeting.

Outcome:

The five new members of the Pension Committee all received one-to-one training from the Head of Pensions before their first Committee meeting in July 2021. The training pack covered all aspects of managing the pension fund, including their fiduciary duty responsibilities. The training pack is attached here:



Committee and
Board intro - June 2021

The Committee reviewed and updated its Investment Beliefs that are detailed in our ISS and, as part of the review, added an overarching statement across the investment beliefs stating:

It is recognised that environmental, social and governance (ESG) issues are important to the long-term success of the Fund, and the Committee aims to integrate consideration of these issues into all aspects of the Fund's investment arrangements.

The full detail on the beliefs can be found at item 10 in the [Committee Papers](#), however after much discussion and debate, only one amendment was made to the RI Beliefs which is set out below with reasoning:

Belief 2: The Committee considers that company engagement, rather than disinvestment, is the better approach to fulfilling their responsible investment objectives. However, should a company not respond to engagement, disinvestment should be considered.

Disinvestment on a whole sector basis is not within the Committee's beliefs. Disinvestment is a blunt tool that is not believed to provide the best outcomes over the medium to long term. The Fund will, through its managers and other organisations, engage with companies to bring change, but will consider company disinvestment if engagement fails. While disinvestment on a whole sector basis is not considered appropriate, the Fund will not invest in companies whose products do not comply with the Geneva Convention.

This has been amended to change "could" to "should" on the consideration of disinvestment in companies not responding to engagement. In addition, the line in the narrative on companies not complying with the Geneva convention has been added.

The Pensions administration service reports show that generally scheme members are happy with the service received. The 2021/22 Fund Annual report showed the satisfaction levels across the four previous survey periods, and is shown below:

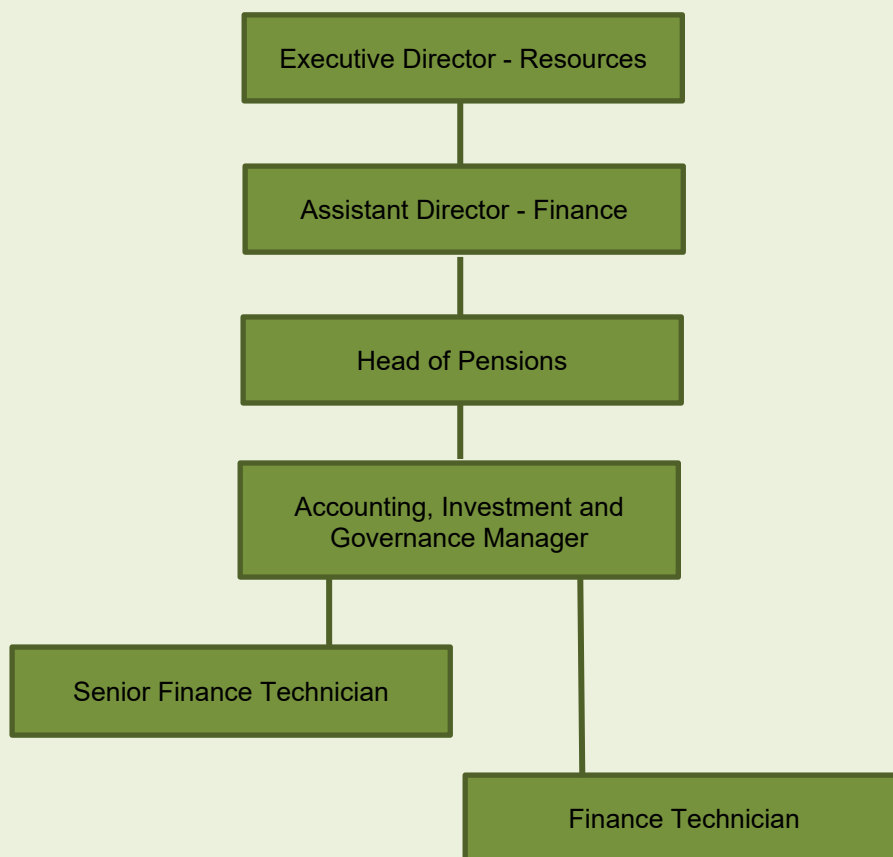
April – June 2021	July – Sept 2021	Oct – Dec 2021	Jan – March 2022
81.7%	96.9%	91.5%	95.3%

PRINCIPLE 2: Signatories' governance, resources and incentives support stewardship

Activity:

As is fully detailed in the background, Fund governance is the responsibility of the Pensions Committee, as set out within statute. To assist the Committee in discharging their responsibilities, quarterly meetings are held which provide various reports to enable them to have oversight and challenge across all areas of the Fund, including investments and responsible investment.

The structure of the internal team responsible for the management of the Pension Fund is shown below:



The Head of Pensions is responsible for the day-to day management of the Fund, and the Accounting, Investment and Governance Manager works closely with her and is responsible for the stewardship monitoring and reporting. Details of the experience of the key personnel are shown in the background, under Fund Governance. There is no performance management or reward system in place at the Council.

The structure was reviewed in early 2022, and a new post was established to enable more time to be spent on monitoring managers and their stewardship activities, in addition to providing other support in the team.

As the internal team is very small, the Fund operates an external manager structure, with all assets managed externally and with the Fund using expert professional services to support its stewardship activities:

- Border to Coast, the Fund's asset pool which invests on its behalf, who have a dedicated and growing team working on RI matters for all pooled investments, from tendering and selecting managers, to ongoing monitoring once a manager is selected and supporting industry wide initiatives. Border to Coast's Stewardship report can be found on its website at [Responsible Investment - Border To Coast - Sustainable Pension Investments](#);
- Robeco, who are the pool's appointed voting and engagement specialist, provide professional stewardship services to the Fund for the investments held with Border to Coast; and
- The final source of support in this area for the Fund is provided by the Local Authority Pension Fund Forum (LAPFF). LAPFF is a sector wide group with membership from 86 local authority pension funds (with assets valued at £350bn) and six LGPS pooling companies. LAPFF acts for its members on engagement with companies, providing voting alerts, collaborating with others to increase the voice of shareholders and responds to consultations on behalf of its members.

The Fund has established annual RI processes which allow the Committee to have the opportunity to contribute to the direction of RI work for the Fund. Quarterly activity then allows the Committee oversight of activities undertaken. This starts in December with the review and approval of RI and Voting policies. The policies relate to all Fund investments and are aligned with Border to Coast policies to ensure a consistent application across all Fund assets. The Committee also reviews key policy documents in March to ensure they reflect the current views of the Fund. The fund then reports RI activity to the Committee on a quarterly basis to highlight the stewardship activity undertaken over that period, to provide assurance and give them the opportunity to review and challenge the work undertaken on the Fund's behalf.

The Pensions team within the Council is very small, made up of just four employees. These have all been appointed through the Council's recruitment process, which monitors diversity across the Council. The Council has a [diversity and inclusion policy](#) and encourages a supportive and inclusive culture. People from different backgrounds, cultures and experiences bring value to the workplace and we believe that diversity and inclusion bring benefits. We work better and improve services if we have a supportive environment. By respecting these differences, colleagues, customers, communities, and other stakeholders can feel valued.

Within the Pensions team, there are two females and two males. The make-up of the Pensions Committee, as set out in the background, is taken from elected members, scheme employers and a scheme member representative. Diversity of backgrounds and opinions is brought into the Committee as Councillor members come from different political groups, with wide-ranging life and career experience. In addition, the co-opted members come from various backgrounds reflecting the views of employers and scheme members.

The Council encourages diversity across the Councillor members; however the Pension Fund has no influence over council candidates and committee members.

Outcome:

The Fund has a clearly defined and documented set of [RI policies](#) that it works to, which are published and available to all stakeholders. They are aligned with Border to Coast's policies so that we are all working towards the same aims and objectives. They were last approved by the Committee in December 2021.

The quarterly [Stewardship Report](#) has continued to be developed to allow members of the Committee greater opportunity to review stewardship activity undertaken on its behalf and influence the work of the Fund. The reports from LGIM, an external manager covering 15% of the Fund's assets, is now included in the stewardship report. This is a public report to allow the Fund's stakeholders to be aware of what we are doing. In addition, carbon exposure, as reported by Border to Coast, is included in the quarterly Investment Management report, which is a private report. Work has been underway on 2021/22 to enable these reports to be included in the public stewardship report for 2022/23.

The governance approach to support stewardship by using external professionals and the group weight of either Border to Coast partners or LAPFF ensures that maximum impact is achieved through the engagement and research done by professional experts. The Fund operates with a small internal team covering all Fund matters from investments to administration to governance. It believes that the use of external experts in this field provides the best use of resources for the Fund. It also allows the Fund to have a greater impact, as by working with others the Fund has a larger profile when approaching the market and individual companies.

The Committee meeting structure is currently being reviewed to enable greater time for the Committee to discuss stewardship issues and actions and it is expected to be approved and implemented for the 2022/23 Council year.

Recruitment to the new post identified as part of the structure review, a Principal Investment, Governance and Accounting Officer, was unsuccessful. A further review is being undertaken to create a career grade to grow someone into the role. It is expected that this will be recruited in 2023.

PRINCIPLE 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first

Activity:

The make-up of the Pensions Committee is mainly County Councillors, who are elected to serve their constituents within Lincolnshire; however their role in managing the Pension Fund is to serve the beneficiaries and employers of the Fund.

All members of the Committee undertake initial training when they join the Committee (see the training slides included in Principle 1). This training covers the [Code of Conduct and Conflicts of Interest Policy](#) and explains the role of the Committee to serve beneficiaries and employers. While making decisions for the Pensions Committee other political and county council considerations should be disregarded. This message is reinforced throughout the year at Committee meetings and as and when investment opportunities are discussed.

Outcome:

The Code of Conduct and Conflicts of Interest Policy is reviewed annually by the Committee and is published on the Fund's website.

The policy explains what a conflict of interest is and provides examples for Committee Members of potential conflicts. The policy stipulates that all potential conflicts of interest must be declared initially on appointment and then at each meeting of the Committee as matters arise in the normal course of business. The policy also explains how conflicts will be dealt with and resolved. The Fund also maintains a register which captures potential and actual conflicts.

Within the Conflicts of Interests Policy, Committee members are specifically required to have consideration of their stewardship responsibilities in managing the Pension Fund.

There were five new members of the Committee during the year, and all undertook the training mentioned above.

There may be a conflict of interest when making investment decisions if an opportunity arose in the local area. The investment might be beneficial to the local electorate, but not for the Fund. To avoid any potential conflict of interest, the Fund does not have any strategic commitment to local investment, and no local investments have been made in the 2021/22 financial year.

PRINCIPLE 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system

Activity:

The Fund conducts a full risk assessment of its activities which is reviewed annually by the Committee and Board, and is published as part of the Fund's Annual Report. The risk register includes the risk to the Fund's investments from market fluctuations, interest rates, currency, credit and failure by its investment managers or custodian. In addition, the Fund recognises the risk to investments from ESG factors including the impact of Climate Change that could materially impact long-term investment returns.

The Fund's foremost mitigation against market-wide and systemic risk is a well-diversified investment strategy. Therefore, it is important the Committee receives the appropriate training and that it commissions advice to be able to select from and monitor a wide variety of investments. The Fund has an appointed investment consultant for its strategic asset allocation, investment strategy and manager monitoring.

Part of the work undertaken by LAPFF on behalf of Lincolnshire Pension Fund and other members, is at a market-wide level. During the year LAPFF continued its focus in this area on failure in the audit and accounting regime, where regulation is 'consumer' based, rather than offering protection to shareholders. They also addressed the concept of "Paris-aligned" accounts, to assist in emphasising the disclosure of climate change risks. One of the key market-wide risks they have been concentrating on is that of a just transition to a low carbon economy.

With the Russian invasion of Ukraine, minds were concentrated on the geopolitical risks and the widespread impacts across the globe. The speed at which it happened and the shockwaves throughout global economies heightened the need to better understand and assess these risks. The Fund increased its communications with managers and requested regular reporting on Russian investments and activity in companies with high exposures to Russia. In addition, consideration has been given to where similar events could occur, and wider reporting of how geopolitical risks are considered by managers in their investment decision making process has been requested.

Outcome:

The Russian invasion brought geopolitical risks to the fore, and the Fund reported on a weekly basis initially to the Committee on direct and in-direct investment exposure to Russia, then moved to monthly reporting as markets stabilised. Communication with managers was increased to fully understand the impact on the Fund and any potential wider impact due to the sanctions or price moves as a result of the situation.

The Fund relies heavily on its managers to identify and respond to market-wide and systemic risks but plays a key role in challenging and questioning what they are doing, to seek assurance on their processes and procedures.

Border to Coast, the manager with the largest exposure to Russia, held a meeting with partner funds to explain the impact of the situation and what the options were, to enable discussion and involvement in the decisions to be made on those investments. It was agreed that as and when markets normalised, further discussion would be had about the actions to be taken. The Fund sought and obtained clarity on the wider risk framework around geopolitical issues and was content that it was effectively managed across all asset classes.

The identification and management of risk is a key part of the discussions and monitoring that the Pension Fund undertakes on a quarterly basis as a minimum. An example is from the January 2022 Committee, where the Committee challenged Border to Coast on their investments in China and other countries with poor human rights records, and how they monitored countries and companies across all risks.

LAPFF continues to make and support recommendations for improving company reporting to highlight market wide risks, particularly around climate change. As part of their ongoing engagement with companies, they encourage them to lead by example in how they respond to market and systemic risks.

PRINCIPLE 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities

Activity:

The Fund has a number of relevant policies that are reviewed as detailed below:

- The Investment Strategy Statement is reviewed annually or immediately after any significant change in investment policy and contains the Fund's RI beliefs. See principle 1 above.
- The Responsible Investment Policy and Corporate and Voting Policy is reviewed annually. This is reviewed and approved by the Committee in January in advance of the start of the voting season. It is aligned with the Border to Coast policies to ensure consistency of our policies across all holdings.
- The Conflicts of Interest Policy is reviewed annually. See principle 3 above
- The Training Policy is reviewed annually, and a training plan approved each year in July.
- The Risk Management Policy and Risk Register are approved annually and any changes to the risk register are reported to the Committee on a quarterly basis.

The Fund receives quarterly reports on stewardship activities undertaken by Border to Coast, Robeco and LAPFF, including voting activity, which are brought together in a report and presented to the Pensions Committee for discussion.

The Fund has been working with Border to Coast, in its advisory role, to provide an oversight report of the responsible investment and stewardship activity undertaken by LGIM, to provide an independent view.

The Fund sought assurance from the reporting it received from managers on their stewardship activity.

Outcome:

Policies have been reviewed at least annually. This ensures that they are kept up to date and are regularly considered by the Committee, which ensures that the policies continue to reflect their views on the direction of the Fund.

The Pension Board, as part of its regular consideration of the risk register at its September 2021 meeting, made recommendations to the Committee's December 2021 meeting, through the Board's [quarterly report](#), to introduce a new risk to the risk register. The Committee considered the recommendations and approved the additions.

Work on RI and Stewardship policies starts in advance of their review and approval by the Committee in December. During the year Fund officers work with Border to Coast to identify what is important to each Fund and how this should shape the direction of the Pool and Fund RI policies. In addition to this, work is undertaken with the Joint Committee to identify their priorities. This information is important to ensure all Funds

can support and will approve aligned RI policies. This streamlines the activities undertaken by Border to Coast.

Following the work the Fund had done with Border to Coast in their advisory role, the Committee received a report from Border to Coast in their oversight role of LGIM's stewardship activity for the year to March 2022. The report covered the areas of:

- Firm-level Policies and Resourcing;
- Investment Process and Research;
- Stewardship and Collaboration; and
- Climate Change

The oversight summary provided was that overall, LGIM was considered to meet the standards expected of an asset manager considered to be a leader in the responsible investment space.

The Fund has reviewed the Stewardship Code Statements from its key asset managers, Border to Coast and LGIM, to receive assurance that their reporting is fair, balanced, and understandable, which in turn enables the Fund to report that way. Both managers were successful in their submissions to the FRC for 2020/21.

PRINCIPLE 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them

Activity:

Communication and feedback from scheme members and employers are undertaken in a variety of ways:

- Annual employers meeting;
- Scheme member newsletters;
- Consultation with employers on key policy documents;
- All Committee and Board Meetings are open to members of the public and papers are published and available for review;
- The Fund publishes an Annual Report containing up to date details of investments and stewardship;
- Key policy documents are published on the Pension Fund website;
- Contact details for the Fund are also published for any comments from scheme members or employers;
- Direct contact with scheme members and employers; and
- Direct representation, with full voting rights, on the Committee and Board of scheme members and employers other than the County Council.

The Autumn 2021 Scheme member newsletter invited all our scheme members to contact us with their views, as set out in the extract below:

Stewardship and responsible investment are an integral part of the Fund's investment strategy and decision making, and the Fund works closely with Border to Coast to ensure that it invests in a sustainable way. Through Border to Coast, and also in its membership with the Local Authority Pension Fund Forum (LAPFF), the Fund engages with companies on key environmental, social and governance issues, such as carbon reduction, executive pay, human rights, and fair accounting. The Fund is always keen to hear its members' views on stewardship, so please contact us at pensions@lincolnshire.gov.uk with any comments you may have.

This was considered to be the most economical way of reaching out to all the 74,000 scheme members.

As detailed in the background, the investment time horizon is 20 plus years, and that is on a rolling basis, as the Fund is open to new members who may not be receiving their pension for another 50 years or more. Given the long-term relationship that scheme members have with the Fund, the Fund tries to ensure that members are aware of how their pension is invested and managed. As is also stated, the risk of investment decisions sits solely with the employers, in that their contribution rates will rise if returns are below that required. Scheme members' benefits are set out in statute and fully guaranteed, so whilst consideration of their investment preferences is given, and the Fund communicates how it manages its stewardship responsibilities, the main

objective is to ensure returns are sufficient to meet the long-term liabilities without large increases in employer contribution rates.

Outcome:

The annual employer meeting was held virtually on 2 March 2022. One of the presentations covered Stewardship and Responsible Investment specifically covering the Lincolnshire Fund and activities undertaken during that year. These are interactive meetings where all employers can question, challenge and input into the direction and activities of the Fund.

Over the year the Fund has responded to a number of requests from scheme employers on RI related matters proposals. An example of this was as part of a presentation to all district council employers held in March 2022, which covered the Fund's position on investments in Russia, updates on the Fund's RI related policies and sharing the quarterly stewardship reports with them. This included follow-up conversations as to how these employers could respond to queries from their employees on these areas.

Membership of the Committee and Board includes employer and scheme member representatives. Through the Committee and Board meetings held over the year, these representatives have had the opportunity to input into and comment on the fund's stewardship and investment approach.

The Fund is happy to engage with employers and scheme members on an ad hoc basis to provide additional information on Stewardship matters. Such responses are reflected on and used to consider the development of wider future communications.

Unfortunately, the request set out within the Autumn 2021 newsletter for views from scheme members received no responses, despite it being sent to all 74,000 scheme members. This has therefore not proved to be an effective method to encourage feedback. The Fund is working with its administrators to see what methods might encourage more engagement.

PRINCIPLE 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities

Activity:

The Fund's responsible investment beliefs and approach to assessing investments are included within the Investment Strategy Statement. This core policy document explains how the Fund seeks to systematically integrate stewardship and investment to fulfil its responsibilities. The Committee believe that, as long-term investors, integrating environmental, social, and corporate governance considerations into the investment management process improves risk adjusted returns and creates long term sustainable investments.

To support this, the Committee reviewed its Investment and RI Investment beliefs, as set out in principle one. As part of this process the Committee undertook an in-depth consideration of its general investment beliefs and its RI beliefs, receiving training and completing a comprehensive survey to develop these principles.

The Fund invests in a wide variety of asset classes across a number of investment managers, but predominately with Border to Coast who currently manage all actively managed equities and bonds. The Fund has worked with Border to Coast and other partner funds to formulate the company's approach to responsible investment and to ensure that it is aligned to the policies of the partner funds (including Lincolnshire). The Fund's RI Policy states that when analysing potential investments (across all funds, asset classes and geographies), they expect investment managers to consider ESG factors, including climate change, as an integral part of the investment decision-making process. Of particular relevance are factors which could cause environmental and reputational risk ultimately leading to a reduction in long-term value.

The Fund considers the ESG credentials, policies, and procedures as part of the appointment process for all prospective managers with the aim of ensuring that ESG is well established in the managers appointed.

The monitoring of appointed managers by Border to Coast includes assessing stewardship and ESG integration into the investment process and on-going management of the investments held in accordance with the approved policies. The Committee requires that all asset managers report on stewardship and ESG matters on a regular basis and be responsive to any queries. The Fund monitors the asset manager's stewardship activities, including their involvement in collaborative engagement activities, such as supporting the Transition Pathway Initiative, and Climate Action 100+.

The Fund monitors Border to Coast to ensure that it is fully integrated through quarterly reporting, quarterly meetings, and the annual report. In addition partner funds are heavily involved in the development of new funds having sight of the appointment process for managers and the due diligence undertaken.

Outcome:

Border to Coast's work during the year included improving their process of ESG integration and investment stewardship alongside training for the Border to Coast Board, the Joint Committee and Partner Fund pension committees and officers on a range of RI and stewardship-related topics. More detail can be found in their [RI and Stewardship Report](#) for 2021/22.

Following the investment into LGIM's Future World Fund, the Fund appointed Border to Coast to provide an oversight service to monitor the effectiveness of the stewardship of LGIM and provided a report to the Fund as mentioned in principle 5.

Below are some examples of the outcomes from manager engagement with the companies in which they are invested on our behalf, showing how incorporating ESG factors into investment decisions and on-going monitoring can achieve positive benefits for the Fund and therefore its clients and beneficiaries:

Border to Coast – Engagement with a European Investment Bank (listed equity)

Reason for engagement: The company was involved in separate client-related incidents, suggesting risk management oversight failures. Losses were incurred, and some personnel changes were made as a result. Many investors were concerned about the strength of risk management processes, governance structures and board competence.

Objectives: The aim of the engagement was to ensure that appropriate changes were made to restore confidence in the bank's risk management capabilities.

Scope and process: Meetings were held with the bank's CEO, CFO, and board members to address perceived failures of risk management and responses. The company did not immediately address the chairmanship of the board's risk committee. Engagement expectations were not met, and several investors publicly stated that they would vote against this board member's re-election. Prior to the annual shareholder meeting, the risk committee chair announced his retirement from the board. Engagement continued as the bank further addressed its risk oversight processes.

Outcome: The departure of the risk committee chair represented a significant change in leadership in this area. Additional engagements also focused on the operational integration of risk management, with executives taking on key roles demonstrating relevant experience in the field. Engagement and voting played a significant role in the bank's risk management improvements.

Border to Coast – Engagement with BP plc (listed equity and fixed income)

Reason for engagement: Carbon data of portfolios is monitored on an ongoing basis; this helps understand the climate-related risks inherent in our portfolios. Adequate disclosure by companies is, therefore, an important part of this process. The Carbon Disclosure Project ('CDP') is a leading initiative for climate data management and as such BP, as a major emitter of greenhouse gas emissions, would be a welcome addition to the CDP carbon database.

Objectives: To seek enhanced carbon data and emissions disclosure from BP.

Scope and process: Engagement with the Company took place over a number of months, instigated initially by letter, with follow up meetings also held with the Company's Investor Relations team.

Outcomes: BP was open to engagement and emphasised that it aimed to be recognised as an industry leader in reporting transparency. The Company has made good progress in this space and is listening to feedback. Following increasing investor focus in this area, BP confirmed it would be responding to the CDP disclosure questionnaire.

PRINCIPLE 8: Signatories monitor and hold to account managers and/or service providers

Activities:

The Fund monitors its investment managers and service providers, to hold them to account in the following ways:

- Asset managers provide monthly and quarterly performance reports which are received and reviewed by fund officers. Review here includes compliance with investment management agreements.
- Quarterly investment performance is reported to the Pensions Committee, highlighting any concerns. Where a manager's performance raises concern more frequent information is shared with the Committee.
- Annual presentations to the Pensions Committee and a three-year review period from all asset managers managing significant allocations in the fund, including an update of stewardship activities undertaken.
- Quarterly stewardship report to the Committee combining information from managers' quarterly stewardship and voting reports, highlighting engagement activities and where investment managers have voted against company recommendations. In addition this report updates the Committee on work undertaken by LAPFF on our behalf.
- Investment Consultant and Investment Advisor are monitored regularly against an agreed set of objectives.
- Border to Coast provide an advisory service to monitor the engagement and voting activity of LGIM, as one of the Fund's investment managers.

In addition to the above, as a partner fund within Border to Coast, further work is undertaken on our behalf in monitoring service providers to the pool. This includes:

- Provision of responsible investment and engagement support across all pooled investments (for example review of carbon content within portfolios).
- Analysis of voting records on a monthly basis and reporting of any variances to agreed policies by a third-party voting advisor.

Border to Coast provide an advisory service on the investment with LGIM to ensure that they are meeting the requirements of the Fund's and Border to Coast's RI policies, as detailed in Principle 5.

On a quarterly basis Border to Coast provide portfolios analysed against MSCI ESG Weighted Score and the MSCI ESG rating along with the ESG Rating Distribution (AAA to CCC). In its commentary, Border to Coast feature an investment each quarter to describe its nature, ESG rating risk, ESG impacts and direction of travel. This is presented to the Committee for discussion and challenge, where appropriate.

Outcomes:

The Committee were content that the service being delivered by the Independent Investment Advisor met their needs, and no changes to the objectives were required.

The advisory agreement with LGIM was completed in 2021/22, with the first annual report received as of 31 March 2022. Border to Coast provided reassurance to the Committee that they were content with the quality of the processes and activity undertaken.

The Committee has a better understanding of the ESG risks within the portfolios and how these are managed by Border to Coast and the underlying managers and can challenge the rationale of any investments that it deems a high risk. An example of this is from the January 2022 Pensions Committee, where Border to Coast Equity managers presented, and there was much discussion and questioning from the Committee on the investment case for China.

PRINCIPLE 9: Signatories engage with issuers to maintain or enhance the value of assets

Activity:

All investment management activity is delegated to external investment managers. The Fund's RI policy sets out its expectations of managers, as shown below:

- Assess their portfolios in relation to climate change risk where practicable.
- Incorporate climate considerations into the investment decision making process.
- Engage with companies in relation to business sustainability and disclosure of climate risk in line with the Financial Stability Board's Task Force on Climate related Financial Disclosures (TCFD) recommendations.
- Encourage companies to adapt their business strategy in alignment with a low carbon economy.
- Support climate related resolutions at company meetings where they reflect our RI policy.
- Encourage companies to publish targets and report on steps taken to reduce greenhouse gas emissions.
- Use the Transition Pathway Initiative (TPI) toolkit to assess companies and inform company engagement and voting.
- Vote against company Chairs in high emitting sectors where the climate change policy does not meet minimum standards, and/or rated Level 0 or 1 by the TPI, where there is no evidence of a positive direction of travel.
- Co-file shareholder resolutions at company AGMs on climate risk disclosure after due diligence, that are deemed to be institutional quality shareholder resolutions consistent with our RI policies.
- Monitor and review their fund managers in relation to climate change approach and policies.
- Participate in collective initiatives collaborating with other investors including other pools and groups such as LAPFF.
- Engage with policy makers with regard to climate change through membership of the Institutional Investor Group on Climate Change (IIGCC).
- Report on the actions undertaken with regards to climate change on an annual basis.

Engagement activities are a regular feature of the monitoring of the Fund's investment managers by the Fund's officers, and by the Committee through the quarterly RI Update report.

Outcome:

Examples of stewardship activities that have been published and reported to the Committee are:

- During the quarter ended 31 December 2021, LAPFF undertook engagements with companies across the topics of environmental risk, audit practices, social risk, employment standards, governance, human rights, and climate change. The outcomes of these engagements are shown in the company progress report, included in their [quarterly engagement report](#), and examples are:

- **Mining and Human Rights Report**

Objective: Over the last couple of years, LAPFF has engaged intensively with mining companies on their human rights practices. The engagement has focused on the participation of affected stakeholders in mining company activities and decision-making. Based on these engagements, LAPFF aimed to produce a report on its views regarding mining companies and human rights.

Achieved: LAPFF engaged business and human rights expert, Professor Robert McCorquodale, to lead on drafting the report. As sections of the report were drafted, they went to the LAPFF Executive and Business meetings for approval. Although the reports were written from an investor perspective, they have been presented through a human rights lens.

The five sections were as set out below:

- the first covered the basics of the international human rights law framework.
- the second followed with an explanation of how this framework applies to the mining sector, with examples of how human rights can be violated by mining companies and case studies based on human rights related litigation in the mining sector.
- The third presented LAPFF's views on engagements with top holdings – Anglo American, BHP, Glencore, Rio Tinto, and Vale – including how LAPFF understands these companies to be engaging with affected stakeholders.
- The fourth set out examples of where LAPFF believes that the five companies mentioned have not met their human rights responsibilities.
- The fifth contains a conclusion and recommendations for LAPFF members and other investors, for companies, and for public officials.

In Progress: These five reports have also been consolidated into a single draft report that LAPFF has circulated for comment to the five companies addressed and to affected communities whose accounts have been included in the report. After comments have been received, they will be assessed and integrated as appropriate before the report is released publicly.

- **Standard Chartered**

Objective: A meeting was held with Standard Chartered chair, José Viñals, to determine how the bank is progressing working with clients to reduce

carbon emissions and align with the bank's net zero by 2050 policy. Member concerns had been relayed to the chair about the bank's funding of Adaro, a major coal supplier which Standard Chartered's own analysis shows its activities to be aligned with an increase of 5-6°C in global warming.

Achieved: The company issued a roadmap for its progress to net zero in October which included 2030 targets to reduce financed emissions for thermal coal mining and oil and gas power, as well as plans to mobilise US\$300 billion in green and transition finance by 2030. There was further engagement in November, which confirmed an absolute target for coal, and that no investments would support any project expanding capacity.

In Progress: We have remained in touch with NGO contacts who have considered filing a resolution to the 2022 AGM asking for commitments not yet evident in the company's current transition plans. The company confirmed it will put a Say on Climate/Transition plan to the vote at the 2022 AGM.

- Border to Coast publish a [quarterly stewardship report](#) detailing the activity undertaken on our behalf, and examples are:

- **Engagement Theme Update: Global Controversy**

Events such as the war in Ukraine, the military regime in Myanmar, and the climate crisis have driven a renewed focus on the social responsibility of companies and their operations. In response to this, our voting and engagement partner, Robeco, has recently updated its approach to assessing the behaviour of companies through their enhanced engagement program. This new approach aims to ensure robust governance around oversight, alongside strengthened assessment of a company's behaviour with respect to commonly accepted international norms and ethical standards, such as the UN Global Compact (UNGC) and Organisation for Economic Co-operation and Development (OECD) Guidelines. Specifically, the updated approach includes:

- A strengthened oversight through a newly established Controversial Behaviour Committee, focusing on assessment of company behaviour and implications.
- The sourcing of robust data on UN Global Compact and OECD Guidelines breaches
- Onboarding a dedicated controversy engagement specialist to lead the renewed process and enhanced engagements with companies.

- **Engagement Theme Closure: Single-Use Plastics**

In 2019, Robeco launched an engagement program with a focus on achieving a material shift towards a more circular plastic packaging model, with a view to addressing the waste issue of single-use plastics.

Active dialogue was held with several companies, encouraging collaboration with each other, governments, NGOs, and other stakeholders along the plastic value chain on topics such as innovation, recycling and lobbying for regulatory change.

Five of our portfolio companies were included in the scope of the engagement (Danone, Henkel, Nestle, PepsiCo, and Proctor & Gamble) and

after three years of engagement, positive progress was seen in all five companies in a variety of areas, examples include:

- Nestle: Made progress in its roadmap to eliminate harmful plastics and deforestation mitigation. The process is expected to complete in 2024 through fully eliminating products made up of a mix of plastics and papers, including laminates, caps, and PVC liners.
- PepsiCo: Has established best practice in avoiding waste via its SodaStream platform. The platform enables users to track their intake, set goals and measure their positive environmental contribution via plastic bottles avoided.

Fund Officers have also received and monitored activity from other managers, examples are:

- LGIM, who manage approximately 15% of the Fund's assets in their Future World Fund, provide an annual [active ownership report](#), highlighting their approach to active engagement and what they have done over the year.

In 2021, LGIM, on our behalf, had 312 meetings or calls with companies, had 461 written engagements, with the top four engagement topics being climate change, remuneration, LGIM ESG score and company disclosure and transparency.

PRINCIPLE 10: Signatories, where necessary, participate in collaborative engagement to influence issuers

Activity:

As explained above and in the Fund's RI policy, all investment management activity is delegated to external investment managers. As part of this delegation the Fund's investment managers are able to decide if collaboration with other investors will benefit the engagement activities they carry out of the Fund's behalf.

Furthermore, through Lincolnshire's membership of the Border to Coast pool, the eleven partner funds have collectively pooled around £60bn of assets. Border to Coast is collaborating on RI activities through a unified RI policy and Corporate Governance and Voting guidelines which set the framework for the investment managers and enable them to utilise the combined weight of capital of the Border to Coast partner funds, to positively engage with the companies they invest with. Beyond the partner funds, Border to Coast collaborates with other investor groups to increase their influence.

In addition, the Fund's membership of LAPFF, representing around £350bn in assets under management, provides an effective means of collaboration. LAPFF itself is open to discussing any other forms of collective action with other investors and groups, expanding their reach.

Outcome:

The Fund monitors its investment managers' engagement activities through regular reports and discussions and welcomes instances where it sees its investment managers working with other investors. Examples include:

- Border to Coast coordinates quarterly Responsible Investment workshops with partner funds which work collaboratively to consider RI issues and coordinate responses to maximise the impact of the Partner Funds. At these workshops current RI issues and engagements are discussed and proposed responses to consultations and initiatives shared. There are opportunities to share resources to maximise the impact of partner funds and BCPP through a collaborative approach to our shared interests.
- Border to Coast, on behalf of the partner funds, is partnered with a number of organisations including: LAPFF, on a range of issues; Climate Action 100+, the 30% Club which promotes board and senior management diversity; the Workforce Disclosure Initiative; the LGPS Scheme Advisory Board Code of Transparency; the Institutional Investor Group on Climate Change; and the Investor Mining and Tailings Safety Initiative.
- Border to Coast collaborated in the support for net zero aligned audits campaign. In November 2021, along with 22 other investors, they co-signed a letter to the 'Big 4' auditors: PwC, Deloitte, EY, and KPMG. The letter set out expectations for auditors to provide net zero aligned audits of financial

statements and associated disclosures. This reflects the growing importance for investors to be able to understand whether companies are considering the material financial implications of the transition and providing appropriate disclosures. They also supported the equivalent letter to the French 'Big 4' auditors, sent in February 2022.

- Border to Coast have continued as a supporter of the Workforce Disclosure Initiative ('WDI'), and this year they have engaged with twelve companies as part of the annual survey to collect human capital management data, emphasising the importance of this type of data for investors and encouraged companies to respond. In Q2 2021, the WDI launched its findings report for its 2020 survey results. The survey covered topics including wage levels, staff turnover and workers' rights. 141 companies responded, up 20% from the previous year, with every economic sector covered.
- LAPFF joined the Asia Collaborative Engagement Platform for Energy Transition. Co-ordinated by Asia Research and Engagement (ARE), this initiative has brought about engagement with the region's largest listed financial institutions, as well as buyers and producers of fossil fuels.

The first AGM of note was that of Mitsubishi UFJ Financial Group, where members were advised to vote in favour of a resolution for disclosure of the group's strategy to align financing and investments with the goals of the Paris Agreement. LAPFF joined a collaborative investor call organised by ARE which sought further information on the strategy, and particularly on how the bank would address concerns over its provision of finance to fossil fuel expansion and deforestation. In May, the bank made a net zero declaration and joined the net zero banking alliance.

- LAPFF has also worked in collaboration with the Institutional Investor Group on Climate Change as part of its participation in Climate Action 100+ (CA100+) an investor collaboration to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

LAPFF is joint lead investor on ArcelorMittal and National Grid under this initiative, as well as being part of wider collaborative groups with several other companies. One such company is Lyondell Basell, where LAPFF participated in the AGM, asking the chair to put the company climate strategy to a vote at the 2022 AGM and annually thereafter.

- LAPFF joined a collaborative engagement effort headed by the Access to Nutrition Index. Alongside a host of other investors, LAPFF has written to key companies in the food and beverage sector which featured on the Index. These engagements seek to provide better levels of governance and accountability by introducing remuneration metrics linked to nutrition targets and what marketing companies are doing to encourage better eating habits.

PRINCIPLE 11: Signatories, where necessary, escalate stewardship activities to influence issuers

Activity:

The Fund sets out in its RI Policy how it expects its investment managers to take the appropriate action when operating on its behalf engaging in stewardship activities, this includes actions to escalate their approach when appropriate.

Outcome:

The Fund monitors its investment managers' engagement activities through regular reports and discussions and expects its investment managers to take the appropriate action when operating on its behalf engaging in stewardship activities, this includes actions to escalate their approach when appropriate.

The Fund has clear escalation expectations of its managers, should engagement not lead to the desired result. This is set out in its RI policy, which is aligned to that of Border to Coast. The Funds policy on escalation is:

The Fund (LPF) believes that engagement and constructive dialogue with companies is more effective than excluding companies from the investment universe. However, if engagement does not lead to the desired result, escalation may be necessary. LPF expects its appointed investment managers to monitor engagement activities and where progress is not made within a reasonable timeframe, then to escalate the process. This could be addressed in a number of ways: by conducting collaborative engagement with other institutional shareholders; registering concern by voting on related agenda items at shareholder meetings; attending a shareholder meeting in person and filing/co-filing a shareholder resolution. Where the investment case has been fundamentally weakened, LPF expects its appointed investment managers to sell the company's shares.

Examples of escalation from the Fund's managers are set out below.

- During 2021/22 Border to Coast engaged with an integrated mining company, which was highlighted for enhanced engagement due to several high profile environmental and health and safety issues. During the engagement, objectives were set for the company around their policies, transparency, mitigation, and risk management systems. Unfortunately, insufficient progress was made against the objectives and significant concern remained regarding the lack of oversight and lapses in risk management at the company. In response, Border to Coast:
 - assessed the materiality of the holding;
 - held internal meetings with the Portfolio Manager, research team, and RI team;
 - contacted other large shareholders, to understand their stewardship approach to monitoring and mitigating associated ESG risks to increase knowledge;

- held a meeting with the company and finally discussed the findings at the Investment Strategy Committee meeting to determine the appropriate action.

Following conclusion of the above escalation process, they recognised the company's progress whilst acknowledging there was further work required. The decision was taken by the Portfolio Manager to reduce the position in the company.

- At Border to Coast, during the annual review of an external manager, the RI team downgraded a manager due to the identification of perceived weaknesses across both integration of ESG and stewardship. The outcome of the review was reported to their Investment Committee and escalated with the manager, with whom they held further calls to discuss the improvements needed. Following this, there has been a material increase in the quality of the manager's disclosures and Border to Coast have greater confidence in the integration of ESG factors.
- Where LGIM's concerns are severe, or repeatedly ignored by the company, they will escalate their vote to address directors' accountability for such failures by opposing their re-election. They have done so at Informa, where their concerns over inappropriately structured and generous pay were not addressed over the years, and at Cineworld, which introduced highly geared share incentives for directors while staff were laid off or furloughed. The rationale for any votes against management are disclosed on their website and at times may also be pre-declared as was the case for Informa and Cineworld.

PRINCIPLE 12: Signatories actively exercise their rights and responsibilities

Activity:

Exercising rights and responsibilities is fundamental to improving investment outcomes. Rights exist primarily through shareholdings but can be derived through other means. When making an investment, the associated rights and responsibilities are clearly understood by the Fund and its investment managers from the outset.

As an indirect asset owner the Fund requires external managers to make best use of these rights so that its responsibilities are fulfilled to the greatest effect. As mentioned in previous principles, external managers are required to report on how they have actively exercised their rights and responsibilities.

The Border to Coast voting policy is reviewed each year considering developing corporate governance standards and evolving best practice. This review is led by Border to Coast with the eleven partner funds being heavily involved. The policy is also reviewed by Robeco, using the International Corporate Governance Network Global Principles, the UK Stewardship Code, and the UN Principles for Responsible Investment as benchmarks.

As the Fund has aligned its policy to that of Border to Coast, the approaches are identical.

The Fund's [Corporate Governance and Voting Guidelines](#) sets out how it expects managers to approach supporting or opposing company management, depending upon the circumstances. This also sets out the expectations that the Fund has of its managers:

The Fund requires all appointed investment managers to vote on its behalf, in line with best practice guidelines. As both a shareholder and a client of Border to Coast, the Fund continues to monitor their voting policy and guidelines to ensure that they are aligned with the Fund's principles and reflect current best practice. Managers are required to report their voting and engagement activity on a quarterly basis.

Voting records where votes are cast against management, and additional wider voting activity provided by Border to Coast on the Fund's investments, is included in the quarterly RI Update Report to the Committee.

The managers of the Fund's equity holdings are Border to Coast and LGIM, and the Fund seeks assurance from them on the process of managing the voting rights for shares held. Border to Coast has a dedicated Responsible Investment team which sits within the Investment Team and acts as a centre of expertise and helps manage and co-ordinate our activities. This team is supported by Robeco, the voting and engagement provider and other strategic partners. This team is responsible for ensuring that all voting rights are actively managed across the equity investments. LGIM believes voting is a fundamental tool used by investors to signal support for, or concern with, management actions to promote good corporate governance in the marketplace. The Investment Stewardship team exercises LGIM's voting rights globally, holding directors and companies to account.

The Fund's active fixed income investments are managed by Border to Coast through its externally managed vehicles. Voting decisions relating to bondholder meetings has been outsourced to the relevant external managers as this is an investment decision.

Where investments are made directly by the Fund, officers seek to gain a place on the advisory committee to oversee and influence investment and stewardship decisions.

Outcome:

A number of changes were made to the Corporate Governance and Voting policy as a result of the review in 2021. They include:

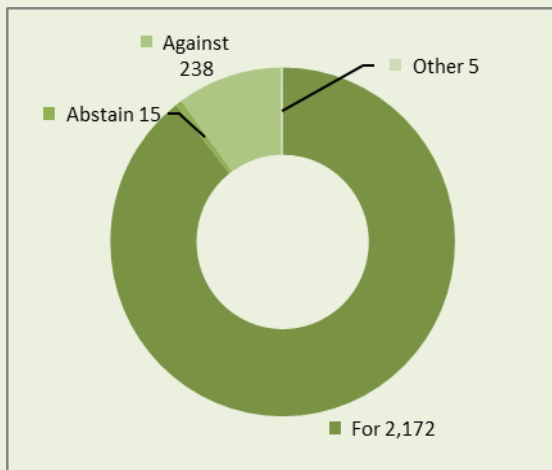
- strengthening the position on ethnic diversity at FTSE100 companies;
- splitting out executives' long-term incentives from other employees; and
- strengthening voting stance to include CA100+ net zero benchmark indicators.

Details of all the changes are available in the December 2021 [meeting papers](#) of the Committee.

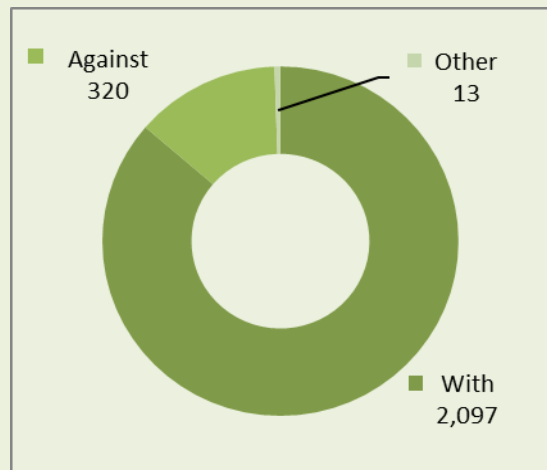
Examples of some manager's voting records for 2021/22 are shown below:

Votes cast for Border to Coast's Global Equity Alpha Fund (165 meetings)

Votes Cast

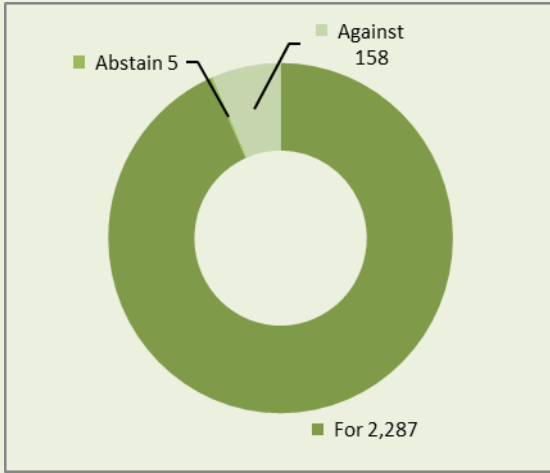


With or Against Management

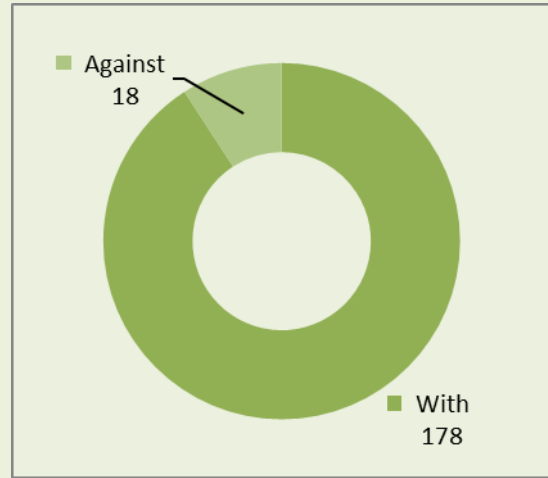


Votes cast for Border to Coast's UK Listed Equity Fund (141 meetings)

Votes Cast



With or Against Management



During 2021/22 the Head of Pensions has been appointed to the advisory committee for two residential property funds that the Fund invested in, and these meet on a quarterly basis.

Appendix A – Action Plan

Principle:	Action:	Target Date
PRINCIPLE 1: Purpose, investment beliefs, strategy & culture enable stewardship that creates long-term value for employers & beneficiaries leading to sustainable benefits for the economy, the environment and society	Consideration of any stewardship implications in the Investment Strategy Review.	October 2022
	To include a session on stewardship of investments and responsible investment beliefs at the Annual Employers Meeting in February and include a poll to better understand their views.	February 2023
PRINCIPLE 2: Signatories' governance, resources and incentives support stewardship	Continue quarterly reports and enhance where opportunities arise. Ensure that carbon reporting and ESG Statements can be moved from private into the public papers.	July 2023
	Provide more training to the Committee to better understand current issues and to clarify the Fund's strategy – e.g. net zero, work on reviewing the Investment Strategy.	On-going
	Change to the Committee structure to include more diversity by introducing a representative from the Academy Sector.	December 2022
	Following the unsuccessful appointment of a new post to provide additional resource for stewardship monitoring, develop a career grade post, who will come with different experience and will develop pensions/investment skills.	March 2023
PRINCIPLE 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first	Annual review of policy.	March 2023
	Provide any new members with training on conflicts as part of their induction training.	As required

Principle:	Action:	Target Date
PRINCIPLE 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system	Continue working with Border to Coast and LAPFF.	On-going
	To identify any opportunities for further collaborative work with other organisations.	On-going
	The Fund will further develop its risk assessment of the impact of Climate Change on its investments and plans to undertake an assessment with its investment managers of the impact of Climate Change on its investments.	On-going
	Respond to the DLUCH consultation on climate reporting and any other investment related consultations.	On-going
PRINCIPLE 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities	Expansion of Stewardship reporting to include significant private market managers.	March 2023
	To include stewardship within the overall external governance review of the Fund.	Awaiting Good Governance Review Outcome
PRINCIPLE 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them	Continue to include information on stewardship in the Member Newsletter and request direct feedback.	October 2022
	Explore with the administrator how we might engage with scheme members on Investment and Stewardship matters for feedback and input.	March 2023
	Develop a Stewardship page on the LPF website - providing key information to any interested parties.	December 2022
	Explore with employers (via the Annual Employers Meeting) how we could engage further with them on investment and Stewardship matters.	March 2023
	Employer meeting will provide an update on stewardship.	March 2023

Principle:	Action:	Target Date
<p>PRINCIPLE 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities</p>	<p>The Fund will continue to work with Investment Managers to make improvements in asset classes that are less developed in this area, for example: Morgan Stanley on Alternatives.</p>	<p>On-going</p>
<p>PRINCIPLE 8: Signatories monitor and hold to account managers and/or service providers</p>	<p>Increase information required from other managers (non-Border to Coast) to provide enhanced monitoring.</p>	<p>On-going</p>
	<p>Discussion with Border to Coast on changes to Global Equity Alpha fund with the addition of Emerging Markets and China Managers.</p>	<p>July 2022</p>
<p>PRINCIPLE 9: Signatories engage with issuers to maintain or enhance the value of assets</p>	<p>Expand the quarterly RI Update report to include more examples of engagement to provide more information to the Committee and Board, to assist them to challenge activity undertaken on our behalf. Include reference to the FWF ESG Report published quarterly.</p>	<p>On-going</p>
	<p>Work with Border to Coast and Morgan Stanley, the Fund's main alternatives manager, to expand the coverage of engagement across other asset classes.</p>	<p>On-going</p>
<p>PRINCIPLE 10: Signatories, where necessary, participate in collaborative engagement to influence issuers</p>	<p>Continue to work closely with Border to Coast and LAPFF to ensure that any collaboration is effective.</p>	<p>On-going</p>

Principle:	Action:	Target Date
PRINCIPLE 11: Signatories, where necessary, escalate stewardship activities to influence issuers	Where LAPFF issue voting alerts - share with managers and follow up to understand how they are voting on these issues and challenge where voted differently.	On-going
	Continue to challenge managers and request reporting of escalations, to ensure that they are fulfilling their responsibilities.	On-going
PRINCIPLE 12: Signatories actively exercise their rights and responsibilities	To work with managers other than Border to Coast to understand how and where they are able to actively influence investment and stewardship decisions outside of the equity space, on our behalf.	On-going