



Open Report on behalf of Andrew Crookham, Deputy Chief Executive and Executive Director - Resources

Report to:	Pensions Committee
Date:	11 April 2024
Subject:	Responsible Investment Update Report

Summary:

This paper provides the Committee with an update on Responsible Investment activity during the third quarter of the financial year 2023/24 (October to December inclusive).

Recommendation(s):

The Committee consider the report and discuss the Responsible Investment activity undertaken during the quarter.

Background

1.1 This report provides a summary of various Responsible Investment (RI) activities that have been undertaken on behalf of the Fund during the quarter and updates the Committee on any new initiatives relating to good stewardship. This includes work by Local Authority Pension Fund Forum (LAPFF), Border to Coast Pensions Partnership (BCPP), Robeco, who are appointed by Border to Coast to provide voting and engagement services, and Legal and General Investment Management.

2.0 Local Authority Pension Fund Forum – RI Activity

2.1 The Fund participates in the Local Authority Pension Fund Forum. LAPFF acts to promote the highest standards of corporate governance to protect the long-term value of local authority pension fund assets. The Forum's current engagement themes include: climate risk, social risk, governance risk and reliable accounting risk. They also act by collaborating with other investors and by responding to governance and industry consultations.

Outcomes Achieved through LAPFF Engagement

2.2 The latest LAPFF engagement report can be found on their website at www.lapfforum.org. Some highlights from the quarter include:

- Company engagement: LAPFF engaged with 44 companies over the quarter, on issues ranging from environmental risk and climate change to human rights and supply chain management. Including:
 - Climate and Insurance: LAPFF has re-started its 2020 engagement with insurance companies on their climate strategies and practices. LAPFF met with AIA, AXA, Legal & General, Lloyds Banking Group, and Ping An to discuss their progress on assessing its impact on climate change and integrating climate considerations into corporate strategy and operations. Given the interest of LAPFF members in natural resources – and specifically biodiversity – LAPFF also asked these insurers how they are addressing natural resources within their climate strategies. While there has been some progress in insurers’ understanding of the need to assess their impacts on climate change in order to understand their climate-related business risks (otherwise known as double materiality), in LAPFF’s view there has not been enough progress on this front. LAPFF would like to see greater consideration given to the role the insurance products can play in mitigating climate change through setting societal expectations of risk.
 - UN Forum and Working Group on Business and Human Rights: On the policy front, LAPFF was again invited to present its work at the UN Forum on Business and Human Rights in Geneva on 27 November. LAPFF’s video about its visit to Brazil to see communities affected by tailings dams was selected for screening out of, reportedly, a huge number of potential options. The video was well-received, with attendees stating that they would share it with colleagues, clients, and law students to drive home the on-the-ground impact that mining companies can have on people in host communities. LAPFF also submitted a response to a UN Working Group on Business and Human Rights consultation on investors, ESG, and human rights. The goal of this consultation is exactly to push alignment between law and practice on human rights. One of the main points LAPFF made is that corporate and commercial legal frameworks must align with international human rights law principles, for example of joint ventures, to facilitate good corporate practice.
 - Technology Companies and Human Rights: Governance of new technology is well recognised as an investment risk. However, such risks have come to the fore again with significant advances in AI technologies. Alongside the significant potential benefits of AI, it has the potential to adversely impact people’s employment and creates human rights risks, not least around discrimination. These risks are often greatest at companies developing and selling AI services and products. As with other human rights risks, LAPFF expects technology companies to have due diligence policies in

place to prevent negative impacts. LAPFF executive member Heather Johnson met with the German tech company SAP, as the company faces specific risks related to AI, including products which support HR functions. The meeting covered how the company was managing the risks of adverse human rights impacts, including discrimination. The discussion covered identification of risks and the company set out the framework and processes it has in place for preventing negative impacts. The meeting also covered how the company had responded to the German Supply Chain Due Diligence Act.

- Other work by LAPFF during the quarter included:
 - Collaborative engagement – Human Rights: LAPFF was invited to join Investor Alliance for Human Rights (IAHR) conflict-affected and high-risk areas (CAHRA) pilot project. The project has been initiated in part because of the escalation of conflicts globally, including in Ukraine, Nagorno Karabakh, and Israel and Gaza, which reignited this quarter. LAPFF had already been attending a number of IAHR webinars on this topic to understand better how to engage companies on CAHRA issues, so the opportunity to participate in this pilot is welcome, especially given LAPFF's engagements with companies operating in Russia, Myanmar, and the Occupied Palestinian Territories.
 - Collaborative engagement – Taskforce on Social Factors: LAPFF's chair is a member of the Taskforce on Social Factors, which was established by the DWP with cross departmental and multi-regulator involvement. The taskforce was established to outline how trustees could and should address social risks and opportunities. Specifically, the group has looked at the materiality of such issues, data on social factors, and the actions pensions funds can take. During the quarter, the group's initial findings were published for consultation. Within the report a series of recommendations were set out to pension trustees, the investment industry, regulators, government, civil society and businesses.

2.3 Further details on their work during the quarter can be found in the quarterly engagement report. Members of the Committee should contact the author of this report if they would like further information on the Forum's activities.

3.0 Border to Coast Pensions Partnership – RI Activity

3.1 Border to Coast is the pooling company chosen by Lincolnshire Pension Fund. Border to Coast is a strong advocate of RI and believes that businesses that are governed well and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. As a representative of asset owners, they practice active ownership by holding companies and asset managers to account on Environmental, Social and Governance (ESG) issues that have the potential to impact corporate value. They

also use shareholder rights by voting at company meetings, monitoring companies, carrying out engagement, and litigation.

3.2 Their approach to RI and stewardship is set out in their [Responsible Investment Policy](#), [Corporate Governance and Voting Guidelines](#) and [Climate Change Policy](#). These documents can be viewed on the Border to Coast website. They also publish a quarterly stewardship newsletter detailing the activity they have undertaken during the quarter, and the latest copy can be found on their website ([Quarterly Stewardship Report Q3 2023/24](#)). Highlights from their work during the quarter include:

- An overview of the quarter’s RI activity which included: voting and engagement activity; industry collaboration and recognition; and information on the Global Real Estate Funds launch.
- The industry update providing details of:
 - The United Nations annual climate change conference, COP 28 and the notable progress. Imraan Mohammed, the portfolio manager for Border to Coast’s Climate Opportunities proposition, wrote a piece for Net Zero Investor [outlining five key areas of long -term investment opportunity](#) to support the COP28 ambitions.
 - The Transition Plan Taskforce (TPT) published its final disclosure [framework](#) in October along with implementation guidance for sub-sectors including for asset owners and asset managers. The guidance was open for consultation with final standards expected to be published in February.
 - The FCA published its long -awaited policy [statement](#) on sustainability disclosure requirements (SDR) and fund labelling. This followed a consultation in October 2022. The proposed measures include the introduction of an anti-greenwashing rule, product labelling (adding a fourth fund label), and requirements on naming and marketing.
- High level information on voting activity for the quarter across all Border to Coast funds. Border to Coast voted at 126 meetings during the quarter, covering 909 agenda items. In 38% of meetings Border to Coast cast at least one vote against the recommendations of management. The report also includes voting case studies relating to: Westpac Banking Corp and Oracle Corporation.
- Engagement activity, which included 457 engagements, carried out by: external managers appointed by Border to Coast; Robeco, as the Pool's engagement and voting manager; internal portfolio managers; and by LAPFF. The report also includes case studies on engagement with water utility companies and with EasyJet.

4.0 Robeco – RI Activity

- 4.1 In addition to the direct RI work undertaken by Border to Coast, they have appointed Robeco to provide voting and engagement services. A copy of their quarterly activity report can be found on the Border to Coast website ([Robeco Quarterly Active Ownership Report Q3 2023/24](#)).
- 4.2 During the quarter they have engaged with companies on 112 occasions on topics including: environment, social, and corporate governance matters. This quarter's report provides details on modern slavery in supply chains, nature action 100, net zero carbon emissions, responsible executive remuneration, and a market insight into proxy voting.

5.0 Legal and General Investment Management – RI Activity

- 5.1 Legal and General Investment Management (LGIM) manage 15% of the Fund's portfolio, which is invested in the Future World Fund (global equities). The Future World Fund invests systematically in a globally diversified portfolio of quoted company shares. The index is designed to favour investment in companies which exhibit characteristics that have historically led to higher returns or lower risk than the market as a whole, and companies which are less carbon-intensive or earn green revenues. LGIM also builds ESG factors and responsible investing into all its investment activity. More information on this can be found on their website: [LGIM Responsible Investing](#).
- 5.2 On a quarterly basis they publish an [ESG Impact Report](#) detailing their engagement activity during the quarter, across all their investment products. The report covers the key activity from their Investment Stewardship team, details of significant engagement activity and voting during the quarter, and policy update. During the quarter LGIM engaged 481 times with 421 companies on topics including: deforestation, climate change, remuneration, ethnic diversity and diversity. 136 of their engagements were in North America, 126 in Asia Pacific (ex-Japan), 35 in Europe (ex-UK), and 90 in the UK.
- 5.3 LGIM also produce an ESG Report specifically for the Future World Fund. This details key ESG metrics including carbon footprint and weighted average carbon intensity data, as well as voting and engagements statistics for the last 12 months. This report is available on the LGIM website. The latest report available covers Q3 2023 ([Future World Fund ESG Report Q3 2023](#)).

6.0 Morgan Stanley – RI Update

- 6.1 During 2023, the portfolio's investments in renewable energy achieved significant milestones in the build-out of additional installed capacity. For example, the portfolio is invested in a solar power generation developer and operator fund that is developing and constructing solar and battery projects that are supporting the decarbonization of the global power grid. The company completed the

construction of 2.2 GWh of solar and 1.4 GWh of co-located storage, with projects totalling another 1 GWh expected to be completed in 2024.

6.2 During the fourth quarter, the portfolio invested in a wastewater treatment, water reuse and energy recovery-as-a-service company as a co-investment. The company supports customers in reducing water use and generating green energy, with approximately 2 bn gallons of water treated by the company's technology to date. Progress of this investment will be reported in upcoming quarters.

7.0 Voting

7.1 To enable the Fund to fulfil its stewardship responsibilities as an active shareholder, the active equity managers are required to report on their voting on a quarterly basis.

7.2 Border to Coast has produced summary proxy voting reports, which are attached at appendix A for Global Equity Alpha, appendix B Overseas Developed Markets Equity and appendix C for UK Listed Equities. During the quarter:

- Global Equity Alpha – 243 votes were cast, with 39 votes against management, and 45 meetings were attended. In 39% of meetings one or more votes were cast against management recommendations.
- Overseas Developed Markets Equity – 298 votes were cast, with 41 votes against management, and 35 meetings were attended. In 46% of meetings one or more votes were cast against management recommendations.
- UK Listed Equity – 158 votes were cast, with 7 votes against management, and 11 meetings were attended. In 45% of meetings one or more votes were cast against management recommendations.

7.3 Full details of the votes cast during the period October to December 2023 can be found on the Border to Coast website: [Integrated Full Details Voting Report Q3 2023/24](#).

8.0 Border to Coast Environmental, Social and Governance (ESG) Reporting

8.1 Border to Coast have worked with MSCI, the investment research company, to provide quarterly ESG and carbon reports. The reports include an ESG rating, weighted score for the quarter and the direction of travel, as well as information on the best and worst companies in the sub-fund. The report also includes details on carbon emissions and intensity.

8.2 For the quarter ended 31 December 2023 the ESG reports can be found at:

- Appendix D: Global Equity Alpha Sub-fund;
- Appendix E: Overseas Developed Markets Equity Sub-fund;
- Appendix F: UK Listed Equity Sub-fund; and

- Appendix G: Sterling Investment Grade Credit Sub-fund.

8.3 *“This disclosure was developed using information from MSCI ESG Research LLC or its affiliates or information providers. Although Lincolnshire County Council Pension Fund information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the “ESG Parties”), obtain information (the “Information”) from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness, of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose. The Information may only be used for your internal use, may not be reproduced or re-disseminated in any form* and may not be used as a basis for, or a component of, any financial instruments or products or indices. Further, none of the Information can in and of itself be used to determine which securities to buy or sell or when to buy or sell them. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.”*

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8.4 In summary:

- Global Equity Alpha – the fund’s weighted ESG score was stable over the period (remaining at ‘A’) and is above the benchmark.

There were a large number of upgrades in the quarter, including: Jollibee Foods and Meta Platforms which were both upgraded from ‘CCC’.

In terms of its carbon emissions and carbon intensity the Fund remains materially below the wider index on all metrics, owing to the underweight allocations to some high emitting sectors including oil and gas. Heidelberg Materials and Holcim account for around 45% of portfolio financed emissions, down from 62% in Q1 2023. Emissions fell during the period, owing primarily to an increased market cap and slightly reduced portfolio weight.

- Overseas Developed Markets Equity – the fund’s weighted ESG score remained consistent over the quarter (remaining at ‘AA’) and remains above the benchmark. This is due to the Fund holding a higher weighting of companies considered to be ‘leaders’ and a lower weighting to ‘laggards’.

During the quarter Hyundai Motor was downgraded to ‘CCC’ while Meta Platforms was upgraded to ‘B’. HPSP Co Ltd, a Korean company specialising high pressure heat treatment semiconductor equipment, rated CCC is a new holding in the Fund.

The Fund is currently below the benchmark for financed emissions and carbon intensity, but slightly above for Weighted Average Carbon Intensity (WACI).

Financed emissions decreased in the quarter. This was largely driven by strong performance in some of the higher emitting companies such as RWE, the German multi-national energy company; Holcim, the Swiss global building materials and aggregates company; and ArcelorMittal, the Luxembourg-based multinational steel manufacturer. The slight increase in WACI was driven by a net increase in portfolio weight of the top five contributors.

- UK Listed Equity – the fund’s weighted ESG score remained consistent over the quarter at ‘AA’ and remains in-line with the benchmark. The Fund holds a higher weighting of companies considered to be ‘leaders’, furthermore, the Fund does not hold any companies considered to be ‘laggards’ (CCC or B rated companies).

Several companies were upgraded in the quarter including Beazley, the British insurance company, which has featured previously as one of the bottom five rated issuers.

The Fund is currently below, or in-line with, the benchmark for all carbon metrics. Weighted Average Carbon Intensity (WACI) and financed emissions decreased in the quarter. This was largely due to exiting CRH, a building materials company after switching its main listing to the US and reduced weightings in Shell and BP.

- Sterling Investment Grade Credit – the fund’s overall ESG score was stable at ‘AA’ over the quarter. The fund scores below the benchmark on a weighted ESG score basis, driven primarily by an overweight position in UK Government Bonds (rated A) of ~5%.

The Fund is currently in line with the benchmark for portfolio financed emissions, carbon intensity and WACI. Financed emissions and WACI decreased in the quarter largely driven by an increase in market cap of the Funds’ largest emitters. An increase in market cap results in lower emissions per £M invested.

9.0 Stewardship Code Outcomes

9.1 The Financial Reporting Council (FRC) introduced the new UK Stewardship Code in 2020. The Code sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those who support them. The Code comprises twelve ‘apply and explain’ principles for asset owners, under the headings:

- Purpose and governance;
- Investment approach;
- Engagement; and
- Exercising rights and responsibilities.

- 9.2 To become a signatory to the Code, organisations must submit a Stewardship Report demonstrating how they have applied the Code’s Principles in the previous 12 months to the FRC. The FRC will assess the report, and if it meets their reporting expectations, the organisation will be listed as a signatory to the Code. Once listed, organisations must report annually to remain a signatory.
- 9.3 The Fund became one of the first Local Authority Pension Fund signatories to the Code, following submission of a report for 2020/21, and was successful again with its 2021/22 report. The Fund submitted its third report in October 2023 for the financial year 2022/23 and was notified last month that we have again been accepted as a signatory of the Code. The FRC also provided feedback on the submission and areas to be considered when preparing the submission for 2023/24.

Conclusion

- 10.1 This report brings to the Committee information on the various Responsible Investment (RI) activities that have been undertaken on behalf of the Fund during the quarter.

Consultation

a) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the Head of Pensions.

Appendices

These are listed below and attached at the back of the report	
Appendix A	Border to Coast Global Equity Alpha Voting Activity
Appendix B	Border to Coast Overseas Developed Markets Equity Alpha Voting Activity
Appendix C	Border to Coast UK Listed Equity Voting Activity
Appendix D	Border to Coast Pensions Partnership - ESG Quarterly Report - Global Equity Alpha
Appendix E	Border to Coast Pensions Partnership - ESG Quarterly Report - Overseas Developed Markets Equity
Appendix F	Border to Coast Pensions Partnership - ESG Quarterly Report - UK Listed Equity
Appendix G	Border to Coast Pensions Partnership - ESG Quarterly Report - Investment Grade Credit

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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