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13 September 2023

Pensions Committee

A meeting of the Pensions Committee will be held on **Thursday, 21 September 2023** in the **Council Chamber, County Offices, Newland, Lincoln LN1 1YL** at **10.00 am** for the transaction of business set out on the attached Agenda.

Yours sincerely

Debbie Barnes OBE
Chief Executive

Membership of the Pensions Committee
(8 Members of the Council and 4 Co-Opted Members)

Councillors E W Strengiel (Chairman), P E Coupland (Vice-Chairman), M G Allan, P Ashleigh-Morris, A W Briggs, S Bunney, P M Dilks and T J N Smith

Co-Opted Members

Steve Larter, Small Scheduled Bodies Representative
T Young, District Councils Representative
Tom Hotchin, Academy Sector Representative
1 Vacancy, Employee Representative

PENSIONS COMMITTEE AGENDA
THURSDAY, 21 SEPTEMBER 2023

Democratic Services Officer Contact Details

Name: **Thomas Crofts**
Direct Dial **01522 552334**
E Mail Address thomas.crofts@lincolnshire.gov.uk

Please Note: for more information about any of the following please contact the Democratic Services Officer responsible for servicing this meeting

- Business of the meeting
- Any special arrangements

Contact details set out above.

Please note: This meeting will be broadcast live on the internet and access can be sought by accessing Agenda for Pensions Committee on Thursday, 21st September, 2023, 10.00 am (moderngov.co.uk)

All papers for council meetings are available on:
https://www.lincolnshire.gov.uk/council-business/search-committee-records

PENSIONS COMMITTEE
13 JULY 2023

PRESENT: COUNCILLOR E W STRENGIEL (CHAIRMAN)

Councillors P E Coupland (Vice-Chairman), M G Allan, A W Briggs and S Bunney

Co-Opted Members: Tom Hotchin (Academy Sector Representative)

Officers in attendance:-
Michelle Grady (Assistant Director – Finance), Jo Kempton (Head of Pensions), Josh Drotleff (Finance Technician) and Thomas Crofts (Democratic Services Officer)

Others in attendance:-
Roger Buttery (Independent Chair – LGPS Local Pensions Board), Matt Mott (West Yorkshire Pensions Fund) and John Presley (Mazars)

10 APOLOGIES FOR ABSENCE

An apology for absence was received from Steve Larter (Small Scheduled Bodies Representative).

11 DECLARATIONS OF MEMBERS' INTERESTS

Councillor M G Allan declared an interest as a pensioner member of the Pension Fund.

Tom Hotchin (Academy Sector Representative) declared an interest as a contributing member of the Pension Fund.

12 MINUTES OF THE PREVIOUS MEETING HELD ON 8 JUNE 2023

RESOLVED

That the minutes of the meeting held on 8 June 2023 be approved as a correct record and signed by Chairman.

13 REPORT BY THE INDEPENDENT CHAIR OF THE LINCOLNSHIRE LOCAL PENSION BOARD

Consideration was given to a report by the Independent Chair of the Lincolnshire Local Pension Board which updated the Pensions Committee on the work of the Board during the past few months. During the last meeting, the Board focused on the following matters:

- The Board raised some disappointment that a few employers had not paid recent contributions on time; however, they welcomed the reduction in the use of temporary bank accounts.
- The Board raised concerns that regarding delays to the sign off of the Council's 2021/22 statement of accounts but recognised that the reason for this was outside of the Council's control and was a national issue concerning auditing. The Board felt that this matter needed to be raised more prominently with CIPFA and the Government.
- The Board also welcomed Peter Allan to its membership, who had replaced Gerry Tawton as an Employer Representative. The Board thanked Gerry Tawton for his services.

The Committee discussed the report, and it was stated the Committee shared the Board's frustrations regarding the delays to the sign off of the accounts citing the pressures on auditors to be cautious and the expectation that they undertake more detailed reviews, which had caused resourcing issues. It was also recognised that the increased demands placed on auditors had resulted in the withdrawal of firms from the sector, which placed even greater strains on facilitating audits.

RESOLVED

That the report and comments made be noted.

14 PENSION FUND UPDATE REPORT

The Head of Pensions gave an update to the Committee on Fund matters for the quarter ending 31 March 2023. The following matters were highlighted:

- Funding level changes were outlined and performance was above the benchmark.
- The Committee's Training Policy required that new Committee members to have completed the Pension Regulator's training toolkit within 6 months of their appointment. This was outstanding as new members had been recently added.
- The risk register had been updated to reflect changes associated with the loss of key staff and knowledge.
- The consultation on pooling investments had been published and reflected a requirement for Funds to have an ambition for investing in high growth companies and contributing to the levelling up agenda.
- Approval was sought for an additional career graded post within the Pensions team to develop skills and improve capacity within the team.

The committee considered the report and the Chairman stated that he had recently attended a conference of the Pensions and Lifetime Savings Association and reported that there had been discussion regarding the pooling of funds and that Border to Coast was the best performing of the existing pools. He welcomed other members to attend the Border to Coast Annual conference.

RESOLVED

1. That the report and comments made be noted.
2. That the Committee approve the additional post to the Pensions team.

15 PENSIONS ADMINISTRATION REPORT

Consideration was given to a report prepared by the Fund's pension administrator, West Yorkshire Pension Fund (WYPF). The Committee was guided through the report, and the following matters were highlighted:

- Staffing and resourcing presented the greatest challenge regarding administration performance. Notably, the administration of instances of death in service were affected – with two instances missing deadlines by three days.
  - An update was given on deferred benefits, transfers and refunds undertaken by the administrator.
- Recruitment was underway to fill empty posts in the administrator's Technical Team and Employee Relations Team.
- Over the last 12 months, as part of the collaboration of Shared Service Partners, a Risk Register has been produced, which considered risks faced by the shared administration service provided to all partners.
- Monthly posting phase 3 was due for release to employers once cyber testing had been completed. The system was designed to help employers complete the submitted file process. Once a 'go live' date was agreed, there was to be a rolling programme to encourage all employers to engage with the new system.
- All Board members of the West Yorkshire Pension Fund had now completed the Pensions Regulator training on pension scams and they had now signed up to the pension scams pledge with effect from April 2023.
- The annual revaluation date for CARE pensions required changes to align with the tax year, to ensure that scheme members did not face unnecessary additional tax charges through the annual allowance limits.

The Committee discussed the report and the following matters were raised:

- Lincolnshire had challenged the Fund administrator on underperforming indicators.
- In reasoning for some instances of underperformance, it was recognised that employer submissions were not always perfect and that submission deadlines were sometimes missed as data required cleansing.
- Concern was raised that when moving to the new monthly posting process, some employers would miss submission deadlines as data had to be correct before it could be submitted.
- It was clarified that there would be little improvement in the short term in relation to interfund transfer performance, as factors from GAD required to process them had only just been received, and the backlog would need to be cleared.

RESOLVED

That the report and comments made be noted.

16 ANNUAL REPORT AND ACCOUNTS 2022-23: DRAFT ANNUAL REPORT AND ACCOUNTS

Consideration was given to a report from the Head of Pensions, which presented the draft Annual Report and Accounts 2022-23. The Committee was guided through the report and attention was drawn to the following matters:

- The management arrangements of the Fund.
- The report of the Pensions Committee and Local Pension Board respectively, which gave updates on their activities over the year.
- The management report of the administering authority, which reported the following:
    - Scheme membership had increased.
    - Deferred beneficiaries remained stable.
    - The strategic asset allocation, as before the meeting of the March Pensions Committee.
    - A tracking of the retail price index and public sector earnings compared to Fund performance.
    - Performance across the various investment managers.
    - Information on the top 20 holdings in the fund – which had moved towards pooled funds and therefore appeared to be more concentrated.
    - A breakdown of asset class and the investment managers.
    - Funding level changes, stewardship and risks.
    - The business plan and associated budgeting.
- Employer contributions paid over the previous year.
- Asset Pooling, which included the net savings achieved.
- The investment background and performance of the major indices.
- An overview of the administration of benefits for scheme members, which included information on disaster recovery and customer satisfaction levels.
- A summary of the LGPS Contributions and Benefits
- Pension fund knowledge and skills.
- A breakdown of the Fund's account and notes, which covered:
    - The Committee's setting of standards
    - A summary of transactions taken place throughout the year
    - Valuations and capital commitments
    - A note that contributions exceed benefits paid, equating to a positive cashflow
    - A note that cash balances had increased ten-fold, showing the impact of increasing interest rates.

John Pressley from the external auditor, Mazars, then presented the Audit Strategy Development Update – he highlighted the following:

- One significant risk considered was regarding the valuation of Level 3 (hard to value) investments, which, by their nature, presented possible discrepancies in the valuation report. However, the report was in line with previous year.
- The audit opinion was due to be released in November 2023 on the 2022-23 accounts as further work needed to be completed.
- Additional work had been required on the 2021-2022 accounts, as the March 2022 triennial review had been completed before the accounts had been signed off.

Consideration was given to the report and the following comments were raised:

- Progress had been made nationally with the Financial Reporting Council regarding the position of local authority outstanding audits, but no changes were anticipated this year.
- Issues identified by the Pensions Ombudsman did not feature as part of this annual report.
- Some typographical errors were noted and were to be amended in the final report.

RESOLVED

1. That the report and comments made be noted.
2. That the Committee approve the draft Pension Fund Annual Report and Accounts

17 ANNUAL PENSIONS COMMITTEE TRAINING PLAN AND POLICY

Consideration was given to a report from the Head of Pensions, which presented the Training Plan and Policy to the Committee. The following matters were highlighted to the Committee:

- The Training Plan had been updated to reflect the new scheduling of items coming to the Committee alongside an explanation on how this new schedule would meet the requirements of the CIPFA Knowledge and Skills Framework.
- An annual visit to Border to Coast's offices in Leeds was to be scheduled and dates were to be confirmed. The visits would not include a Committee meeting in order to allow more time for training and questions.

Consideration was given to the report and the following comments were raised:

- The updated training materials on LOLA were to be circulated to all members of the Committee.
- For new members, there was a 6-month window for them to complete the Pension Regulator Training and a 12-month window to complete the LOLA training, in accordance with best practice.

The Chairman welcomed questions from the Committee to be raised with Border to Coast.

RESOLVED

1. That the Committee approve the training policy.
2. That the report and comments made be noted.
3. That the Committee approve the annual training plan.

The meeting closed at 11.30 am

Lincolnshire COUNTY COUNCIL Working for a better future

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

Report to:	**Pensions Committee**
Date:	**21 September 2023**
Subject:	**Responsible Investment Update Report**

Summary:

This paper provides the Committee with an update on Responsible Investment activity during the first quarter of the financial year 2023/24 (April to June 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 <u>Local Authority Pension Fund Forum – RI Activity</u>

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:

- Peak voting season: It has been a busy voting season for LAPFF. Representatives attended six AGMs. LAPPF also issued a record number of voting alerts, including over 50 climate-related shareholder resolutions, 55 voting recommendations for environmental, social and governance (ESG) resolutions at mining companies and technology companies. Oil and gas companies and banks were a further area of focus for LAPFF this AGM season, with LAPFF supporting the 'Follow This' resolutions at BP and Shell. It was interesting to note that many ESG resolutions gained traction this year, while the so-called 'anti-ESG' resolutions aimed at questioning the value of ESG issues in relation to financial performance, appeared to lose ground. LAPFF will continue to issue voting alerts throughout the year as appropriate.

  Voting alerts focused around:

  - Climate: Due to the scale of the investment risks and as part of a continued focus on mitigating climate risks, this area has been a focus for LAPFF, and they have issued a series of dedicated climate change voting alerts. These alerts recommend voting positions on climate-related shareholder resolutions with the aim of ensuring companies properly address the climate risks they face. The alerts covered companies in different sectors and centred on climate topics that LAPFF engages on, including transition plans, adequate targets, lobbying, and a just transition.
  - Mining: LAPFF issued voting alerts this quarter for Rio Tinto, Anglo American, Glencore, and Vale. The aim of these voting alerts was to draw attention to both the companies and investors that there is still significant work to do on both human rights and decarbonisation in respect of creating shareholder value for investors.
  - Technology: LAPFF issued voting alerts largely supporting ESG shareholder resolutions filed at technology companies over the last few years and did so again this year. These are part of an engagement escalation strategy where LAPFF issues voting alerts as an initial point of engagement with US companies, with which it deems there are ESG or financial concerns. LAPFF continues to have concerns about corporate governance and social practices at large US technology companies.

- LAPFF engaged with 84 companies over the quarter, on issues ranging from climate change and environmental risk to human rights and supply chain management. Including:

  - Kingfisher, who were cited in a Financial Times article as providing above inflation wage increases for its lowest paid staff, in contrast to the vast majority of FTSE100 companies. LAPFF sought a meeting to understand the company's approach to remuneration and employee engagement, particularly in the context of a cost-of-living crisis.

  - Next and Adidas about their continued operations in Myanmar. Myanmar has been under an extended state of emergency and fraught with a variety of human rights issues since the military coup in February 2021. The Ethical Trading Initiative posted guidance last September for companies in the country's garment sector, with many choosing to exit the country having exhausted efforts to leverage positive human rights outcomes.

- Other work by LAPFF during the quarter included:

  - Stakeholder engagement: LAPFF presented at a side event of the OECD Forum on Responsible Supply Chains. The aim of the presentation was to share LAPFF's learning from its visit to Brazil and, more broadly, its engagement with stakeholders affected by mining operations.

  - Consultation responses: The UN Working Group on Business and Human Rights ran a consultation this quarter on extractives, human rights, and the just transition. LAPFF submitted a consultation response that expressed support for good human rights and environmental due diligence legislation, and emphasised the need for improved stakeholder engagement by extractive companies.

  - Webinars: LAPFF partnered with IndustriALL to host a webinar on the importance of concluding negotiated, binding agreements rather than relying on voluntary, business-driven standards to reduce both human rights risk and business risk.

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 believe 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. A copy of the report for the latest quarter can be found at on their website (Quarterly Stewardship Report Q2 2023). Highlights from their work during the quarter include:

- An overview of the quarter's RI activity which included: voting and engagement activity during the quarter; as well as an update on the significant activities of the team. During the quarter, Border to Coast were the subject of an Accounting for Sustainability (A4S) case study showcasing how they have implemented the Task Force for Climate Related Financial Disclosures (TCFD) recommendations ahead of its mandatory reporting, which is required by June 2024. The case study sets out the work that has been completed to understand the risks and opportunities, and established more informed policies and processes for stewardship, including engagement and voting.

- The industry update provides details of:
    - The Financial Conduct Authority's (FCA) primary market effectiveness review.
    - The Institutional Investors Group Climate Change (IIGCC) new net zero standards for oil and gas companies and for banks. The Group also made further enhancements to the Net Zero Investment Framework, publishing guidance for bondholder climate stewardship and net zero in private equity.
    - The International Sustainability Standards Board (ISSB) issued inaugural standards with the aim to create a common language for disclosing the effect of climate-related risks and opportunities on a company's future prospects.
    - The European Central Bank (ECB) released its third review on banks' climate-related risk disclosures practices and trends.
    - Climate Change 100+, the largest investor-led climate change initiative, has entered its next phase to drive increased corporate climate action over the next decade.

- High level information on voting activity for the quarter across all Border to Coast funds. Border to Coast voted at 579 meetings during the quarter, covering 9,027 agenda items. In 72% of meetings Border to Coast cast at least one vote against the recommendations of management. The report also includes voting case studies relating to: Nextera Energy, Glencore, Amazon and Total Energies.

  The last quarter included peak voting season. During this period, Border to Coast enacted their strengthened voting policy on climate change. They voted against a significant number of board Chairs across oil and gas, mining, and materials holdings. They also publicly pre-declared decisions to vote against the Chairs of Shell and BP and to vote against Glencore's climate report to signal their intent to other investors. The increasing escalation is particularly warranted given recent backsliding on targets seen among some companies on the back of strong profits.

- Engagement activity, which included 409 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 engagement case studies relating to: Shell and BP, and a Just Transition to Net Zero.

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 Q2 2023).

4.2 During the quarter they have engaged with companies on 109 occasions on topics including: environment, social, and corporate governance matters. This quarter's report provides details on the Robeco's biodiversity engagement theme, human rights due diligence for conflict-affected and high risk areas, and good governance.

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 (LGIM Quarterly ESG Impact Report Q2 2023) detailing their 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 vote during the quarter, and policy update. During the quarter LGIM engaged 167 times with 146 companies on topics including: climate impact pledges, remuneration, board composition and strategy. 56 of their engagements where in North America, 46 in the UK and 29 in Europe (ex-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 Voting

6.1 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.

6.2 Border to Coast has produced summary proxy voting reports, which are attached at appendix A (Global Equity Alpha) and B (UK Listed Equities). During the quarter:

- Global Equity Alpha – 3,203 votes were cast, with 492 votes against management, and 197 meetings were attended. In 81% of meeting one or more votes were cast against management recommendations.
- UK Listed Equity – 1,468 votes were cast, with 78 votes against management, and 70 meetings were attended. In 67% of meeting one or more votes were cast against management recommendations.

6.3 Full details of the votes cast during the period April to June 2023 can be found on the Border to Coast website: Integrated Full Details Voting Report Q2 2023.

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

7.1 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 worse companies in the sub-fund. The report also includes details on carbon emissions and intensity.

7.2 For this quarter MSCI have changed their approach to ESG ratings. This raises the requirements for a fund to be assessed as 'AA' or 'AAA'. This has led to over 30,000 fund ESG rating downgrades across the industry, including impacting on the majority of Border to Coast funds. MSCI also moved away from applying an adjustment factor to fund ratings. This is now calculated as a simple weighted average of the ESG scores of the underlying holdings. Border to Coast is supportive of this methodology as it is much more intuitive and representative of a Fund's ESG characteristics, as well as being much less volatile quarter-to-quarter. Although there have been downgrades in the Border to Coast Sub-fund ratings all are rated A or above.

7.3 For the quarter ended 30 June 2023 the ESG reports can be found at:

- Appendix C: Global Equity Alpha Sub-fund;
- Appendix D: UK Listed Equity Sub-fund; and
- Appendix E: Sterling Investment Grade Credit Sub-fund.

7.4 *"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."*

**In accordance with the Licence Agreement between Border to Coast Pensions Partnership Limited and MSCI ESG Research (UK) Limited.*

7.5 In summary:

- <u>Global Equity Alpha</u> – the fund's overall ESG rating fell during the period from AAA to A, however the fund remains above the benchmark. This is due to a change in methodology at MSCI which is explained in paragraph 7.2 above.

  The fund remains materially below the wider index on all carbon metrics (financed emissions, carbon intensity and weighted average carbon intensity – WACI). This is due to the relative underweight allocations to some high emitting sectors including oil and gas.

  Heidelberg Materials and Holcim account for around 55% of portfolio financed emissions, down from 62% last quarter. Due to their involvement in cement production, the carbon metrics of the fund are highly sensitive to each of these companies' emissions, as well as any fluctuations in their investment value and/or allocation.

- <u>UK Listed Equity</u>– the fund's overall ESG rating fell during the period from AAA to AA, however the fund remains above the benchmark. This is due to a change in methodology at MSCI which is explained in paragraph 7.2 above. However, the fund benefits from holding a higher weighting of companies considered to be 'leaders'.

The Fund is currently below, or in-line with, the benchmark for financed emissions and carbon intensity. WACI remains slightly above the benchmark, however, the Fund's WACI decreased in the quarter. Financed emissions increased slightly in the quarter but remain below the benchmark.

Sterling Investment Grade Credit – the fund's overall ESG rating fell during the period from AAA to AA. This is due to a change in methodology at MSCI which is explained in paragraph 7.2 above. The benchmark was also revised down to AA from AAA.

The Fund is currently below the benchmark for portfolio financed emissions, carbon intensity and WACI, and has been trending downwards over time. Energy companies Enel and EDF contribute close to half of the Fund's financed emissions.

8.0 Stewardship Code 2022/23

8.1 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.

8.2 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, and the FRC expects a continuous improvement in stewardship activity undertaken.

8.3 The Fund became one of the first Local Authority Pension Fund signatories to the Code, following submission of a report for 2020/21 and remained a signatory after making a successful submission for 2021/22. Attached at appendix F is the draft Stewardship Code submission for 2022/23. This will be submitted to the FRC in October. Feedback from the FRC and notification of whether the Fund has made a successful submission will be received in Spring 2024.

Conclusion

9.1 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 UK Listed Equity Voting Activity
Appendix C	Border to Coast Pensions Partnership - ESG Quarterly Report - Global Equity Alpha
Appendix D	Border to Coast Pensions Partnership - ESG Quarterly Report - UK Listed Equity
Appendix E	Border to Coast Pensions Partnership - ESG Quarterly Report - Investment Grade Credit
Appendix F	Lincolnshire Pension Fund Stewardship Code 2022-23 draft submission

Background Papers

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

This report was written by Claire Machej, who can be contacted on 01522 553641 or claire.machej@lincolnshire.gov.uk.

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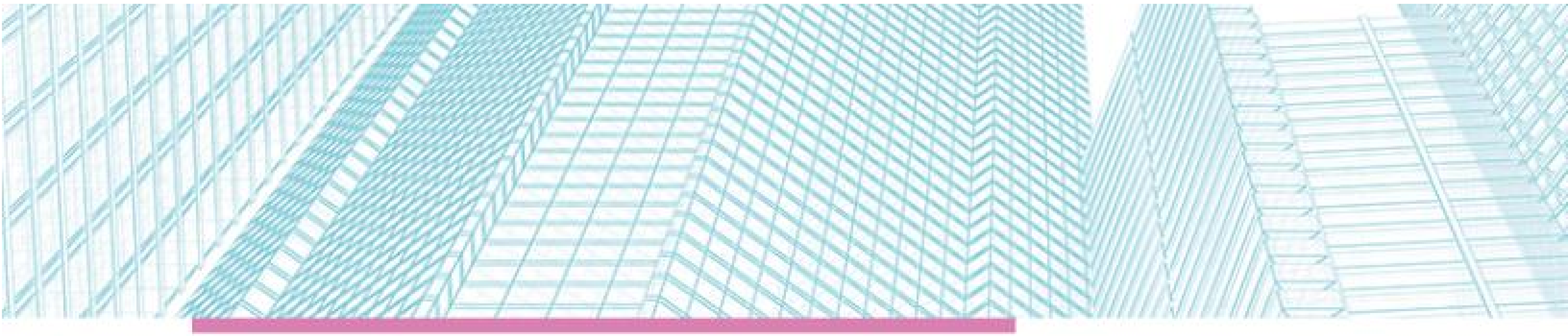
Border to Coast Global Equity Alpha



Proxy Voting Report

Period: April 01, 2023 - June 30, 2023

Votes Cast	3203	Number of meetings	197
For	2709	With management	2654
Withhold	0	Against management	492
Abstain	12	N/A	57
Against	437		
Other	45		
Total	**3203**	**Total**	**3203**

In 81% of meetings we have cast one or more votes against management recommendation.

General Highlights

2023 Banking Crisis: A cautionary tale of corporate governance
The spring of 2023 was far from serene. The world watched in shock as Silicon Valley Bank (SVB), Signature Bank and First Republic failed in the US, spreading fears of contagion to other regional banks and beyond. Credit Suisse, once a symbol of Swiss financial power and stability, collapsed after years of scandals, and was taken over by its long-time domestic rival UBS in a rushed deal orchestrated by the government.

One question is now on everybody's mind – what went wrong? The simple answer is corporate governance.

In recent years, environmental, social and governance (ESG) factors have gained growing importance. The 'E' and the 'S' have arguably drawn the most attention recently, led by the focus on combating climate change. There is now a growing awareness that effective governance is imperative to long-term ESG success, and that poor corporate governance can have far-reaching consequences for the economy as a whole. Governance – once a more traditional topic for investors – seemed to have gone out of fashion, but every time something goes wrong, investor attention refocuses on it.

Where are we at?

The Federal Reserve's report examining the SVB collapse concluded that the bank failed because of a "textbook case of mismanagement". The regulator found that the directors and management failed to manage risk, noting that the full board was neither adequately informed by management on risk, nor did they hold management accountable for effectively managing this risk. According to the report, the growth of Silicon Valley Bank Financial Group, the holding company of SVB, "far outpaced the abilities of its board of directors and senior management", while executive compensation packages incentivized managers to focus on short-term profit.

Similarly, a report from the Federal Deposit Insurance Corporation (FDIC) concluded that the collapse of Signature Bank was due to "poor management". The regulator noted that "the board of directors and management pursued rapid, unrestrained growth without developing and maintaining adequate risk management practices and controls appropriate for the size, complexity and risk profile of the institution."

While the report into the Credit Suisse collapse is yet to be released by the Swiss government, the lender was engulfed in one scandal after another in recent years. Its long list of missteps ranged from accusations of spying to money laundering, and pointed out deep-rooted corporate governance issues. In fact, the 2021 report by the Paul Weiss law firm into the Archegos debacle, in which Credit Suisse lost billions on highly risky financial swaps, reads like a case study of what can go wrong in a firm's corporate governance.

The report revealed no less than "a lackadaisical attitude towards risk and risk discipline; a lack of accountability for risk failures; risk systems that identified acute risks, which were systematically ignored by business and risk personnel; and a cultural unwillingness to engage in challenging discussions or to escalate matters posing grave economic and reputational risk." While the lender rolled out an extensive set of measures to remediate the shortcomings identified, the ensuing events which ultimately led to its demise suggest that these issues were far from being resolved.

What next?

Looking back, the enhancement of corporate governance regulations was often a result of corporate failures. The Sarbanes-Oxley Act was passed in the aftermath of the Enron and WorldCom scandals. The 2003 collapse of Italian food giant Parmalat prompted a reform of insolvency law. We can therefore expect that the unfolding crisis will again trigger regulatory reform. However, should this reform be the sole focus?

In a recent speech, the European Central Bank's Chair of the Supervisory Board noted the following:

"We should abandon the ambition of designing ever-more precise regulations that accurately measure all risks under any circumstances, covering even the most extreme business models and risk configurations. That approach only results in excessive complexity, with burdensome procedures for supervisors and excessive rewards for the few institutions that have the wherewithal to game the system. Instead, we should focus our efforts on empowering supervisory teams, within a strong accountability framework."

The reality is that a myriad of factors contribute and lead to good governance. It's not only about having experienced directors on the board. It is also about fostering a sound ethical tone at the top and having the right board dynamics, ensuring that directors are engaged, that they challenge management and promote a culture of accountability. It is also about ensuring that shareholders have the proper tools available to hold the board and management accountable.

As shareholders, we are co-owners of many companies, and thus have the right to vote at their shareholder meetings. We use our voting rights with the aim of influencing a company's corporate governance and other relevant investment-related decisions in the best interest of our clients. This ensures that we can hold companies accountable for poor performance across all three dimensions of ESG. Voting can be used to push for basic governance tools and should be used by shareholders to flag their concerns by voting against the appropriate agenda item. Corporate governance only functions well if shareholders make active use of their rights and hold management to account for their performance – something that we still need much more of.

Market Highlights

Key Trends in Japan's Proxy Voting Season: Embracing ESG, Diversity, and Shareholder Activism

This year's proxy voting season in Japan has emerged as a pivotal time for shareholders to influence corporate governance and advocate for change. Several notable trends have emerged, highlighting a shifting landscape that prioritizes environmental, social, and governance (ESG) factors, pushes for greater diversity and inclusion, and demands stronger shareholder rights and accountability.

In line with global trends, shareholders are placing increased emphasis on ESG considerations in many Japanese companies. They call for greater transparency and accountability, particularly on matters related to climate change, diversity, and sustainability. For example, at the recent shareholder meeting of a Japanese "mega-bank", shareholders voted on resolutions requesting the company to issue and disclose a transition plan to align its lending and investment with the Paris Agreement. Additionally, Japanese companies' shareholders assert their rights and demand stronger participation in the decision-making process. A record number of shareholder proposals have been submitted to companies, urging improvements in governance and higher returns. These proposals encompass a range of initiatives, including calls for share buybacks, and increased dividends. Robeco assesses all these shareholder proposals case by case, and we are generally supportive of proposals that aim to increase transparency on material ESG issues and enhance long-term shareholder value creation. Nevertheless, when reviewing the merits of these shareholder proposals, we identified numerous instances where the text of the resolution was overly prescriptive, and therefore decided not to support it.

Moreover, there has been a growing emphasis in Japan on greater gender diversity in corporate boards. Shareholders are increasingly advocating for concrete targets to be integrated into listing rules and the Corporate Governance Code, signaling their commitment to promoting diverse and inclusive leadership. The Asian Corporate Governance Association (ACGA), of which Robeco is a member, has recommended changes to the Corporate Governance Code over the following years to encourage both Prime and non-Prime Market-listed companies to enhance the role of women on boards and in management. Prime Minister Fumio Kishida's endorsement of a target to fill at least 30% of executive officer positions with women by 2030 for all Prime Market companies has set an ambitious goal. The Prime Minister's remarks have raised the bar and highlighted the importance of female leaders for the long-term sustainability of the Japanese economy.

To conclude, this proxy voting season in Japan has witnessed a significant shift in shareholder priorities, with ESG considerations, diversity, shareholder rights, governance reforms, and long-term value creation at the forefront. Shareholders continue to leverage their voting power to drive positive change, promote transparency, and hold companies accountable. These trends are reshaping the Japanese corporate landscape as shareholders actively contribute to the evolution of corporate governance practices and pave the way for a more sustainable and inclusive future.

Voting Highlights

Walt Disney Co (The) - 04/03/2023 - United States
Proposals: Advisory Vote on Executive Compensation, Shareholder Proposal regarding Report on Political Expenditures and Values Congruency, and Anti-ESG Shareholder Proposals.

The Walt Disney Company, together with its subsidiaries, operates as an entertainment company worldwide. It operates through two segments, Disney Media and Entertainment Distribution; and Disney Parks, Experiences and Products.

Several proposals were presented at The Walt Disney Company's Annual General Meeting (AGM), addressing both management matters and shareholder resolutions focused on social and governance issues.

Regarding the advisory vote on executive compensation, Robeco voted against the executive remuneration report. This decision was based on concerns regarding the height of the total compensation and issues with the remuneration package structure. Specifically, the Long-Term Incentive (LTI) plan raised concerns due to the short performance period of the adjusted ROIC, which is measured over three one-year performance periods with targets set annually, and the insufficient disclosure of the performance goals. Furthermore, the one-off awards granted outside of the scheme, particularly for the former chief corporate affairs officer whose employment contract lasted only for a few months, raised additional issues. The proposal received 86% support from shareholders.

With regard to the shareholder proposal regarding the Report on Political Expenditures, Robeco voted favorably. This decision was based on the belief that companies should review their political spending and lobbying activities to ensure alignment with their sustainability strategies and the long-term interests of investors and relevant stakeholders. Robeco also noted that The Walt Disney Company's current disclosures could be enhanced, and providing detailed disclosure would mitigate risks, especially considering the current political environment and the company's involvement in the Don't Say Gay Controversy.The proposal received 36% support from shareholders.

The AGM agenda also featured anti-ESG shareholder proposals, including the shareholder proposal regarding the Report on Corporate Operations with China and the shareholder proposal regarding Charitable Contributions Disclosure. Robeco voted against both. The rationale behind this decision was the concern that the objective of these proposals was to hinder the company's ESG efforts. After closely examining the proponents' supporting statements, Robeco concluded that the proposals were driven by political activism promoting anti-ESG rhetoric. Both resolutions received around 7% support from the shareholders.

Texas Instruments Inc. - 04/27/2023 - United States
Proposals: Advisory Vote on Executive Compensation, Shareholder Proposal Regarding Report on Customer Due Diligence.

Texas Instruments Incorporated designs, manufactures, and sells semiconductors to electronics designers and manufacturers in the United States and internationally. It operates in two segments, Analog and Embedded Processing.

The company’s 2023 Annual General Meeting (AGM) featured several routine agenda items and two shareholder proposals. Two of these items were particularly noteworthy, namely the Advisory Vote on Executive Compensation and a Shareholder Proposal Regarding a Report on Customer Due Diligence.

Upon analyzing the company's executive remuneration proposal, we identified significant issues regarding the total height of the compensation awarded to the CEO and the overarching structure of the remuneration policy. More specifically, we were concerned that the vast majority of the total payout was awarded through the company's Long-Term Incentive plan (LTI), which is not subject to performance criteria. In addition, the remaining awards connected to the short-term incentive plan (STI) were largely discretionary, and altogether these structural elements created a poor alignment of pay with performance. Due to our aforementioned concerns, we voted Against the proposal, which received ca. 85% support from shareholders.

Moreover, the Shareholder Proposal Regarding a Report on Customer Due Diligence was particularly noteworthy due to the context behind it and its connection with the Russia-Ukraine war. A report from Statewatch NGO, the Economic Security Council of Ukraine, and B4Ukraine was submitted to the UN Independent International Commission of Inquiry on Ukraine in late September 2022, which pointed towards evidence that products from Western Multinationals, including Texas Instruments, were found in Russian weapons used in the invasion. In light of this report, the shareholder proponent requested that the company commission an independent third-party report on Texas Instruments' (TI) due diligence process to determine whether its products or services contribute to or are linked to violations of international law. This proposal was also featured in ShareAction's Resolutions to Watch for 2023 list. We supported the proposal as we determined that it was sensible and material and that additional disclosures around this issue would benefit the company's stakeholders. The shareholder proposal was met with ca. 23% of votes For, which shows considerable support from shareholders.

American Express Co. - 05/02/2023 - United States

Proposals: Advisory Vote on Executive Compensation, Shareholder Proposal regarding Regarding Report on Risks from Abortion-Related Information Requests.

American Express Company, together with its subsidiaries, provides charge and credit payment card products, and travel-related services worldwide.

At the company's 2023 Annual General Meeting (AGM), shareholders had the opportunity to vote on multiple striking resolutions. Two notable proposals were the Remuneration Report and a Shareholder Proposal Regarding a Report on Risks from Abortion-Related Information Requests.

With respect to our vote on the executive remuneration package, Robeco voted Against. This decision was driven by concerns over the excessive nature of the compensation and its impact on shareholders. We were also concerned that the retention awards included in the package lacked proper structure and thus failed to provide sufficient incentives for sustained long-term performance. The proposal received 54% support from shareholders, signaling a strong message to the company about investors' disapproval of their remuneration practices.

Regarding the reproductive-health shareholder resolution, the proposal requested the company to report on any known and potential risks of fulfilling customer information requests to enforce laws criminalizing abortion. Robeco decided to support this resolution, which received 11.5% support from shareholders. The decision was motivated by the desire to promote transparency on material Environmental, Social, and Governance (ESG) issues. We recognize the importance of addressing risks associated with fulfilling information requests related to abortion, and we acknowledge that ongoing developments in the abortion debate and related laws can pose risks for the company. Therefore, we believe that shareholders can benefit from increased disclosures.

Amazon.com Inc. - 05/24/2023 - United States

Proposals: Advisory Vote on Executive Compensation, Shareholder Proposal Regarding Report on Customer Due Diligence.

Amazon.com, Inc. engages in the retail sale of consumer products and subscriptions through online and physical stores in North America and internationally.

Amazon's 2023 AGM agenda included a series of management proposals covering director elections, the auditor's ratification, executive compensation, an amendment to the stock plan, and a record of 18 shareholder proposals. This exceeded the 2022 record of 15 shareholder proposals, highlighting that investors are directing a high level of scrutiny to Amazon over a wide variety of ESG issues. Two proposals were particularly noteworthy.

The first was co-filed by Robeco and requested that Amazon commission a report assessing its customer due diligence process to determine whether customers' use of its products and services with surveillance, computer vision, or cloud storage capabilities contributes to human rights violations. The proposal received 34% support, which equates to over 41% support from independent shareholders if the 12.3% shareholding of the Executive Chairman and other Amazon board members is excluded from the calculation. This represents the fourth-largest level of support received by a shareholder proposal at Amazon's 2023 AGM, indicating that the company's customer due diligence on human rights is deemed a material topic for shareholders.

At the 2022 AGM, Amazon's Say-on-Pay proposal was met with high opposition (44%). We voted Against the resolution at the previous AGM and concluded that the company did not implement any material changes in response to the dissent. Most notably, the company does not grant any performance-based long-term incentives under its compensation plan and continues to grant significant one-off awards to executives; in 2022, it awarded a discretionary award with a grant date fair value of over USD 31 million, while in 2021, the value of the one-off grants awarded to executives stood at over USD 350 million. We have significant concerns that the company fails to align pay and performance and, therefore, once again voted Against the Say-on-Pay proposal, which was opposed by 32% of the votes cast at the meeting.

Meta Platforms Inc - 05/31/2023 - United States
Proposals: Shareholder Proposal Regarding Recapitalization, Shareholder Proposal Regarding Report on Risks from Abortion-Related Information Requests.

Meta Platforms, Inc. engages in the development of products that enable people to connect and share with friends and family through mobile devices, personal computers, virtual reality headsets, and wearables worldwide.

The company's 2023 AGM featured several shareholder proposals, addressing various topics ranging from governance practices and lobbying disclosures to environmental and social issues.

Similarly to last year, shareholders requested that the company initiate and adopt a recapitalization plan for all outstanding stock to have one vote per share. Notably, the company's CEO maintains majority control despite owning approximately 14% of shares outstanding. Meta's current ownership structure means that minority shareholders are entitled to disproportionately fewer voting rights and cannot reasonably hold management accountable for their actions, as the controlling shareholder largely determines voting outcomes. We supported the proposal because we believe that allowing one vote per share would considerably improve minority shareholder representation and act as a safeguard by providing them with a more significant voice on voting matters. This proposal received ca. 28% support from shareholders.

Another noteworthy shareholder proposal requested that the company issue a report assessing the feasibility of diminishing the extent that the company will be a target of abortion-related law enforcement requests. Following the revocation of constitutional abortion rights in the US, personal digital data can be used to enforce laws that ban or restrict abortion access. Meta is subject to receiving such data requests from law enforcers, as was the case in 2022 when the company complied with a police warrant demanding access to private messages from a mother facing felony charges for allegedly helping her daughter terminate a pregnancy. As a result, the company was under significant criticism and is likely to continue receiving similar warrants as more states prosecute abortion-related crimes. We voted For the proposal, as we believe that the company and its stakeholders would benefit from an assessment of whether Meta can better avoid similar controversies in the future. The proposal was met with ca. 10% support.

Alphabet Inc - 06/02/2023 - United States
Proposals: Election of Directors, Advisory Vote on Executive Compensation, Shareholder Proposal Regarding Human Rights Impact Assessment, Shareholder Proposal Regarding Assessment of Audit and Compliance Committee.

Alphabet Inc. offers various products and platforms in the United States, Europe, the Middle East, Africa, the Asia-Pacific, Canada, and Latin America. It operates through Google Services, Google Cloud, and Other Bets segments.

On June 2, Alphabet's Annual General Meeting (AGM) featured 13 shareholder proposals (SHPs) focusing on a wide range of Environmental, Social, and Governance (ESG) issues. As in previous years, none of these resolutions passed due to the company's multi-class share structure, which allows insiders to hold a majority of the voting power and largely determine voting outcomes. This is not in the best interests of shareholders and it is a deviation from best governance practices which, together with the fact the proposed composition of the Board of Directors did not reach the minimum requirement of 30% gender diversity, informed our vote Against the election of the Chair of the Board, who also chairs the Governance and Nomination Committees. Additionally, due to multiple concerns regarding the company's pay practices, such as discretionary annual bonus awards and the lack of sufficient recovery provisions, we also did not support the advisory vote on executive compensation.

An SHP that Robeco co-filed last year came back on the agenda this year, requesting the company to publish an independent third-party human rights impact assessment examining the human rights impacts of Google's targeted advertising. Given the Company's prominent role in the internet landscape, Alphabet plays a crucial role in ensuring the integrity of the information on its platform. Moreover, allowing any form of human rights violations on its platforms could lead to significant legal, reputational, and operational risks. For these reasons, we supported the resolution again this year.

Another notable SHP on the agenda requested the Board to commission an independent assessment of the role of its Audit and Compliance Committee in ensuring effective Board oversight, above and beyond legal compliance, of material risks to public well-being from company operations. In Alphabet's case, we noted that the Audit Committee is tasked with the oversight of a wide range of major risk exposures. Given the size and scope of the company's operations, the numerous controversies and lawsuits faced by the company, and the relevance for all its stakeholders, we are concerned that the committee might be overtasked with responsibilities. An independent assessment of the committee could help Alphabet and investors to ensure all risks are appropriately overseen and addressed. Therefore, we supported the resolution, which received approximately 8% support.

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Border to Coast UK Listed Equity Fund

Proxy Voting Report

Period: April 01, 2023 - June 30, 2023

Votes Cast	1468	Number of meetings	70
For	1388	With management	1390
Withhold	0	Against management	78
Abstain	2		
Against	78		
Other	0		
Total	**1468**	**Total**	**1468**

In 67% of meetings we have cast one or more votes against management recommendation.

General Highlights

2023 Banking Crisis: A cautionary tale of corporate governance

The spring of 2023 was far from serene. The world watched in shock as Silicon Valley Bank (SVB), Signature Bank and First Republic failed in the US, spreading fears of contagion to other regional banks and beyond. Credit Suisse, once a symbol of Swiss financial power and stability, collapsed after years of scandals, and was taken over by its long-time domestic rival UBS in a rushed deal orchestrated by the government.

One question is now on everybody's mind – what went wrong? The simple answer is corporate governance.

In recent years, environmental, social and governance (ESG) factors have gained growing importance. The 'E' and the 'S' have arguably drawn the most attention recently, led by the focus on combating climate change. There is now a growing awareness that effective governance is imperative to long-term ESG success, and that poor corporate governance can have far-reaching consequences for the economy as a whole. Governance – once a more traditional topic for investors – seemed to have gone out of fashion, but every time something goes wrong, investor attention refocuses on it.

Where are we at?

The Federal Reserve's report examining the SVB collapse concluded that the bank failed because of a "textbook case of mismanagement". The regulator found that the directors and management failed to manage risk, noting that the full board was neither adequately informed by management on risk, nor did they hold management accountable for effectively managing this risk. According to the report, the growth of Silicon Valley Bank Financial Group, the holding company of SVB, "far outpaced the abilities of its board of directors and senior management", while executive compensation packages incentivized managers to focus on short-term profit.

Similarly, a report from the Federal Deposit Insurance Corporation (FDIC) concluded that the collapse of Signature Bank was due to "poor management". The regulator noted that "the board of directors and management pursued rapid, unrestrained growth without developing and maintaining adequate risk management practices and controls appropriate for the size, complexity and risk profile of the institution."

While the report into the Credit Suisse collapse is yet to be released by the Swiss government, the lender was engulfed in one scandal after another in recent years. Its long list of missteps ranged from accusations of spying to money laundering, and pointed out deep-rooted corporate governance issues. In fact, the 2021 report by the Paul Weiss law firm into the Archegos debacle, in which Credit Suisse lost billions on highly risky financial swaps, reads like a case study of what can go wrong in a firm's corporate governance.

The report revealed no less than "a lackadaisical attitude towards risk and risk discipline; a lack of accountability for risk failures; risk systems that identified acute risks, which were systematically ignored by business and risk personnel; and a cultural unwillingness to engage in challenging discussions or to escalate matters posing grave economic and reputational risk." While the lender rolled out an extensive set of measures to remediate the shortcomings identified, the ensuing events which ultimately led to its demise suggest that these issues were far from being resolved.

What next?

Looking back, the enhancement of corporate governance regulations was often a result of corporate failures. The Sarbanes-Oxley Act was passed in the aftermath of the Enron and WorldCom scandals. The 2003 collapse of Italian food giant Parmalat prompted a reform of insolvency law. We can therefore expect that the unfolding crisis will again trigger regulatory reform. However, should this reform be the sole focus?

In a recent speech, the European Central Bank's Chair of the Supervisory Board noted the following:

"We should abandon the ambition of designing ever-more precise regulations that accurately measure all risks under any circumstances, covering even the most extreme business models and risk configurations. That approach only results in excessive complexity, with burdensome procedures for supervisors and excessive rewards for the few institutions that have the wherewithal to game the system. Instead, we should focus our efforts on empowering supervisory teams, within a strong accountability framework."

The reality is that a myriad of factors contribute and lead to good governance. It's not only about having experienced directors on the board. It is also about fostering a sound ethical tone at the top and having the right board dynamics, ensuring that directors are engaged, that they challenge management and promote a culture of accountability. It is also about ensuring that shareholders have the proper tools available to hold the board and management accountable.

As shareholders, we are co-owners of many companies, and thus have the right to vote at their shareholder meetings. We use our voting rights with the aim of influencing a company's corporate governance and other relevant investment-related decisions in the best interest of our clients. This ensures that we can hold companies accountable for poor performance across all three dimensions of ESG. Voting can be used to push for basic governance tools and should be used by shareholders to flag their concerns by voting against the appropriate agenda item. Corporate governance only functions well if shareholders make active use of their rights and hold management to account for their performance – something that we still need much more of.

Voting Highlights

BP plc - 04/27/2023 - United Kingdom
Proposals: Remuneration Report, Remuneration Policy, Director Elections, Shareholder Proposal Regarding Reporting and Reducing Greenhouse Gas Emissions.

BP plc engages in the energy business worldwide.

BP's 2023 AGM occurred amidst high scrutiny over the company's announcement that it would backtrack on its climate ambitions. BP had garnered significant support (over 85%) for its previous climate transition plan at the 2022 AGM, but decided to not put the revised plan up for a vote at the 2023 AGM. We assessed this as a material governance concern and concluded that a vote Against the chair of the board is warranted. The opposition against the chairman's election stood at ca. 10%.

Oil and gas majors, including BP, have been facing high criticism over concerns that their executives are cashing in on Russia's invasion of Ukraine, which led to soaring oil and gas prices. Our analysis of the company's remuneration report and policy was based on our proprietary remuneration assessment framework, which captures a wide variety of factors across three key components – pay structure, pay magnitude, and pay transparency. While recognizing the shortcomings of the remuneration report and policy, on balance, we concluded that these were supportable. The remuneration report was supported by 82% of the votes cast, while the policy garnered support from 94% of the votes cast.

Notably, Dutch shareholder group Follow This filed a proposal at the meeting, requesting that the company align its existing 2030 Scope 3 emissions reduction aims with the goal of the Paris Climate Agreement. The proposal specified that the strategy to achieve the alignment is "entirely up to the board." Given that we maintain our concerns regarding the company's Scope 3 emissions reduction targets, we voted For the shareholder proposal. The resolution was supported by 17% of the votes cast.

Shell Plc - 05/23/2023 - United Kingdom
Proposals: Remuneration Report, Remuneration Policy, Approval of Energy Transition Progress, Shareholder Proposal Regarding Scope 3 GHG Target and Alignment with Paris Agreement.

Shell plc operates as an energy and petrochemical company.

Shell's 2023 AGM agenda included a series of routine items as well as a proposal concerning the approval of the company's energy transition progress and a shareholder proposal concerning Scope 3 emissions reduction targets.

Oil and gas majors have been under growing scrutiny over their impact on climate change; hence, the approval of Shell's energy transition progress drew significant attention not only from investors but also from society at large. We assessed the company's climate strategy based on our proprietary Say-on-Climate framework developed for the oil and gas sector, including key components such as greenhouse gas targets and capital expenditure. We identified several concerns, most notably regarding the company's shorter-term targets to reduce carbon intensity. As the company's strategy did not pass the framework, we voted Against the proposal, which was opposed by ca. 20% of the votes cast at the meeting.

In addition, a proposal filed by Dutch shareholder group Follow This at the meeting requested that the company align its existing 2030 Scope 3 emissions reduction aims with the goal of the Paris Climate Agreement. The proposal specified that the strategy for how to achieve the alignment is entirely up to the board. Given that we maintain our concerns regarding the company's climate strategy, we voted For the shareholder proposal, which garnered a level of support of 20%.

Finally, the remuneration proposals on the meeting agenda drew scrutiny over the major increase in CEO pay recorded by Shell in 2022. We analyzed the company's remuneration report and policy based on our proprietary remuneration assessment framework, which looks at various factors across pay structure, pay magnitude and pay transparency. Notably, we participated in a remuneration roadshow hosted by Shell in Q1 2023, giving us valuable insights that helped our analysis. On balance, Shell scored well in our framework and we therefore supported the remuneration proposals. Both resolutions won overwhelming support (ca. 95%).

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BORDER TO COAST GLOBAL EQUITY ALPHA FUND

ESG & CARBON REPORT

Q2 2023

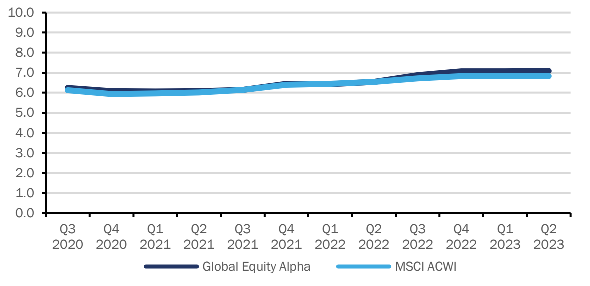
MSCI ESG RATING

A

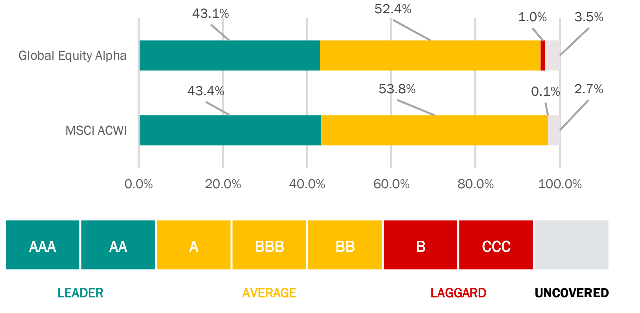
PENSIONS PARTNERSHIP

	End of Quarter Position [1]			Key	
	MSCI ESG Rating	**Weighted ESG Score**	**vs. Benchmark**	(green)	Fund has an equal or better *Weighted ESG Score* than the benchmark.
Global Equity Alpha	A [1]	7.1 [1]	(green)	(amber)	Fund has a *Weighted ESG Score* within 0.5 of the benchmark.
MSCI ACWI	A [1]	6.8 [1]		(red)	Fund has a *Weighted ESG Score* more than 0.5 below the benchmark.

MSCI Weighted Score Trend[1]



MSCI ESG Weightings Distribution[1]



Highest ESG Rated Issuers [1]				Lowest ESG Rated Issuers [1]			
	% Portfolio Weight	**% Relative Weight**	**MSCI Rating**		**% Portfolio Weight**	**% Relative Weight**	**MSCI Rating**
ASML	2.4%	+2.0%	AAA [1]	META Platforms	0.6%	-0.4%	CCC [1]
Intuit	1.5%	+1.3%	AAA [1]	Jiangsu Hengli Hydraulic	0.1%	+0.1%	CCC [1]
Microsoft	1.3%	-2.5%	AAA [1]	Jollibee Foods	0.1%	+0.1%	CCC [1]
Taiwan Semiconductor	0.9%	+0.2%	AAA [1]	Nanofilm Technologies	0.1%	+0.1%	CCC [1]
CNH Industrial	0.8%	+0.8%	AAA [1]	Anta Sports	0.1%	+0.1%	B [1]

Quarterly ESG Commentary

- The Fund's weighted ESG score was stable over the period and remains above the benchmark.
- The Fund's overall ESG rating fell during the period from AAA to A. This is due to a change in methodology at MSCI, whereby the weighted ESG score was adjusted based on several factors including momentum of recent ratings changes and exposure to laggards. This adjustment has now been abolished; therefore, Funds with a high proportion of recent upgrades and/or low exposure to laggards no longer see an upward adjustment resulting in the rating being adjusted downward.

Feature Stock: Nanofilm Technologies

Nanofilm Technologies, headquartered in Singapore, is a leading provider of innovative nanotechnology solutions, operating across four distinct segments: Advanced Materials, Industrial Equipment, Nanofabrication, and Sydrogen. The Company's expertise lies in vacuum coating technologies and processes, coating equipment, cleaning lines, automation systems, components for smooth product functionality, and critical fuel cell components and solutions.

One of the Company's standout technologies is its ability to deposit advanced materials at room temperature, a process that is less energy intensive and broadens the scope of substrates suitable for coating, encompassing low-melting point metals, plastics, ceramics, and rubber.

The Company has strong corporate governance, although it lags peers in terms of environmental and social risk-related operations and disclosures. Nanofilm has proactively set ambitious 2030 goals, aiming to reduce its carbon intensity by 30%, source 50% of its energy from renewable sources, and cut wastewater discharge intensity by 80%. In line with its commitment to sustainability, Nanofilm is actively expanding its revenue exposure to greener markets, with a particular focus on the hydrogen value chain. This strategic move is exemplified by Nanofilm's acquisition of a 65% stake in Sydrogen, a hydrogen fuel cell company.

[1]Source: MSCI ESG Research 30/06/2023

BORDER TO COAST GLOBAL EQUITY ALPHA FUND

ESG & CARBON REPORT

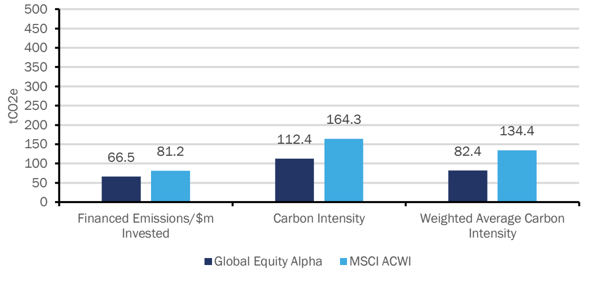
Q2 2023

MSCI ESG RATING

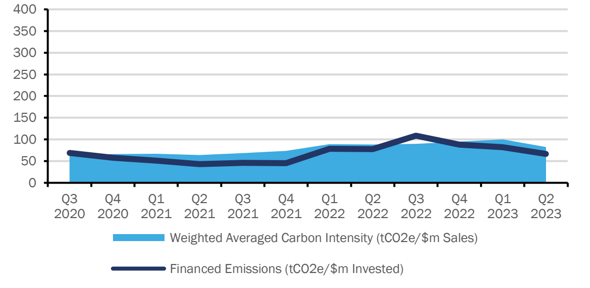
A

PENSIONS PARTNERSHIP

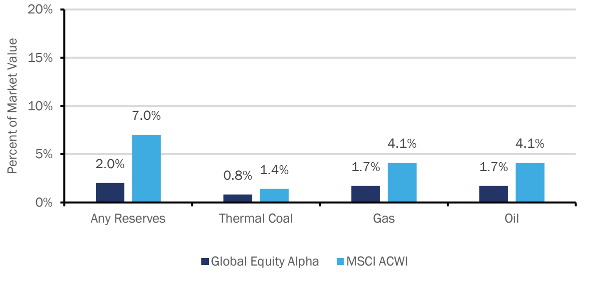
Carbon Emissions and Intensity[1]



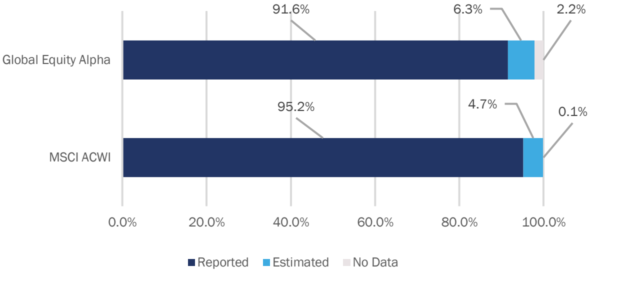
Carbon Trends[1]



Weight of Holdings Owning Fossil Fuel Reserves[1]



Availability of Carbon Emissions Data (% of Market Value)[1]



Largest Contributors to Financed Emissions[1]

	% Portfolio Weight	% Relative Weight	Contribution	CA100+	TPI Level
Heidelberg Materials	0.6%	+0.5%	40.4% [1]	Yes	3
Holcim	0.4%	+0.4%	14.1% [1]	Yes	4
easyJet	0.4%	+0.4%	8.1% [1]	No	3
Southwest Airlines	0.4%	+0.4%	5.0% [1]	No	4
Linde	1.0%	+0.7%	3.1% [1]	Yes	3

Quarterly Carbon Commentary

- The Fund remains materially below the wider index on all metrics, owing to the relative underweight allocations to some high emitting sectors including oil and gas.
- Heidelberg Materials and Holcim account for around 55% of portfolio financed emissions, down from 62% last quarter. Emissions fell during the period, owing primarily to lower reported emissions by Holcim, which currently accounts for c.14% of total portfolio emissions. Due to their involvement in cement production, the carbon metrics of the Fund are highly sensitive to each of these companies' emissions, as well as any fluctuations in their investment value and/or allocation.

Feature Stock: Linde

Linde is one of the largest industrial gas companies, operating in North and South America, Europe, the Middle East, Africa, and the Asia Pacific. Its gases are used across industries, from oxygen kits in healthcare to natural gas liquefaction plants.

Greenhouse gas (GHG) emissions reduction represents an opportunity for the Company with the strategic expansion of its hydrogen portfolio. While the Company continues to have a relatively high carbon footprint, there is the potential for carbon reduction for its customers.

The Company has announced an aggressive '35 by 35' goal, representing a 35% reduction in GHG emissions by 2035, and aims to be carbon neutral by 2050. The Company has been enhancing disclosures around these goals to provide transparency to investors.

While the Company's hydrogen portfolio is still a small percentage of revenues, it has a substantial opportunity to grow over the long-term. Engagement has been carried out with the Company on its hydrogen opportunities and its emissions targets and reporting. The Company's carbon emissions and the rapidly evolving hydrogen business environment across its diverse end markets will continue to be monitored.

[1]Source: MSCI ESG Research 30/06/2023

Issuers Not Covered [1]		
Reason	ESG (%)	Carbon (%)
Company not covered	1.8%	0.5%
Investment Trust/ Funds	1.7%	1.7%

Important Information

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[1]Source: MSCI ESG Research 30/06/2023

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Appendix D

BORDER TO COAST UK LISTED EQUITY FUND

ESG & CARBON REPORT

Q2 2023

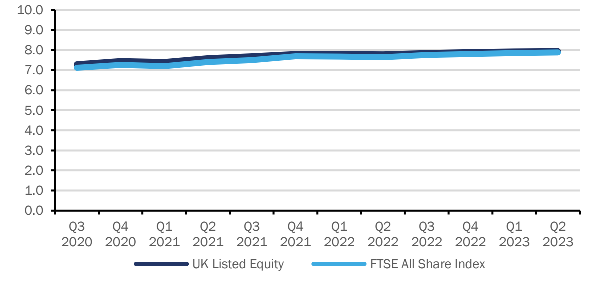
MSCI ESG RATING

AA

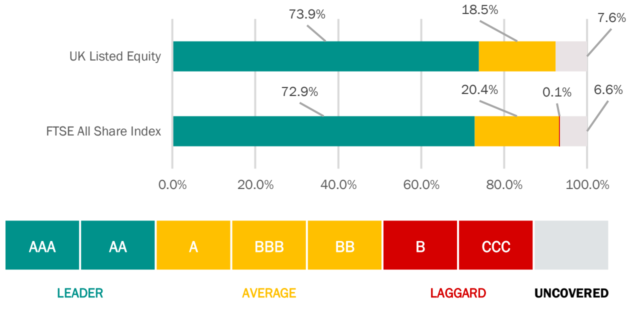
PENSIONS PARTNERSHIP

	End of Quarter Position [1]			Key	
	MSCI ESG Rating	Weighted ESG Score	vs. Benchmark		Fund has an equal or better *Weighted ESG Score* than the benchmark.
UK Listed Equity	AA [1]	8.0 [1]			Fund has a *Weighted ESG Score* within 0.5 of the benchmark.
FTSE All Share Index	AA [1]	7.9 [1]			Fund has a *Weighted ESG Score* more than 0.5 below the benchmark.

MSCI Weighted Score Trend[1]



MSCI ESG Weightings Distribution[1]



Highest ESG Rated Issuers [1]				Lowest ESG Rated Issuers [1]			
	% Portfolio Weight	% Relative Weight	MSCI Rating		% Portfolio Weight	% Relative Weight	MSCI Rating
Unilever	4.9%	+0.4%	AAA [1]	Haleon	1.1%	+0.3%	BB [1]
Diageo	3.6%	+0.4%	AAA [1]	British American Tobacco	2.3%	-0.2%	BBB [1]
Relx	2.5%	+0.3%	AAA [1]	Glencore	1.9%	-0.5%	BBB [1]
National Grid	2.0%	+0.3%	AAA [1]	Beazley	0.4%	+0.2%	BBB [1]
CRH	1.4%	0.0%	AAA [1]	Fresnillo	0.2%	+0.2%	BBB [1]

Quarterly ESG Commentary

- The weighted ESG score remained consistent over the quarter and remains above the benchmark. This is due to the Fund holding a higher weighting of companies considered to be 'Leaders'.
- The Fund's overall ESG rating fell during the period from AAA to AA. This is due to a change in methodology at MSCI, whereby the weighted ESG score was adjusted based on several factors including momentum of recent ratings changes and exposure to laggards. This adjustment has now been abolished; therefore, Funds with a high proportion of recent upgrades and/or low exposure to laggards no longer see an upward adjustment resulting in the rating being adjusted downward.

Feature Stock: Beazley PLC

Beazley is a global specialist risk insurance and reinsurance company, operating across cyber insurance, professional indemnity, executive risk, property, marine, aviation, reinsurance and speciality insurance lines. Primarily operating out of Lloyds of London, Beazley has established itself as a global leader in professional liability and, more recently, cyber insurance, with both markets experiencing strong structural growth. Whilst insurance claims are often difficult to predict and premium rates cyclical in nature, Beazley is regarded as a quality operator within the sector due to its pricing discipline, underwriting track record and sound balance sheet and solvency measures.

Beazley's MSCI ESG rating is BBB and has remained stable since being upgraded from a BB rating in October 2020. MSCI scores the Company above peers on governance and recognises its industry leading data security practices. Detractors for Beazley primarily relate to its Climate Change Vulnerability score, a function of the property and casualty reinsurance operations. However, Beazley have one of the best risk models in the industry with much of their property and casualty underwriting quite specialist and less incumbered by climate risk than the peer group. A less material issue is Human Capital Development, where despite acknowledging employee retention practices, MSCI deemed that grievance policies lagged peers.

[1]Source: MSCI ESG Research 30/06/2023

BORDER TO COAST UK LISTED EQUITY FUND

ESG & CARBON REPORT

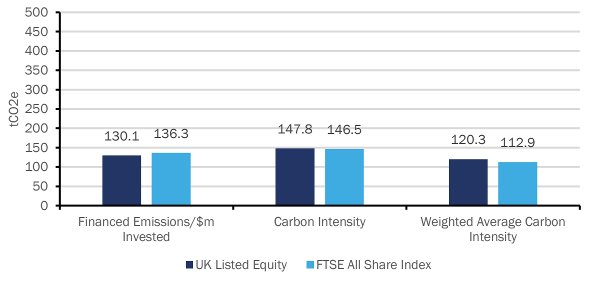
Q2 2023

MSCI ESG RATING

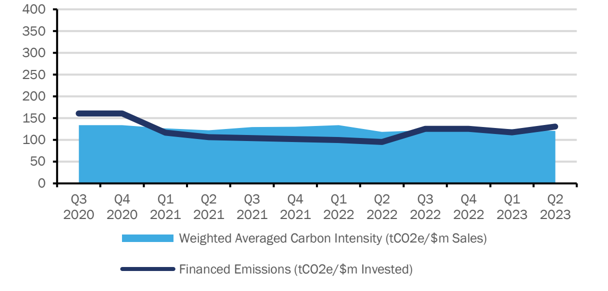
AA

PENSIONS PARTNERSHIP

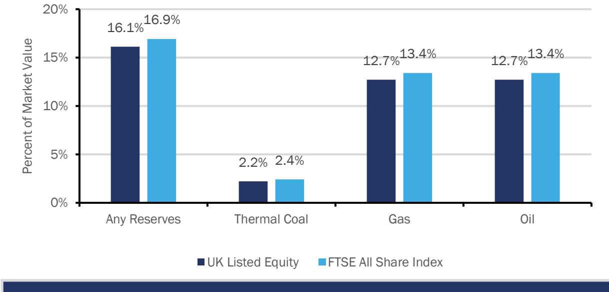
Carbon Emissions and Intensity[1]



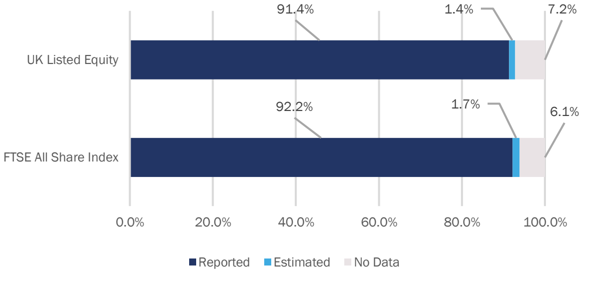
Carbon Trends[1]



Weight of Holdings Owning Fossil Fuel Reserves[1]



Availability of Carbon Emissions Data (% of Market Value)[1]



Largest Contributors to Financed Emissions[1]

	% Portfolio Weight	% Relative Weight	Contribution	CA100+	TPI Level
Shell	7.5%	+0.5%	41.9% [1]	Yes	4
BP	3.4%	-0.1%	12.5% [1]	Yes	4*
CRH	1.4%	+0.0%	12.8% [1]	Yes	4
Rio Tinto	2.1%	-0.3%	8.4% [1]	Yes	4
Glencore	1.9%	-0.5%	7.7% [1]	Yes	4

Quarterly Carbon Commentary

- The Fund is currently below, or in-line with, the benchmark for financed emissions and carbon intensity. Weighted average carbon intensity (WACI) remains slightly above the benchmark, however, the Fund's WACI decreased in the quarter.
- Financed emissions increased slightly in the quarter but remains below the benchmark.

Feature Stock: Glencore PLC

Glencore is an international mining and commodity marketing company headquartered in Switzerland. Commodities mined include copper, zinc, coal, cobalt and nickel, which in total will account for 81% of EBITDA this year. The balance is accounted for by the marketing division. The exposure to cobalt, copper and nickel in particular face favourable demand characteristics through the energy transition as product is utilised in batteries and electricity transmission products and infrastructure. The Company is also reasonably well placed on the cost curve enabling good profitability in periods of strong demand and protection against demand weakness. The Company has a particularly strong market share of cobalt production. Glencore has very strong cashflows and a balance sheet from which it can expand the reserve base organically and through acquisition. It has exposure to coal albeit demerger plans are underway, and it has proposed a value creative merger with Teck Resources to scale the metals business and improve the coal division prior to demerger.

Having transformed the management of the business by replacing many executives and changing the business culture Glencore has made significant improvements to its ESG credentials. The MSCI BBB rating notes the material improvements in governance, health and safety and carbon emissions. However, it recognises that given the sizeable workforce there is the potential for labour management issues. Tensions in this area can periodically escalate into industrial action for Glencore, and also for the sector as a whole.

The Company was rated Level 4 by the Transition Pathway Initiative (TPI) in its last assessment in April 2022, which indicates it is making a "Strategic Assessment of the management of its greenhouse gas emissions and of risks and opportunities related to the low-carbon transition". Since then, the Company has provided additional disclosure and made changes that are likely to improve the Company against the TPI assessment criteria.

[1]Source: MSCI ESG Research 30/06/2023

Issuers Not Covered [1]		
Reason	ESG (%)	Carbon (%)
Company not covered	0.4%	0.0%
Investment Trust/ Funds	7.2%	7.2%

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[1]Source: MSCI ESG Research 30/06/2023

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Appendix E

BORDER TO COAST STERLING INVESTMENT GRADE CREDIT FUND

ESG & CARBON REPORT

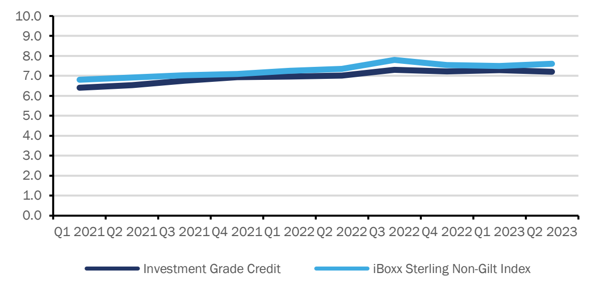
Q2 2023

MSCI ESG RATING

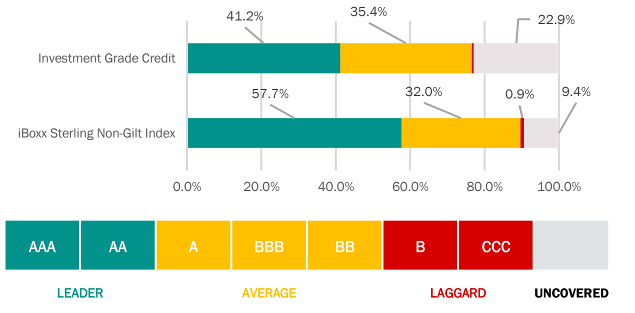
AA

	End of Quarter Position [1]			Key	
	MSCI ESG Rating	Weighted ESG Score	vs. Benchmark		
Sterling Investment Grade Credit	AA [1]	7.2 [1]			Fund has an equal or better *Weighted ESG Score* than the benchmark.
iBoxx Sterling Non-Gilt Index	AA [1]	7.6 [1]			Fund has a *Weighted ESG Score* within 0.5 of the benchmark.
					Fund has a *Weighted ESG Score* more than 0.5 below the benchmark.

MSCI Weighted Score Trend[1]



MSCI ESG Weightings Distribution[1]



Highest ESG Rated Issuers [1]	% Portfolio Weight	% Relative Weight	MSCI Rating	Lowest ESG Rated Issuers [1]	% Portfolio Weight	% Relative Weight	MSCI Rating
European Investment Bank	1.6%	-2.6%	AAA [1]	Volkswagen	0.4%	-0.4%	B [1]
Legal & General	0.9%	+0.3%	AAA [1]	GB Social Housing	0.6%	+0.4%	B [1]
Enel	0.8%	+0.1%	AAA [1]	Time Warner Cable	0.6%	+0.2%	BB [1]
Yorkshire Building Society	0.6%	+0.3%	AAA [1]	Wells Fargo	0.6%	-0.2%	BB [1]
Orsted	0.5%	-0.1%	AAA [1]	America Movil	0.3%	-0.1%	BB [1]

Quarterly ESG Commentary

- The Fund's overall ESG rating fell during the period from AAA to AA. This is due to a change in methodology at MSCI, whereby the weighted ESG score was adjusted based on several factors including momentum of recent ratings changes and exposure to laggards. This adjustment has now been abolished; therefore, Funds with a high proportion of recent upgrades and/or low exposure to laggards no longer see an upward adjustment resulting in the rating being adjusted downward. The benchmark similarly was also revised down to AA from AAA.

Feature Stock: GB Social Housing

GB Social Housing is a social housing aggregator which lends to a range of small housing associations that are too small to borrow directly from the capital markets themselves. This includes specialist regional associations focused on tenants from diverse backgrounds (Arawak, Housing for Women, Tamil Community Housing), charitable borrowers such as Bro Myrddin and rural/regional borrowers such as Caledonia Housing, Mid-Wales Housing, North Devon Homes and Shropshire Rural Housing.

Given the secured nature of the lending, strong covenants and the clear social benefits from providing funding to smaller housing associations, the Company is attractive to lend to. ESG issues highlighted by MSCI include human capital management and corporate governance. Both factors are driven primarily due to a lack of evidence of policies for risk mitigation, such as workforce satisfaction mechanisms, skills development programs and whistleblower protection policies.

[1]Source: MSCI ESG Research 30/06/2023

BORDER TO COAST STERLING INVESTMENT GRADE CREDIT FUND

ESG & CARBON REPORT

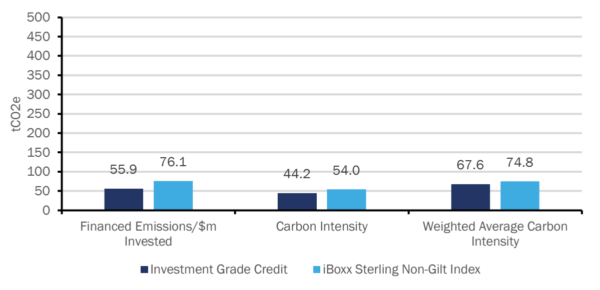
Q2 2023

MSCI ESG RATING

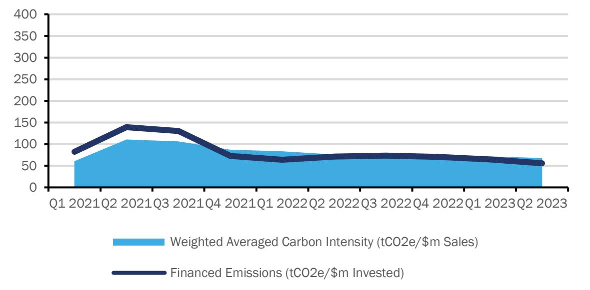
AA

BORDER TO COAST PENSIONS PARTNERSHIP

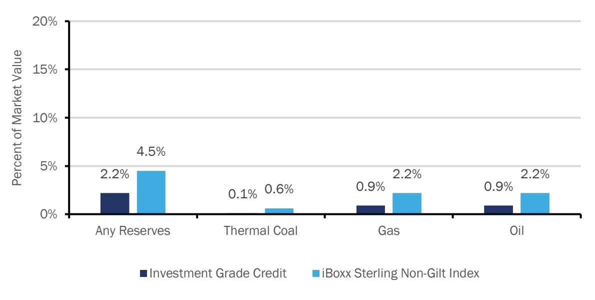
Carbon Emissions and Intensity[1]



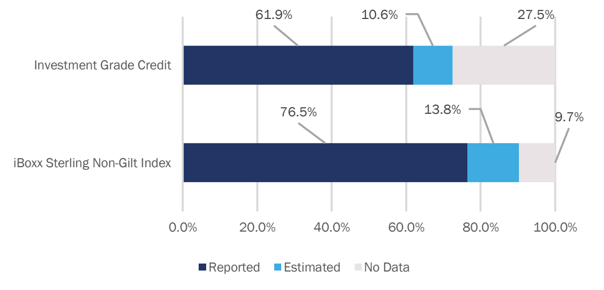
Carbon Trends[1]



Weight of Holdings Owning Fossil Fuel Reserves[1]



Availability of Carbon Emissions Data (% of Market Value)[1]



Largest Contributors to Financed Emissions[1]

	% Portfolio Weight	% Relative Weight	Contribution	CA100+	TPI Level
Enel	0.8%	+0.2%	27.1% [1]	Yes	4
EDF	1.1%	-0.3%	23.3% [1]	Yes	4
Engie	0.2%	-0.2%	6.0% [1]	Yes	4
E.ON	0.7%	-0.2%	5.4% [1]	Yes	4
Mobico	0.1%	+0.1%	5.2% [1]	No	N/A

Quarterly Carbon Commentary

- The Fund is currently below the benchmark for portfolio financed emissions, carbon intensity and weighted average carbon intensity (WACI) and has been trending downwards over time. Enel and EDF contribute close to half of the Fund's financed emissions.

Feature Stock: EDF

Despite displaying relatively high carbon intensity, EDF is an enabler of the transition to net zero through its nuclear power generation, investments in renewable energy, as well as its commitment to divest fully from coal.

After the announcement that EDF is to be nationalised by the French government, the Company stated that neither the nationalisation process nor the energy crisis would impact its climate plans and that they would still be accountable to the French Parliament on the delivery of their targets. This provides reassurance that EDF will maintain its transition credentials.

Engagement has been carried out with the Company as part of the Climate Action 100+ (CA100+) initiative, with discussions held in relation to the apparent misalignment between group-level lobbying policies and the lobbying practices of Edison, one of EDF's subsidiaries. The meeting proved helpful in gaining greater insight into how the two entities approach lobbying and provided clarification on Edison's gas advocacy policy. Other examples of engagement include addressing scope 3 emissions associated with the Company's clients' use of natural gas in heating, and climate adaptation plans to ensure that nuclear activities remain resilient to climate extremes. From a credit perspective, the risks associated are somewhat mitigated through government ownership and the bonds offer an attractive yield.

[1]Source: MSCI ESG Research 30/06/2023

Issuers Not Covered [1]		
Reason	ESG (%)	Carbon (%)
Company not covered	18.6%	22.2%
Investment Trust/ Funds	4.3%	4.3%

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* In accordance with the licence agreement between Border to Coast and MSCI

[1]Source: MSCI ESG Research 30/06/2023

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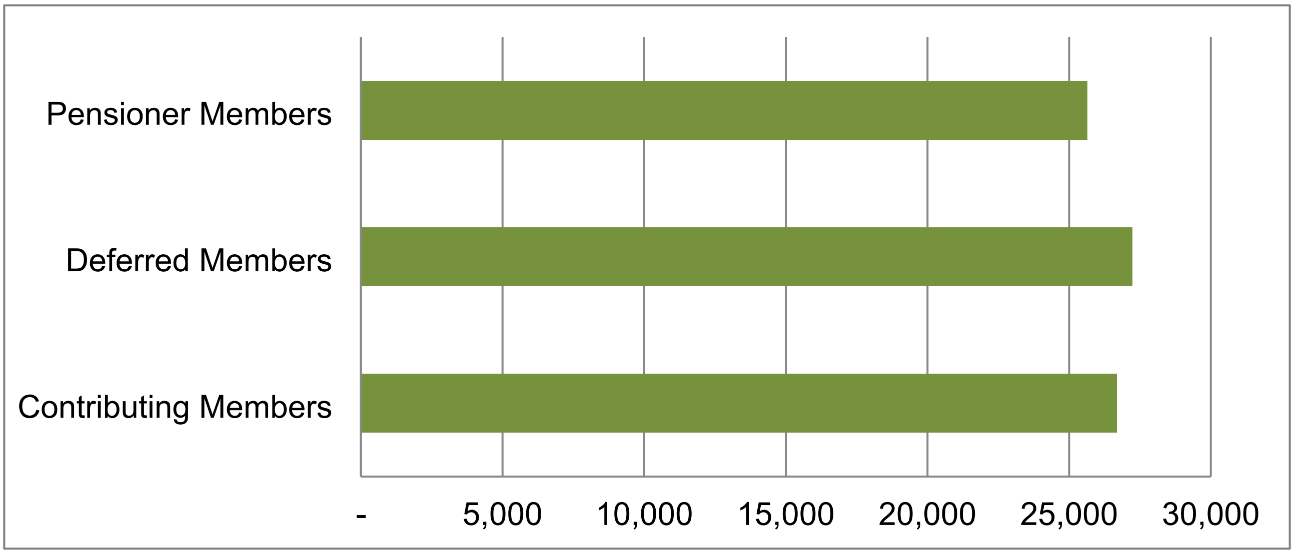
Stewardship Code 2022/23

"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."

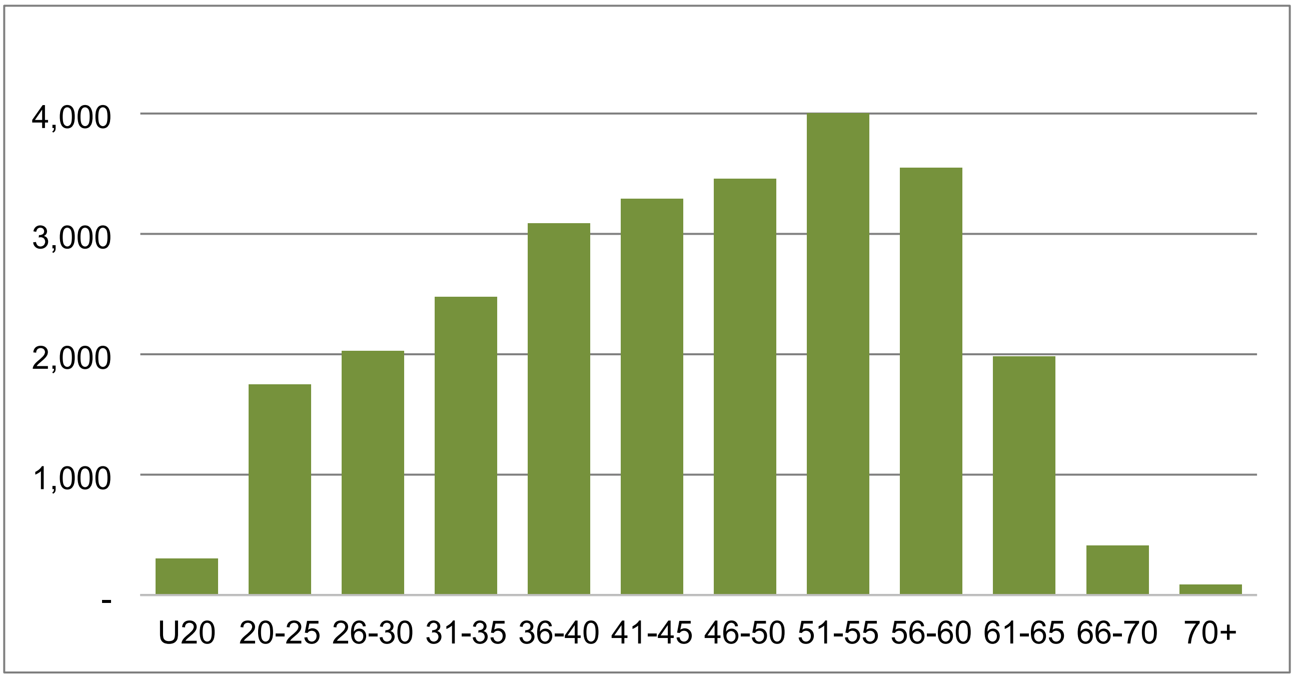
Background and Context

Fund Facts (as at 31 March 2023)

Total Membership: 79,573



Active Member Age Profile



Employers: 256

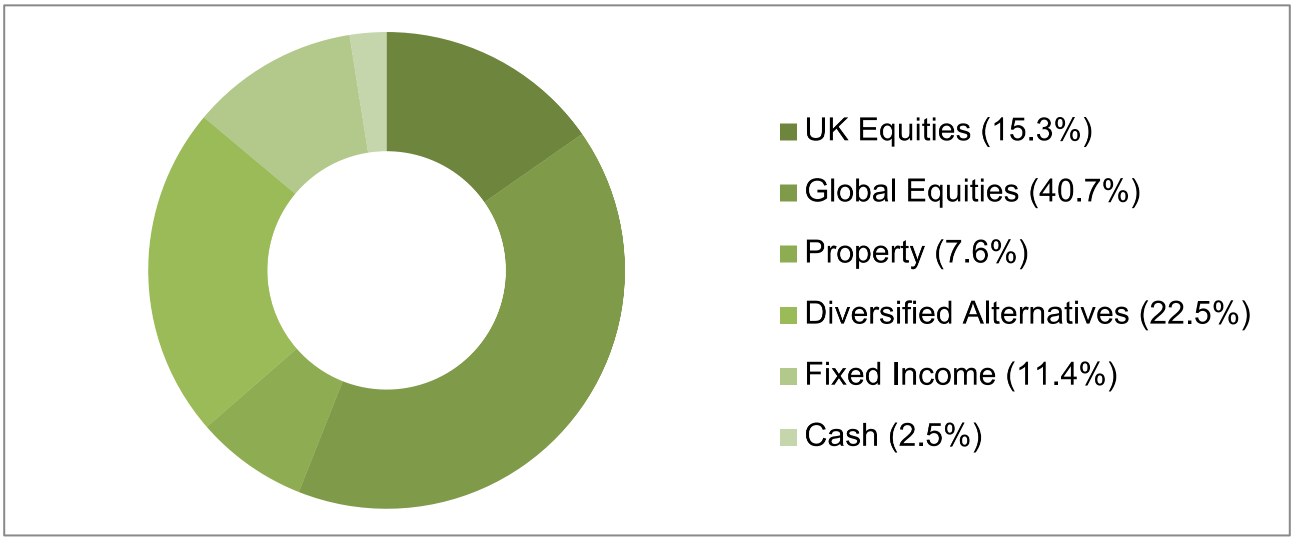
Contributing employers, either in Lincolnshire, or providing services to these employers, include:

Employer Type	Number
Academies	184
Community Admission Bodies	4
Councils and Police	10
Further Education Bodies	4
Internal Drainage Boards	9
Resolution Bodies	1
Small Scheduled Bodies	28
Transferee Admission Bodies	16

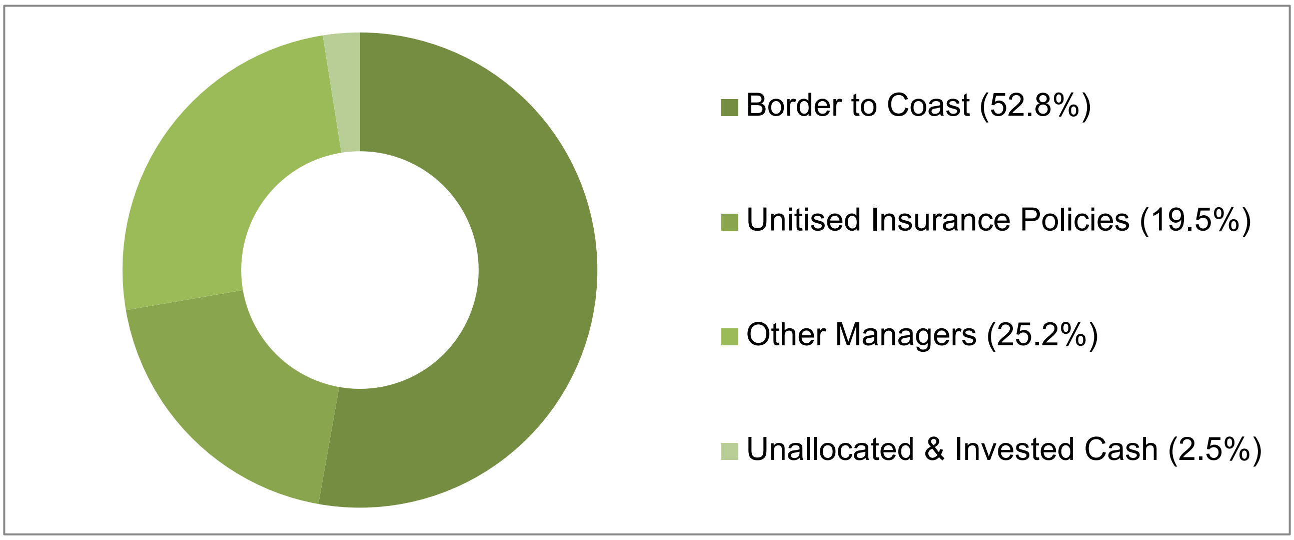
Funding Position

Invested Assets: £3.0bn

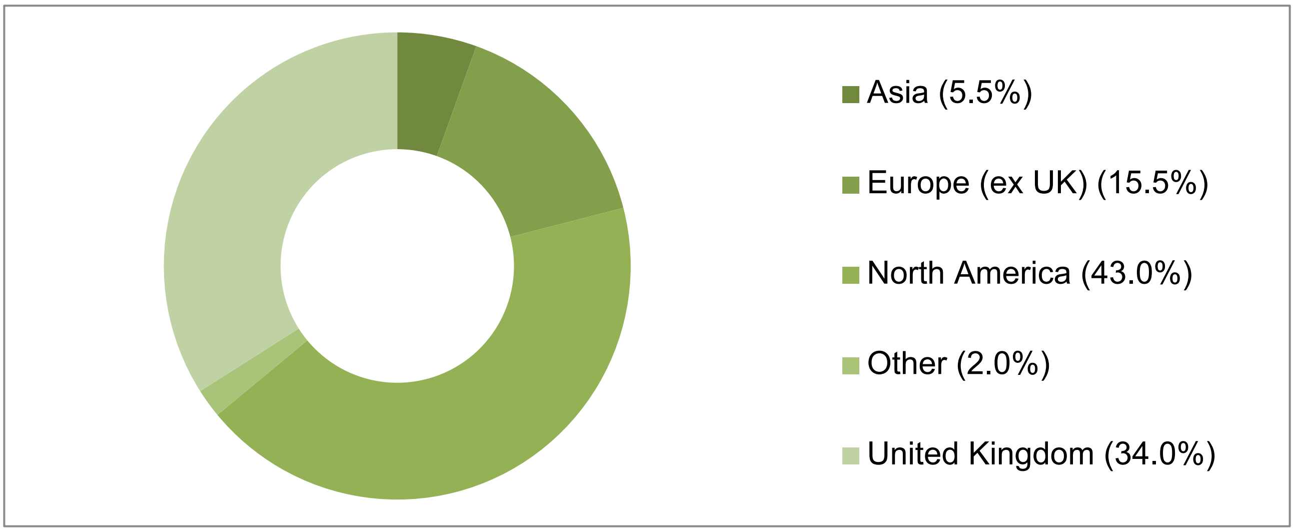
By Asset Class:



By Asset Manager:



By geography:



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 the 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 on page five. 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
Academies Sector Representative (De Aston School, Market Rasen)	1
Scheme Member Representative (Unison)	1
Total:	**12**

During 2022/23, the Committee met quarterly to provide oversight and challenge across all areas of the Fund. In addition to this, two meetings were held for manager presentations and there were two training meetings.

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:

Role	Advisor
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 Investment Management
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 and scheme administrator for 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 Kempton 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	24
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 2023.	CPFA (studying for IMC)	5

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 52.8% of the Fund assets as at 31 March 2023. 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 Assistant Director - Finance, the Deputy 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 just over 79,500 members who will or do receive benefits from the scheme. The Fund also has 256 active employers contributing to the scheme at 31 March 2023.

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:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer 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

During the year, the triennial valuation and reviewing the investment strategy with the Pensions Committee have been a major focus. The Fund has worked hard on engaging with employer stakeholders to ensure the valuation results are sustainable for the Fund and for the individual employers. The Committee have also dedicated their time to reviewing and considering potential changes to the investment strategy, and this work continued into 2023/24. This will be used as a platform for the Committee to consider responsible investment further, including net zero monitoring and target setting in the coming year.

The Fund has also dedicated time to reviewing how time and resources are best used to meet the current requirements of the Fund. This review has resulted in the proposed recruitment of two additional team members to give greater focus to investment and responsible investment matters and supporting and monitoring employer and contractor activity. The format and agendas for Pensions Committee meetings has also been reviewed, to ensure there is adequate time for discussion and training at each meeting.

The eight meetings available each year have been changed so four focus on investment and responsible investment, and four meetings focus on administration and governance. Each meeting will also include an element of training and presentations/updates from external providers, including investment managers. Both these changes will be fully implemented in 2023/24.

Specifically in terms of stewardship, the following activities have been undertaken across the year:

- Workshops with Border to Coast on Responsible Investment (RI) policies culminating in approving the Border the Coast policies and aligning our own policies;
- Workshops with Border to Coast on wider RI issues, including net zero target setting, science-based pathways and net zero frameworks;
- Working with our private market manager to better understand and challenge how they consider, implement and report on RI matters;
- Expansion of the quarterly stewardship report to include ESG and carbon metrics on our equity and fixed income funds managed by Border to Coast; 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). It also provides 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 2022, in preparation for the year ended 31 March 2023, can be found at agenda item 11 in the Committee Papers. 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 an investment strategy. The revised beliefs were approved by the Committee in March 2022 (the final beliefs can be found at item 10 in the March Committee Papers). The Fund's investment beliefs will be reviewed periodically to ensure that they continue to represent the views of the Committee. 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. Induction training is mandatory for all new members of the Pensions Committee to ensure that beliefs and culture are understood and embedded. The Committee monitors the responses to the members satisfaction surveys carried out by the administration provider. These are reported to the Committee quarterly.

Outcome:
The Committee reviewed and updated its Investment Beliefs at the beginning of 2022. These are detailed in the ISS. As part of the review an overarching statement across the investment beliefs was added, 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.

Following the addition of an academies sector representative to the Pensions Committee, one-to-one training was delivered by the Head of Pensions before their first Committee meeting in March 2023. The training covers all aspects of managing the pension fund, including their fiduciary duty responsibilities.

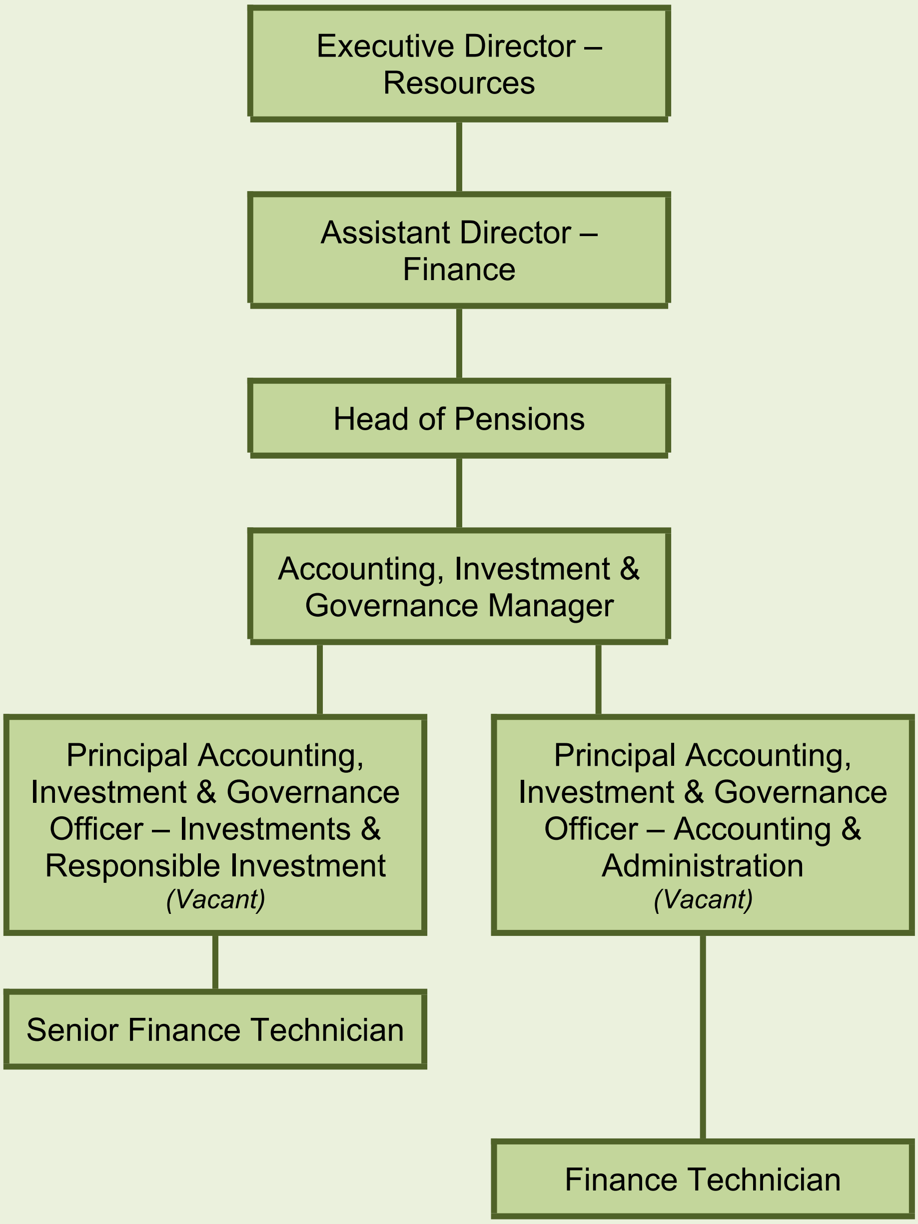
The Pensions administration service reports show that generally scheme members are happy with the service received. The 2022/23 Fund Annual report showed the satisfaction levels across the four previous survey periods, and is shown below:

April – June 2022	July – Sept 2022	Oct – Dec 2022	Jan – March 2023
80.2%	90.4%	81.3%	89.9%

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 stewardship monitoring and reporting. Details of the experience of the key

Activity
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. Recruitment to this was undertaken during the summer of 2022, however this was not successful. The candidates did not have sufficient experience and knowledge to successfully undertake the role. The role was reviewed and was split into two posts, one focusing on investments and responsible investments, and the other focusing on accounting and fund administration. They have been established as training posts to allow candidates to develop into the roles once appointed. Recruitment to these posts will be undertaken later in 2023. 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, 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 Local Authority Pension Fund Forum (LAPFF), is a sector wide group with membership from 87 local authority pension funds (with assets valued at £350bn) and seven 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. 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 reporting then allows the Committee oversight of activities undertaken. The process 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 to give the opportunity to review and challenge the work undertaken on the Fund's behalf. The Pensions team within the Council is very small. All appointments have been made 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. The Council believes: *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*

Activity
environment. By respecting these differences, colleagues, customers, communities, and other stakeholders can feel valued. Within the Pensions team, there are currently 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 2022. The quarterly Responsible Investment Update Report continues 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 report covers the work of LAPFF, Border to Coast, Robeco and Legal and General Investment Management on stewardship matters. In addition to this the report covers voting information and we have been able to move the ESG and carbon information for the Funds two equity funds and the sterling investment grade credit fund, managed by Border to Coast, into this public paper. 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 was reviewed during 2022/23 to allow more time for the Committee to discuss, amongst other things, stewardship issues and actions. Under the new arrangements there will be four meetings looking at investments, responsible investment and stewardship, and four meetings for administration and governance. Each meeting will include an element of training. The changes were approved by the Committee at its meeting in December 2022 and implemented from April 2023. Recruitment to the new post identified as part of the structure review, a Principal Investment, Governance and Accounting Officer, was unsuccessful. A further review has

Outcome:
been undertaken to create two career grade posts to grow employees into the role. It is expected that this will be recruited to later 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. 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. The new academies representative on the Committee was appointed and trained during the financial year. They attended their first Committee meeting in March 2023. 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 2022/23 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 annual review of the risk register considers the risk to the Fund's investments from market fluctuations, interest rates, currency, credit and failure by its investment managers, asset pool, or custodian. In addition, the Fund recognises in the register the risk to investments from ESG factors including the impact of climate change on 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. During 2022/23 the Committee began the progress of reviewing its investment strategy, alongside work on the 2022 triennial valuation. Work on the investment strategy has included general training, from the investment consultant, on asset classes and the associated risks and opportunities. Following this the Committee requested detailed training on credit assets classes to inform their decision-making. Further training on equities and property is planned for 2023/24 to allow the Committee to finalise the new investment strategy,

Part of the work undertaken by LAPFF, on behalf of the Fund and other members, is at a market-wide level. During 2022/23 this has focused on company governance, and financial and climate reporting.

- LAPFF joined other investors in writing to the US Securities and Exchange Commission (SEC) on climate disclosures and supported a collaborative letter to French auditors about disclosure on material climate-related risks (reported to Committee in July 2022).
- LAPFF responded to 'A Call for Evidence' on a Sector-Neutral Framework for private sector transition plans in mid-July 2022 from the Transition Plan Taskforce (TPT). TPT was set up by the UK government to develop a 'gold standard' for climate transition plans. The TPT aims to help financial institutions and companies prepare rigorous transition plans (reported to Committee in December 2022).

<u>Russia's invasion of Ukraine</u>

The Russian invasion of Ukraine concentrated minds on geopolitical risks and the widespread impact it had 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. To address this 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 received.

Activity:

Banking Crisis March 2023

The collapse of US firm Silicon Valley Bank (SVB) on March 10 sent shockwaves through the financial system. Although previously little-known in the UK, SVB - which was the 16th-largest US bank by deposits - had become the go-to bank for US tech startups. SVB failed after a series of interest rate hikes by central banks triggered a run on its deposits. Customers began to withdraw money over and above what was in SVB's bank reserves, causing a liquidity crisis. The failure of SVB was followed two days later by another, that of New York-based Signature Bank. Credit Suisse, had to find support form the Swiss Central Bank after it admitted it had found material weakness in its financial reporting. All this caused a sharp sell-off in banking shares.

To address this the Fund increased its communications with managers about exposures to the main troubled banks, and also the banking sector overall.

Outcome:

The Fund relies heavily on its managers and service providers 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.

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.

LAPFF continues to make and support recommendations for improving company reporting to highlight market wide risks, particularly around climate change. They achieve this through engagement with policy makers, providing responses to sector-wide initiatives and through their ongoing engagement with companies.

Russia's invasion of Ukraine

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.

- 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.
- LAPFF also identified the issues around oil and gas security of supply, ethics of supply and the volatility of prices highlighted by the war in Ukraine. These matters have been built into future LAPFF engagements with oil and gas companies.

Outcome:
Banking Crisis March 2023 This followed a similar process to the Russian invasion mentioned above. Manager's exposure to Silicon Valley Bank, Signature Bank and Credit Suisse were established and questions were asked of them to ensure they were responding appropriately. The situation continues to be monitored.

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 December in advance of the start of the voting season. It is aligned with the Border to Coast policies to ensure consistency 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, LAPFF and LGIM, including engagement and voting activity, along with ESG and carbon metrics information. This is presented quarterly to the Pensions Committee for discussion.

The Fund sought assurance from the reporting it received from managers on their stewardship activity. Specifically, the Fund has engaged with its private market manager during 2022/23 to gain a better understanding of how they integrate stewardship and responsible investment thinking into the selection and monitoring of investments made on our behalf. Fund officers and the Pensions Committee now receive more detailed information on this as part of the regular reporting received from the manager.

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. 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. During 2022/23 the Fund fully reviewed and updated its risk register to reflect the most up to date thinking in this area. The focus of the register is on documenting risks which are a genuine threat to the Fund and are being actively managed, and removing risks that are accepted and are being managed by routine work and activities. In doing this the Fund reviewed all aspects of its work, including: governance, investments, funding, operational and people risks. The Fund has reviewed the Stewardship Code Statements from its key asset managers, Border to Coast, LGIM and Morgan Stanley, to receive assurance that their reporting is fair, balanced, and understandable, which in turn enables the Fund to report that way. All managers have been successful in their submissions to the FRC.

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;

Activity:

- 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 2022 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. We were successful in meeting the requirements of the Financial Reporting Council (FRC) in submitting our Stewardship Code Statement for 2020/21, which can be found on our shared website.

The fund is always keen to hear its members' views on stewardship and responsible investment, 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 79,500 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 21 February 2023. The Fund updated included details on Stewardship and Responsible Investment. These are interactive meetings where all employers can question, challenge and input into the direction and activities of the Fund.

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.

Outcome:
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. One example of such questions was received in July 2022, when a question came from an employer following a report from LGPS Divest about the LGPS's investments in Israel, specifically what the Pension Fund's policy was on any such investments. A response was provided as set out below: *The Pensions Committee takes responsible investment very seriously and invests within the guidelines set out in regulations and guidance from the LGPS Scheme Advisory Board (SAB).* *In November 2019, the LGPS Scheme Advisory Board (SAB) drafted guidance for Responsible Investment in the LGPS, to clarify the parameters within which investment decisions can be made with regard to the integration of ESG (Environmental, Social and Governance) factors. Following feedback, SAB decided to take stock until more is known about the government's position on the proposed climate change provisions in the Pension Schemes Bill and the implications of the Supreme Court's judgement involving the Palestine Solidarity Campaign. We are still awaiting this guidance.* *The Fund has a number of documents on its shared website setting out how it invests, its investment and responsible investment beliefs and what considerations are taken into account. These can be found at https://www.wypf.org.uk/publications/policy-home/lpf-index/.* The employer was content with the response. The request set out within the Autumn 2022 newsletter for views from scheme members received no responses, despite it being sent to all 79,500 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, during 2021/22. As part of this process the Committee undertook an

Activity:
in-depth consideration of its general investment beliefs and its RI beliefs, receiving training and completing a comprehensive survey to develop these principles. This exercise will be repeated periodically to ensure the beliefs remain up to date and reflect the Committees current views. 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 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 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 Fund then 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 2022/23. Below are some examples of the outcomes from manager engagement with the companies, 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 Theme: water and water management. Engagement with water utility companies (Sterling investment grade credit fund)**

Outcome:

- **Reason for engagement:** The UK water utility sector faces significant financial and reputational risk with regular negative media coverage of sewage pollution into rivers and seas, and water and sewerage companies receiving a record amount in fines for pollution incidents in 2021. Ofwat has the power to issue fines up to 10% of a company's turnover and order companies to return to compliance, and the Government has announced plans to allow the Environment Agency to impose sanctions more often without lengthy court cases.

  In January 2023, Border to Coast joined a collaborative engagement initiative led by Royal London Asset Management (RLAM) with the water utility sector in the UK.
- **Objectives:** The aim is to improve practice, define best practice and encourage a faster pace of change in companies persistently lagging. Specific areas of focus include water pollution, climate change mitigation and adaption including nature-based solutions, biodiversity, circular economy, antimicrobial resistance, governance and industry collaboration.
- **Scope and process:** Border to Coast is leading the collaborative engagement with Yorkshire Water, and the first exploratory meeting took place in March 2023. They will also support engagement with all 10 of the other water utility companies covered by the engagement programme. All eleven water utility companies are held by Border to Coast in the Sterling investment grade credit fund.
- **Outcome:** The engagement is in its early stages.

Border to Coast – Engagement Theme: diversity of thought. Engagement with Accenture plc (global equity alpha fund)

- **Reason for engagement:** Accenture is a professional services company, providing strategy and consulting services globally. Discussions were held to assess Accenture's progress on both gender equality and diversity more broadly.
- **Objectives:** The scope of the meeting was driven by the integration of diversity and inclusion goals into its new growth model that was announced to investors in April 2022.
- **Scope and process:** During the meeting, the Company outlined the steps it is taking to help meet its stated goal of achieving gender parity. Specifically, promotions are expected to play a key role in furthering the careers of women within the Company.
- **Outcome:** In 2022, over 1,000 managing directors were promoted, with female employees constituting 37% of those and 29% of the Company's managing directors are now women, approaching its goal to grow the percentage of female managing directors to 30% by 2025.

  The Company is also aiming to boost diversity more generally through its apprenticeship program, which provides alternative access into entry-level roles that traditionally required a four-year degree. Accenture appears to be taking steps to increase diversity across both its workforce and leadership in both the short and long-term, however engagement will continue with the Company on

Outcome:
developments and publication of interim progress. **Morgan Stanley Private Markets - Pre-investment engagement with companies.** In selecting investment opportunities for our portfolio, they consider ESG policies, whether these can be developed or further policies implemented to ensure sustainable growth, and measure scope 1 to 3 carbon emission to identify opportunities for decarbonisation.

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 activity is reported to the Committee for review and challenge. The report covers all aspects of stewardship activity for our largest managers. Including:
    - Voting reports, case studies and details of where investment managers have voted against company recommendations;
    - Engagement activities and outcomes; and
    - ESG ratings and carbon metric reporting and investment case studies have been added to the report. This allows the Committee to understand the performance of investments from this perspective in addition to the traditional returns monitoring.

  The report also updates the Committee on work undertaken by LAPFF on our behalf. Industry, regulatory and sector developments in stewardship and responsible investment are also reported.
- Investment Consultant and Investment Advisor are monitored regularly against an agreed set of objectives.

Activities:

- 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.

Outcomes:

The Committee have effectively considered and challenged all aspects of manager performance during the year. Focusing particularly on stewardship activity, the Committee have considered the cost-of-living crisis and the impact that might have on company net zero targets (March 2022), and how the US anti-ESG movement might affect company decision-making and if this could spread to the UK and Europe (January 2023). Throughout the year investment managers have been scrutinised on how ESG factors are built into investment decision-making.

During 2022/23 the Fund appointed a new Investment Consultant. A working group was established including members from the Pensions Committee and senior officers from the Fund. The working group considered important characteristics and work for the new appointee, contributed to tender documentation, and then assessed tender responses. In addition to the traditional advice provided, the Fund has enhanced requirements to help the Committee challenge investment manager on all aspects of performance and assist in developing RI, climate, and net zero plans.

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.

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: • During the year, LAPFF undertook engagements with companies covering: climate change, human rights, governance, employment standards, environmental risk, audit practices and finance and accounting. The outcomes of these engagements are reported to the Committee on a quarterly basis. In July 2022 and March 2023 progress on the engagement with **Chipotle** was reported: ○ **Reason for Engagement and Objectives**: To encourage the company to undertake a full value chain water risk assessment. ○ **Scope and Progress**: LAPFF has been engaging with Chipotle on the company's approach to water stewardship for three years. After a period of heightened engagement, including a LAPFF member filing a resolution on this matter ahead of the Chipotle's 2022 AGM, and following discussions between LAPFF and the company, an agreement was reached that would see the resolution withdrawn from the ballot. The withdrawal was conditional upon formal commitments being made relating to the company's water stewardship programme. ○ **Outcome**: LAPFF held a follow-up call with Chipotle to measure progress against LAPFF's initial asks. In response to the resolution, the company has completed a materiality assessment covering ingredients, its supply-chain, and restaurants. Given the company now has a better understanding of the water related risks facing the business, the next phase of the stewardship plan is to develop context-based targets that relate specifically to areas of the operations under high water stress. LAPFF will continue to work with the company to develop these goals. In July 2022 progress was reported on the engagements with mining companies on all aspects of ESG, including engagement with **Freeport McMoran**: ○ **Reason for Engagement and Objectives**: LAPFF was keen to meet with Freeport McMoran to better understand their approach to engaging with affected communities. ○ **Scope and Progress**: As LAPFF had not met with the company before, the meeting was introductory to a large extent. However, LAPFF was pleased that within the first 15 minutes of the conversation, the topic of free, prior and informed consent was raised in the context of how important relationships with Indigenous communities are. Given LAPFF's mining and human rights report and the fact that Freeport has faced recent accusations of problems in community relations at its Emma B operations in New Mexico, it was helpful to hear the company's approach to community engagement. There was also a discussion about corporate governance in light of a number of recent board changes.

Outcome:
◦ **Outcome**: LAPFF is keen to engage further with Freeport McMoran on its approach to community engagement and to build an engagement relationship, similar to those it has established with other major mining companies. • Border to Coast publish quarterly stewardship reports and an annual responsible investment and stewardship report setting out the engagement activities they, and Robeco as their engagement and voting partner have undertaken on our behalf. ◦ **Engagement with an educational material provider (Multi-Asset Credit)** **Reason for Engagement**: The Company provides educational materials throughout Europe. During a recent review, a social risk was identified due to the Company's outsourcing of printing and folio-binding activities to the Far East. **Objective, Scope and Process**: Senior management were engaged with to encourage improved disclosure of the Company's supply chain and to obtain details on how they monitor and audit their operations to ensure compliance with local labour rules. Initially, management was unable to provide examples of previous measures taken to protect labour rights. However, they subsequently committed to a full supply chain review and to disclosing findings and any policy improvements to lenders. **Outcomes**: Following the engagement, Border to Coast feel comfortable to continuing to invest in the Company because of management's willingness to review and improve internal processes. Ongoing dialogue will continue with management to ensure that progress is made towards these objectives. ◦ **Engagement with Enel Spa (Sterling Investment Grade Credit Fund)** **Reason for Engagement**: Enel is an Italian multinational manufacturer and distributor of electricity and gas, and its predominant shareholder is the government of Italy. The Company is amongst the highest emitters across our fixed income assets. **Objective, Scope and Process**: Engagement has been carried out under the CA100+ initiative for several years and, recently, significant improvements have been seen in the Company's emissions reduction targets, transition plan, and climate policy advocacy. **Outcomes**: Key actions taken include the Company obtaining external verification by the Science-Based Targets Initiative (SBTi) on its emissions reduction targets alignment with a 1.5°C scenario, committing to phase out thermal power generation (coal and natural gas) and exit gas sales to customers, and aligning its capital investments with its net zero targets. Enel has also disclosed its first industry association review to ensure that its climate policy engagement (direct and indirect via industry associations) is consistent with the goals of the Paris Agreement. This progress has been recognised by the CA100+ initiative's Net Zero Benchmark disclosure

Outcome:
assessment by becoming the first and only company assessed to fully meet the Disclosure Framework criteria in 2022. **Legal and General Investment Management** Future World Fund: the quarterly fund stewardship report also includes high level details of the stewardship activity they undertaken and links to their quarterly firm wide ESG Impact Report and ESG metrics for the Future World Fund. Information includes statistics on votes cast against management and companies engaged with. During the year, within our **private markets** portfolio, the investment manager has worked to encourage a supply chain company to develop their supply chain and risk management software, mapping their carbon emissions and improving the visibility of their emissions. The company has improved their understanding of financial, sustainability and reputational risk, and have been able to generate cost savings through lower fuel costs, faster arrival time, and reduced carbon emissions per shipment. It is expected that this will generate significant avoided emissions in the future.

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.

Outcome:
Collaborative engagement activities at **Border to Coast** during the last year have included: • 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 Border to Coast 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. • **Global Investor statement on the climate crisis**: In September 2022, Border to Coast, along with 530 other investors, signed the 2022 Global Investor Statement to Governments on the Climate Crisis. The statement urges governments to implement policies consistent with a just transition limiting global temperature rise to 1.5°C, proposing policies such as medium and long-term climate strategies, transitioning energy away from fossil fuels, ending deforestation, bolstering climate finance and strengthening disclosures. • **Modern Slavery**: In January 2023, Border to Coast joined the 'Votes Against Slavery' initiative led by Rathbones and co-ordinated through the PRI Collaboration Platform. This collaborative engagement aims for radical improvement in supply chain transparency through s54. Failure to comply results in votes against the annual report and accounts. There were 38 companies from the FTSE 350 identified as non-compliant and requiring engagement ahead of AGM season which, if not responsive would lead to collective votes against their annual report and accounts. Of these companies, Border to Coast invested in 12. Following engagement, eight of the 12 companies owned by Border to Coast have acted to become compliant with s54. Collaborative engagement activities undertaken by **LAPFF** have included: • During the first quarter of 2022/23 LAPFF joined other investors in writing to the SEC referencing its upcoming Climate Disclosure Rulemaking. Co-ordinated by the US 'As You Sow' organisation, correspondence underscored the importance of requiring verified Scope 1 through 3 value chain carbon emissions-reporting with an emphasis on Scope 3 verified reporting. • LAPFF, alongside other lead investors, working with the Investor Initiative for Responsible Care organised by UNI Global, have contacted Real Estate Investment Trusts (REITs) working within the nursing home sector. The letter highlighted the EU Care Strategy and aimed to further the work of the coalition. The coalition includes 130 institutional investors with $3.8 trillion in assets. It aims to improve employment and care standards to protect shareholder value.

Outcome:
By investing with **LGIM** in their Future World Fund, our investments there are subject to the extensive stewardship and active owner initiates they operate at a firm level. They collaborate with other stakeholders and policy makers.

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.

LAPFF undertakes initiatives and issues voting alerts to members to escalate issues where they believe the engagement previous undertaken has not sufficiently advanced company actions. During 2022/23 this has included:

- The launched of two major initiatives to escalate engagement. The first was relating to climate change and second human rights. The climate change initiative was an extension of its work on 'Say on Climate'. Voting alerts were issued by LAPFF to ensure companies set meaningful corporate climate strategies and initiatives. The human rights initiative was a visit by the LAPFF

Outcome:
Chairman to communities affected by the Mariana and Brumadinho tailings dam collapses in Minas Gerais, Brazil. The success of the 'Say on Climate' initiative will be assessed for its role in encouraging companies to take climate measures in line with the Paris Agreement, and the trip to Brazil will be assessed for its role in speeding up reparations for affected communities. • Issuing voting alerts for major technology companies. Amazon, Meta Platforms, and Alphabet all faced a slew of shareholder resolutions in 2022. These technology firms were selected for LAPFF voting alerts to highlight particular ESG concerns. The topics of the resolutions covered a range of issues, including lobbying, climate, and board accountability. However, an overwhelming number of resolutions covered human rights, including labour rights. **Border to Coast** believe that: should engagement not lead to the desired result or where there is a lack of responsiveness or progress by the company, it may be necessary to escalate. This may be addressed 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. If the investment case has been fundamentally weakened, the decision may be taken to reduce or sell the company's shares. During 2022/23 examples of action taken include: • Collaborative engagement with others: Border to Coast joined a collaborative engagement lead by RLAM with the UK water utility industry (further details on this activity are set out at principle 7). • Voting activity: Border to Coast voted against the re-election of the Chair of the nomination committee at Costco Wholesale Corporation (the operator of a chain of cash and carry membership warehouses globally). In line with the stance on improving diversity in leadership positions, the expectation in developed markets without relevant legal requirements is for Boards to be composed of at least 33% female directors, this is not the case for Costco. The re-election of the Chair of the nomination committee saw a vote against management of over 18%, highlighting an increasing investor focus on gender diversity amongst senior leadership. Where practical to do so, Border to Coast also aim to contact companies to explain why they voted against management and their minimum expectations. **LGIM** operate a number of escalation options. Setting out expectations and then voting on these, as well as making public pre-declarations of voting intentions and publishing the rationale for votes cast against management. They have also found using shareholder resolutions can be an effective escalation tool. LGIM also operates an exclusion list of companies who do not meet their requirements for: involvement in the manufacture and production of controversial weapons, perennial violations of the United Nations Global Compact (UNCG), an initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies and involvement in mining and extraction of thermal coal, thermal-coal-power generation and oil sands.

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. The Investment Association Shareholder Priorities for 2022 have also been used in the review process. 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. Border to Coast has been appointed by LPF to oversee the voting undertaken by the Fund's appointed passive equity manager, to identify any areas unaligned and report back to the Fund. 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.

Activity:
The Fund's alternatives mandate, managed by Morgan Stanley, also includes a small amount of listed assets. During the 2022 proxy voting season MSIM global stewardship team voted on our behalf for these assets. 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 2022. They include:

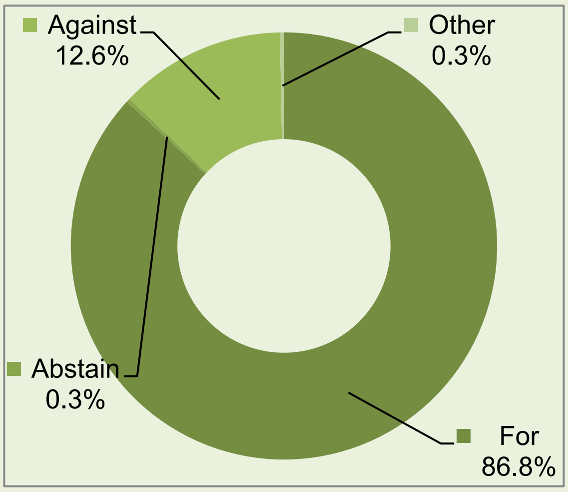
- a new section on human rights and amendments to the climate change section to strengthen support for net zero commitments;
- revised guidelines for when Border to Coast will vote against Board Chairs based on the companies Transition Pathway Initiative (TPI) assessment; and
- new guidelines for climate-related voting intentions for the banking sector.

Details of all the changes are available in the December 2022 meeting papers of the Committee.

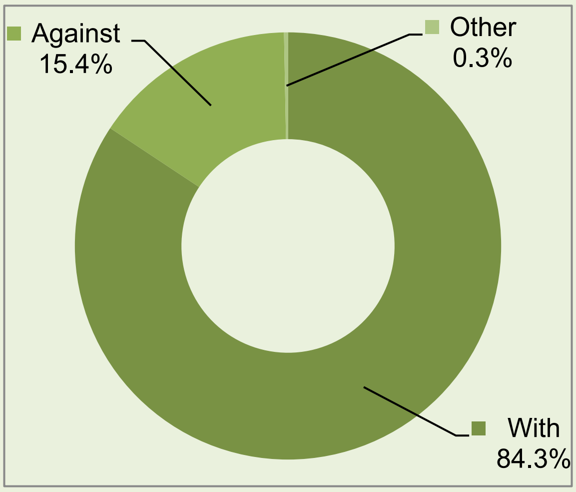
Examples of some manager's voting records for 2022/23 are shown below:

Votes cast for Border to Coast's Global Equity Alpha Fund (201 meetings)

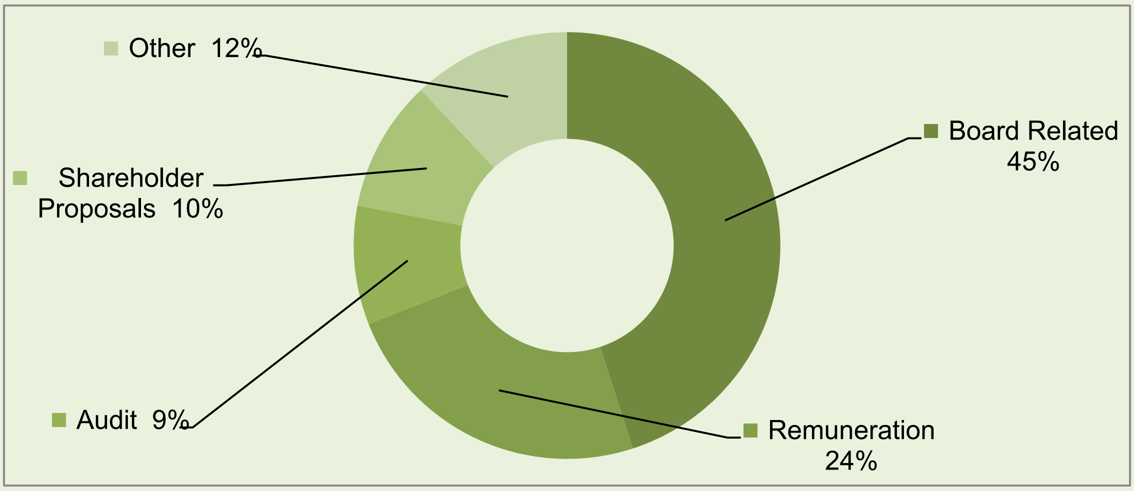
Votes Cast:



With or Against Management:



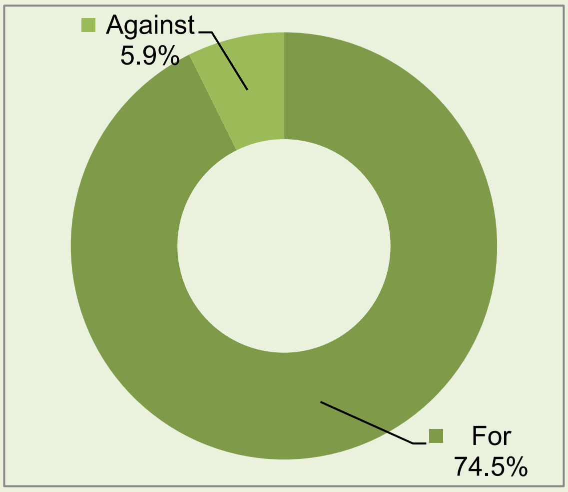
Votes Against by category:



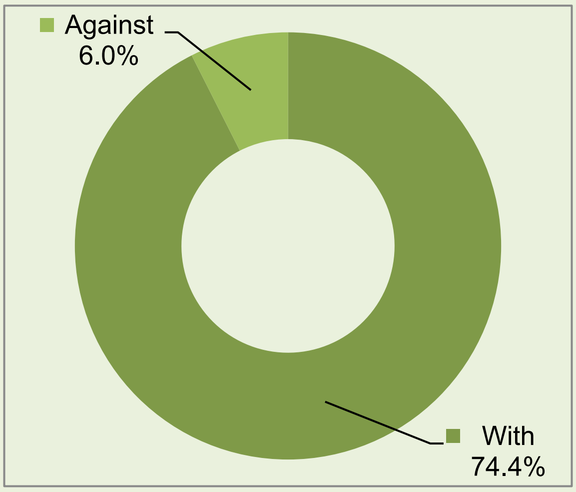
Outcome:

Votes cast for Border to Coast's UK Listed Equity Fund (125 meetings)

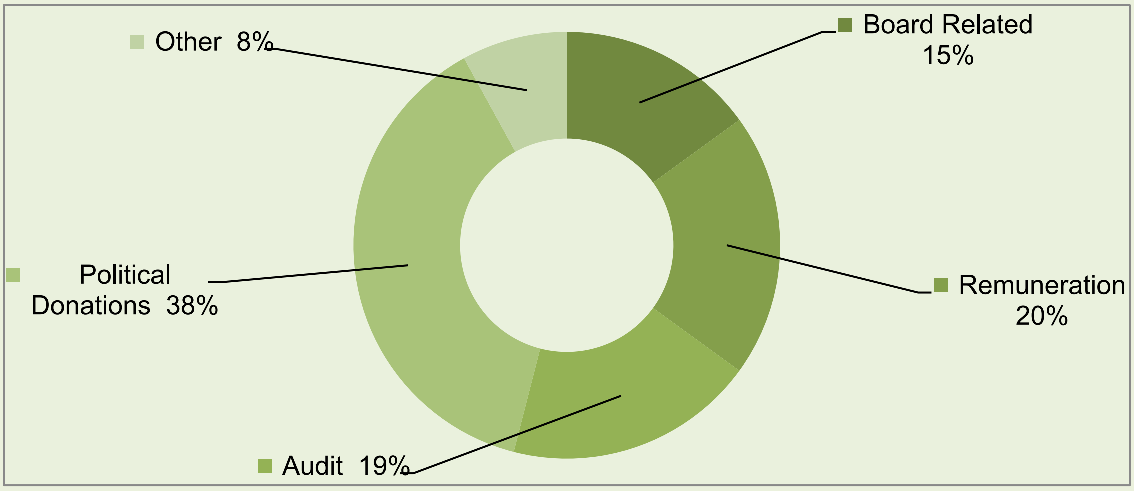
Votes Cast:



With or Against Management:



Votes Against by category:



For the Morgan Stanley Alternatives mandate 47 meetings were voted at, covering 455 proposals.

The Head of Pensions is a member of 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 1:

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

Action:	**Target date**
Consideration of any stewardship implications in the Investment Strategy Review.	December 2023
Consider new approaches to engaging with employers and members to ensure their views are understood by the Fund. Employer and employee engagement should be wide reaching but should balance use of the resources available. The Fund will continue to use existing forums and resources including the Annual Employers Meeting and Member Newsletters.	March 2024

Principle 2:

Signatories' governance, resources and incentives support stewardship.

Action:	**Target date**
Continue quarterly reports and enhance where opportunities arise.	On-going
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
Appointment to the new career grade post to provide additional dedicated resource for investment and stewardship monitoring. The post holder will develop skills and experience once appointed to the role.	January 2024

Principle 3:

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Action	**Target date**
Annual review of policy.	March 2024
Provide any new members with training on conflicts as part of their induction training.	As required

Principle 4:

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

Action:	Target date
Continue working with Border to Coast and LAPFF.	On-going
To identify any opportunities for further collaborative work with other organisations, where appropriate and proportionate for the Fund.	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.

Action:	Target date
Continue to consider expansion of Stewardship reporting to include significant private market managers.	March 2024
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

Action:	Target date
Continue to include information on stewardship in the Member Newsletter and request direct feedback.	October 2023
Explore with the administrator how we might engage with scheme members on Investment and Stewardship matters for feedback and input.	March 2024
Develop a Stewardship page on the LPF website - providing key information to any interested parties.	March 2024

Action:	Target date
Explore with employers (via the Annual Employers Meeting) how we could engage further with them on investment and Stewardship matters.	March 2024
Employer meeting will provide an update on stewardship.	February 2024

Principle 7:

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

Action:	Target date:
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.	On-going

Principle 8:

Signatories monitor and hold to account managers and/or service providers.

Action:	Target date:
Increase information required from other managers (non-Border to Coast) to provide enhanced monitoring.	On-going

Principle 9:

Signatories engage with issuers to maintain or enhance the value of assets.

Action:	Target date:
Expand the quarterly RI Update report to include more examples of engagement to provide more information to the Committee, to assist them to challenge activity undertaken on our behalf.	On-going
Work with Border to Coast and Morgan Stanley, the Fund's main alternatives manager, to expand the coverage of engagement across other asset classes.	On-going

Principle 10:

Signatories, where necessary, participate in collaborative engagement to influence issuers.

Action:	Target date:
Continue to work closely with Border to Coast and LAPFF to ensure that any collaboration is effective.	On-going

Principle 11:

Signatories, where necessary, escalate stewardship activities to influence issuers.

Action:	Target date:
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.

Action:	Target date:
Continue to work with Border to Coast and other managers to understand how and where they are able to actively influence investment and stewardship decisions, particularly outside of the equity space, on our behalf.	On-going

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

Report to:	**Pensions Committee**
Date:	**21 September 2023**
Subject:	**Annual Report on the Fund's Property and Infrastructure Investments**

Summary:

This report outlines the performance of the Fund's property and infrastructure investments for the year ended 31 March 2023.

Recommendation(s):

The Committee note the report.

Background

1.1 The Fund's investment exposure to property and infrastructure is achieved via holdings in pooled vehicles.

1.2 The Fund's long term strategic allocation of 10.5% to property is slightly higher than the average local authority pension fund, currently at 7.7%. The market value of holdings in property pooled vehicles at 31 March 2023 was £228.1m (7.5% of the Fund). Whilst the majority of exposure is to UK commercial property, to diversify the property allocation the Fund made commitments to a European commercial property, property venture funds and to two private residential housing funds.

1.3 The Fund also has a 2.5% strategic allocation to infrastructure. Again, this is slightly higher than the average local authority pension fund, which is currently 1.8%. The market value of holdings in infrastructure pooled vehicles at 31 March 2023 was £66.8m (2.2% of the Fund).

1.4 The Fund's total property and infrastructure holdings as at 31 March 2023 are set out in table one over the page.

Table One: Market value of property and infrastructure holdings at 31 March 2023

Property Pooled Investment Vehicle	Market value of holdings at 31 March 2023 £m	Market value of holdings at 31 March 2022 £m
Balanced UK Commercial Property	140.5	193.8
Property Venture and Residential Property	42.1	11.5
European Property Growth Fund	45.5	14.1
Infrastructure	66.8	59.2
Property/Infrastructure Cash	0.3	0.5
TOTAL PROPERTY AND INFRASTRUCTURE	**295.2**	**279.1**

1.5 The performance of the property and infrastructure holdings during 2022/23 was as follows:

- UK Commercial Property Unit Trusts return in the year saw an under performance, returning -18.20% against a benchmark of -14.49%;
- Other Property (including the European Property Fund, Property Venture and Private Residential Sector) saw a significant underperformance, returning -4.57% against the benchmark of 7.00%; and
- Infrastructure saw a significant out performance, returning 13.41% against a benchmark of 6.00%.

1.6 To give this some context against other elements of the market, property holdings produced indexed returns of -14.49% (IPD UK All Balanced Fund Index), over the twelve months to 31 March 2023, compared to UK equity returns of 2.92% (FTSE All Share) and UK index-linked bond returns of -17.76%.

1.7 Details of the individual property and infrastructure holdings and their performance are set out in the following sections of the reports.

2.0 BALANCED UK COMMERICAL PROPERTY

2.1 The UK Commercial Property holdings represent just under half of the Fund's property and infrastructure holdings (47.6% of holdings as at 31 March 2023). The pooled investment vehicles have been selected by officers to provide diversified exposure to the UK commercial property asset class with the intention of achieving broad market returns. A breakdown of holdings is set out in table two over the page. Officers are in regular contact with the various managers to monitor performance.

Table Two: Balanced UK Commercial Property holdings at 31 March 2023

	Market value of holdings at 31 March 2023 £m
abrdn – Trustee Investment Plan	66.6
Aviva Pooled Property Fund	9.3
Blackrock – UK Property Unit Trust	39.1
Royal London Exempt Unit Trust	25.5
Total Balanced UK Property	**140.5**

2.2 No additional investments have been made to the UK Commercial Property holdings during the year. The Pension Fund has received £19.4m from the Aviva Pooled Property Fund in the year, following the managers decision on 14 July 2021 to close the fund.

2.3 Table three below summaries the overall UK property sector in the Lincolnshire Portfolio verses the market index. Appendix A provides further details of the overall UK property sector and regional weightings of the individual pooled vehicles verses the index.

Table Three: Overall UK property sector asset weightings at 31 March 2023

Property Sector	**Lincolnshire Fund %**	**IPD %**	**Difference %**
Retail	19.9	18.8	1.1
Offices	16.6	24.0	-7.4
Industrial	40.7	37.8	2.9
Other	22.8	19.4	3.4
Total	**100.0**	**100.0**	

2.4 Overall, the Fund's property allocation, when compared to an index of similar property funds, is overweight industrials, offices in London, shopping centres, retail warehouses and other property. The Fund is underweight standard retail, and offices in the south east and the rest of the UK.

2.5 At an individual fund level:

- abrdn is overweight industrials and underweight offices in the south east and the rest of the UK.
- Aviva is significantly overweight retail warehouses and other properties. The manager is in the final stages of disposing of assets in the portfolio. At the 31 March 2023 there were just two assets remaining, a retail warehouse and a hotel, which is classified under other properties.

- Blackrock is overweight other properties (which includes primary care and student accommodation). They are underweight standard retail and offices in the south east.

- Royal London has no allocation to shopping centres or offices in the rest of the UK. They have a significant overweight position to offices in London and underweight in offices in the south east. Property sizes are generally smaller when compared to the other managers.

Investment Performance

2.6 Table four below sets out the annualised performance of the Fund's current UK Commercial Property Investments over one, three, five and ten years. The IPD UK All Balanced Property Funds Index is used to compare the managers' performance. This index was developed for all the leading managers of balanced property funds. The returns reported are taken from the published performance data.

Table Four: UK Commercial Property Investment returns to 31 March 2023

	2022/23 %	**3 years Annualised %**	**5 years Annualised %**	**10 years Annualised %**
abrdn	-20.0	1.9	0.8	5.0
Aviva	-26.2	1.2	1.3	5.3
Blackrock	-15.7	2.1	2.0	5.8
Royal London	-12.7	1.8	1.6	5.2
IPD UK PPFI All Balanced Median return	-14.5	2.6	2.5	6.4

2.7 Overall UK commercial real estate delivered returns of -14.5% during 2022/23 reflecting an unprecedented market correction in property values in the second half of 2022, following the strong growth seen in the previous financial year. Industrials were particularly hard hit, offices and retail were less affected and residential property showed the strongest performance. After this extremely sharp repricing commercial property values stabilised during the first three months of 2023.

2.8 It a manager level:

- abrdn returns have underperformed against the benchmark in all periods. Performance during last year was below the benchmark, which was due to the portfolio's relative overweight position to industrials which were more significantly affected by the reduction in asset values in 2022. The low-yielding nature of the portfolio also affected returns disproportionately, given the rapid increase in gilt yields and impact on property pricing. However, the final quarter of the financial year showed positive, and above benchmark, returns, helped by the sale of an office and car park investment, with significant vacancies, and the agreement of terms to sell two smaller assets.

This fund is one of the largest pooled funds in the UK and is well diversified across sectors and geographic regions. The fund aims to provide long term growth from a combination of income and capital growth by investing predominantly in prime quality UK properties. Typically, the fund will invest in a mix of freehold and leasehold properties selected from across the retail, office and industrial sectors.

- Aviva has underperformed the benchmark over all periods, and significantly in the last 12 months. The fund has closed and is winding up with the manager looking to dispose of all property assets and return cash to investors. By 31 March 2023 the Pension Fund had received £51.6m from the manager as the fund winds up and a further £7.1m in April 2023. At 31 March 2023 the Fund had just two assets remaining, a retail warehouse and a hotel. The sale of the warehouse completed in quarter one of 2023/24 and the hotel is under offer.

- Blackrock was behind the benchmark in all periods, however, the Fund has a lower than average risk profile, low vacancy rates, strong tenant credit ratings, and has strongly diversified tenant and asset profiles. Similar to the abrdn portfolio, BlackRock is overweight industrials which were significantly affected by the fall in value seen in the second half of 2022. The fund saw a modest rebound in quarter one 2023 and outperformed the benchmark.

  The fund seeks to outperform the average of similar institutional pooled vehicles by investing in a diversified range of property throughout the UK. The Fund focuses on sectors and geographies positioned to benefit from the structural drivers of future tenant demand while maintaining a core risk profile with an emphasis on income component of total return.

- Royal London was ahead of the benchmark in the last 12 months, but underperformed the 3 year, 5 year and 10 year benchmark. The fund is in the second quartile over one year, and the fourth quartile over all other time periods. During the last 12 months outperformance has come from income return and rental growth. The fund also experienced less outward yield movement compared to the index, this was helped by the fund being only slightly overweight industrials, which saw the most significant movement. The fund also benefits from a low void rate (5.8% at the end of March 2023, compared to the index average of 9.8%).

  The fund continues to focus on maintaining income levels and managing costs while progressing with ongoing asset management projects.

Outlook

2.9 UK commercial property asset values showed an average decrease of 21% from their peak in 2022, by March 2023 pricing was beginning to show signs of stabilisation. However, sentiment remains cautious and debt costs remain prohibitive. The UK market has repriced more quickly than other European markets and has therefore become increasingly attractive to overseas investors, however, this has not translated into an uptick in transactions, with investment volumes remaining subdued.

2.10 Occupational themes look to remain broadly unchanged. Significant restructuring of the retail sector since 2015 has created resilience among its occupier base and rents have rebased substantially. Limited supply of new high-quality space is supporting prime rents in the office sector, and a chronic undersupply of industrial and logistics space, coupled with resilient tenant demand has seen rents rise by 8.6% in these sectors over the last 12 months.

2.11 Across all sectors, a building's ESG credentials is now a critical consideration, as corporate occupiers seek to deliver on net zero carbon targets, with energy efficiency becoming a key priority.

2.12 Looking ahead, it is expected that there will be a gradual recovery in the UK commercial property market, mirroring the broader economic environment.

3. EUROPEAN BALANCED PROPERTY FUND

abrdn European Property Growth Fund – Unit Trust

3.1 To diversify the Fund's balanced property exposure, a commitment of €5m (£4.4m) was made in November 2002 to a new pooled investment vehicle created by abrdn to invest in Continental European property. A further commitment of €10m (£8.8m) was approved in July 2005. The Fund was offered the opportunity to purchase additional units in quarter one 2022 and committed a further €42m (£35.7m) to the Fund, this purchase was completed in June 2022. The purchase was funded by the cash received from the Aviva UK Commercial Property Fund which is being wound up.

3.2 The Fund mainly owns offices (44.7%) and distribution (42.9%) properties in the Eurozone, and to a limited degree in other European countries. The Fund is currently working with investors on a proposal to reposition the portfolio. This includes enlarging the types of property held within the portfolio by adding residential property, such as private rented sector, student housing and senior living, and redefining the assets which can be invested in within the alternative properties category, to include hospitality, healthcare, data centres and car parks. The fund is also looking to make some technical changes to the fund documentation to alter investor thresholds for approving material changes to the fund and how the fund is priced at entry and exit.

3.3 The investment is currently valued at €51.7m (£45.5m) at the 31 March 2023 and distributed £0.6m during 2022/23.

4.0 PROPERTY VENTURE AND RESIDENTIAL PROPRETY

4.1 To diversify from the UK core property market, investments have been made in a number of different types of property funds aiming, over the long term, to exceed conventional market returns through specialist and active involvement in different parts of the property market. Table five, below, sets out details of the Funds held.

Table Five: Property Venture and Residential Property holdings at 31 March 2023

	Undrawn Commitments 31 March 2023 £m	**Market value of holdings at 31 March 2023 £m**
Allianz Home Equity Income Fund I	6.0	23.6
Hearthstone Residential Property Fund II	17.7	18.0
Igloo Regeneration partnership	0.0	0.2
Franklin Templeton Asian Fund of Funds	3.0	0.2
Franklin Templeton European Fund of Funds	0.4	0.0
RREEF – Property Ventures Fund III	0.0	0.1
Total Property Ventures	**27.1**	**42.1**

4.2 The Fund made investments into four property schemes between 2005 and 2007, Igloo, Franklin Templeton and RREEF, these are now in the wind-up phase. The Fund then made a further two commitments to residential property schemes with Hearthstone in 2020 and Allianz in 2021. The significant underperformance on property venture is explained by the timing of these commitments. The four original schemes are largely complete and are no longer generating significant income or capital growth (table six and paragraph 4.3 provide further details on these schemes). The two more recent commitments to residential property are in the early drawdown phase (paragraphs 4.4 to 4.7 provides further details).

Property Venture Funds

4.3 All these Funds are in the final stages of winding up, with the majority of assets having been disposed of and the small number of remaining assets being valued on a terminal (prudent) basis. Due to the timing of these investments, just ahead of the financial crisis of 2008, the performance has been poor and below original expectations. Table six, on the next page, sets out the original commitment value and timing along with the investment multiple returned by the funds.

Table Six: Original Property Venture Commitments and Investment Multiples

	Commitment Value	Commitment Date	Investment Multiple
Franklin Templeton European Real Estate Fund of Funds	€15m (£13.2m)	October 2005	0.62
RREEF Ventures III Unit Trust	£10m	January 2006	0.37
Igloo Regeneration Partnership	£10m	April 2006	0.77
Franklin Templeton Asian Real Estate Fund of Funds	$25m (£20.2m)	October 2007	1.00

Allianz Home Equity Fund

4.4 In March 2021 the Committee approved a commitment of £30m to the Allianz Home Equity Fund. The fund invests in existing residential properties on a shared ownership basis, whereby an individual owns a minimum of 5% of the property and the fund owns the balance. The individual pays market rent on the proportion of the property owned by the fund, and they can gradually increase the proportion of the property they own over time. This is a new concept within the shared ownership model which removes the need for the involvement of a housing association. The pattern of returns is expected to be made up of rental income in the early years followed by capital redemptions in later years. By 31 March 2023 the scheme had acquired 141 properties and had accepted offers on a further 88 properties.

4.5 During 2022/23 £18.0m was drawn down by this Fund. A further £6m was drawn down in quarter one 2023. Although it is too early to report on performance, in March 2023 the fund generated £155k in rental income and no tenants are in payment default.

Hearthstone Residential Fund 2

4.6 In July 2020 the Committee approved a commitment of £37m to the Hearthstone Residential Fund 2. The Fund aims to establish a portfolio of high quality privately rented houses and low-rise apartment blocks, particularly suited to young professionals and families in areas of solid rental demand and good local infrastructure, but where there is a lack of suitable quality rented housing stock. The manager has developed strong relationships with a number of house builders and will build up the portfolio by purchasing units on new developments at an initial discount to the market value. By 31 March 2023 the Fund had acquired 154 residential units in fifteen locations including Preston, Derby and Southampton. Two further sites are at the acquisition stage.

4.7 During 2022/23 £13.6m was drawn down by this Fund. Total return, year on year to quarter three 2022 was -0.8% (made up of income return of 1.1% and capital return of -1.9%). At this stage in the Fund's life, with only a small proportion of assets completed and are income-producing, the effect of transaction costs (particularly stamp duty land tax) have an adverse effect on returns. The capital return is also affected by stage payments on forward funded schemes under development. These temporary effects will be removed as the remaining assets are completed and handed over. At the end of March 2023 131 units were occupied and 3 were reserved. 94.75% of rents had been collected and no rent arrears have been written off.

5. INFRASTRUCTURE

5.1 In addition to the property allocations, the Fund has made a 2.5% strategic allocation to infrastructure. This is made up of commitments to three private finance initiative (PFI) funds with Innisfree, plus a further two new investments with Infracapital and Pantheon (see table seven).

Table Seven: Infrastructure holdings at 31 March 2023

	Undrawn Commitments 31 March 2023 £m	Market value of holdings at 31 March 2023 £m
Innisfree PFI Continuation Fund II	0.0	10.0
Innisfree PFI Secondary Fund	0.0	16.6
Innisfree PFI Secondary Fund 2	0.0	8.9
Infracapital Greenfield Partners I	2.2	16.8
Pantheon Global Infrastructure III	1.9	14.5
Total Infrastructure	**4.1**	**66.8**

Innisfree Investments

5.2 The Fund has made commitments to funds managed by this specialist investor in PFI and similar projects, both in the UK and overseas. The investments offer prospective long term indexed returns in excess of those available from bonds. There is potential for improved returns from refinancing opportunities and contract variations.

Innisfree Continuation Fund II – partnership

5.3 The Committee approved a commitment of £8m to the Innisfree Continuation Fund II in January 2006. During 2015/16 the Pension Fund purchased £0.5m from the investor commitment of BAE Systems Pension Fund and in 2021/22 purchased a further £1.3m from a Canadian Pension Scheme.

5.4 This Fund consists of assets acquired from an earlier Innisfree primary fund in April 2006, plus a number of subsequent follow-on investments and disposals. The Fund now has a total of £337.1m committed to 12 project investments, all of which are operational. Fund assets include: three hospitals, five education projects, three accommodation projects for the UK government and a Dutch high speed rail link.

5.5 The investment is currently valued at £10.0m and has distributed £9.7m to 31 March 2023 (with a further £0.3m distributed in April 2023 relating to the six month period up to the end of March 2023). The portfolio of investments is forecast to provide a long-term gross IRR of 11.2%, a long-term net IRR of 8.6% and a 10-year average net yield of 8.7% before future optimisation.

Innisfree Secondary Fund (ISF) – partnership

5.6 The Committee approved a commitment of £15m to the Innisfree Secondary Fund in July 2007. During 2015/16 the Pension Fund also purchased £1.5m from the investor commitment of BAE Systems Pension Fund.

5.7 Secondary Funds are long term holders of PPP (public/private partnerships) and PFI projects which have typically reached their operating stage. Returns to investors are principally by way of cash generated by the projects during the remainder of their concession lives. ISF had its final closing on 30 June 2008, taking aggregate commitments to £600.5m, and now has 18 limited partners. As at 31 March 2023, the Fund had total commitments of £590.0m to 33 projects, and around 98.3% of investor commitments have been cash drawn. Projects include schools, hospitals, MOD buildings and infrastructure (roads – M6) in the UK, Canada and Sweden.

5.8 The investment is currently valued at £16.6m, having distributed £20.0m to 31 March 2023 (with a further £0.7m distributed in April 2023 relating to the six month period up to the end of March 2023). The portfolio of investments is forecast to provide a long-term gross IRR of 11.8%, a long term net IRR of 8.5% and a 10-year average net yield of 9.7% before future optimisation.

Innisfree Secondary Fund 2 (ISF2) – partnership

5.9 The Committee approved a commitment of £10m to the Innisfree Secondary Fund 2 in January 2013. ISF2 had its final closing on 31 March 2013, taking aggregate commitments to £544m, with 12 limited partners and 2 co-investment vehicles. The Fund had committed £449.1m to 24 projects and 82.5% of investor commitment had been cash drawn at 31 March 2023. All 24 projects are operational. The Fund is similar to ISF and is invested in projects including schools, hospitals, MOD buildings and infrastructure (Thameslink) in the UK, Canada and Sweden.

5.10 The investment is currently valued at £8.9m. The Fund has distributed £10.7m to 31 March 2023 (with a further £0.6m distributed in April 2023 relating to the six month period up to the end of March 2023). The portfolio of investments is forecast to provide a long-term gross IRR of 12.0%, a long term net IRR of 9.9% and a 10-year average net yield of 12.6% before future optimisation.

Other Infrastructure Investments

5.11 The Committee approved an increased commitment to infrastructure in January 2017. This set the strategic allocation to infrastructure at 2.5% of the fund. Following research and due diligence undertaken by Officers and the Investment Consultant it was agreed to commit £15m to Infracapital Greenfield Partners I in August 2017 and $21m (£17.0m) to Pantheon Global Infrastructure III in February 2018.

5.12 During the year, £5.3m was invested into these infrastructure schemes: £2.2m in Infracapital Greenfield Partners I and £3.1m in Pantheon Global Infrastructure III. No redemptions were made.

Infracapital Greenfield Partners I (IGP I)

5.13 The Committee approved a £15m commitment being made to Infracapital Greenfield Partners I in August 2017. This fund is targeting £1 billion in capital commitments to create a diversified portfolio of European greenfield economic infrastructure investments, in order to provide investors with capital appreciation and yield. It will focus on later stage development, construction and/or expansion of long-term infrastructure through projects and corporates. IGP I will target eight to fifteen investments, based on an equity investment in the range of £25m to £200m, including buy and build investments or roll out strategies. The fund has a potential 25 year term and is targeting a mid-teens gross IRR over the entire life of the fund. There are two phases to the fund's life – an initial period where significant capital appreciation is expected, and an operating period during which high teens yield is expected to be delivered. Investors will have the opportunity to exit after the initial period, or (with more than 66.6% investor support) continue to the operating period. Discussions are underway with investors on the next phase of the fund’s life.

5.14 This fund has currently made commitments of £1,018.3m to nine schemes. The projects include: broadband infrastructure, bio, solar and wind energy, new train rolling stock and a portfolio of PPP assets. The Pension Fund's investment is currently valued at £16.8m, with outstanding commitments of £2.2m. The portfolio of investments is forecast to provide a long-term gross IRR of 13.0%, a long term net IRR of 11.7%.

Pantheon Global Infrastructure III

5.15 The Committee approved a $21m (£15.9m) commitment to Pantheon Global Infrastructure III in February 2018. This is a fund-of-funds, targeting a capital raising of $1.2bn. The Fund's strategy is focused on a combination of secondary and co-investments in infrastructure opportunities. The Fund is targeting an equal allocation across midstream energy, power and utilities, transportation, social infrastructure and 'other' (including telecommunications) and has made 39 commitments. The fund is currently 105.1% committed with 89.0% of investors commitments drawn.

5.16 The pension fund's investment is currently valued at £14.5m, with outstanding commitments of £1.9m ($2.3m). The portfolio return on investment since inception at 31 March 2023 was 12.4% compared to a benchmark of 6.3% (50% US CPI/50% EU28 CPI plus 3% per annum).

6. FUTURE INVESTMENTS – PROPERTY AND INFRASTRUCTURE

Property

6.1 The strategic asset allocation to property is 10.5%. It was approved at the Pensions Committee meeting in June to adopt the following target allocations within this element of the portfolio:

- 30% to UK commercial property;
- 30% to UK residential property; and
- 40% to global property.

6.2 The Committee agreed that this would be achieved by:

- The Fund making new investments in one or two more residential property funds, managed by the Fund's current residential property managers, Hearthstone and Allianz, subject to due diligence; and
- The Fund will invest in the Border to Coast UK and Global Funds subject to due diligence.

6.3 In addition, the Fund will also considers exiting the abrdn European Property Growth Fund, subject to further discussions with the manager and due diligence.

6.4 These changes will be implemented over a period of years in order to manage the implementation costs and will be subject to the launch of the Border to Coast global and UK property funds which are still being developed. Current estimates are that the global sub-funds will launch in Q4 2023 and the UK property sub-fund towards the end of 2024.

Infrastructure

6.5 The Fund has a separate allocation to infrastructure, plus infrastructure investments within the diversified alternatives mandate managed by Morgan Stanley. At the Committee meeting in June 2022 the Committee approved a change to the Morgan Stanley mandate to increase its focus on private market investments, including infrastructure assets. The Pension Fund will continue to manage its current infrastructure investments. All new infrastructure commitments will be made through the Morgan Stanley Private Markets mandate.

Conclusion

7.1 The Pension Fund's total investment in property generated a return of -14.11%, which was behind the benchmark return of -10.36% (as measured by Northern Trust). Within this there is significant a significant variation in performance.

7.2 The property allocation, at 7.7% is underweight its benchmark allocation of 10.5%. This will be addressed by further allocations to UK residential property funds, and the Border to Coast global and UK property sub-funds.

7.3 Infrastructure generated a return of 13.41%, which was ahead of the benchmark return of 6.00%.

7.4 Infrastructure allocation, at 2.0%, is also underweight its benchmark allocation of 2.2%. Future commitments to infrastructure will be made by the Fund's private markets manager Morgan Stanley, and the strategic asset allocation adjusted accordingly.

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	UK Balanced Property Allocation - March 2023

Background Papers

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

This report was written by Claire Machej, who can be contacted on 01522 553641 or claire.machej@lincolnshire.gov.uk.

Appendix A

UK BALANCED PROPERTY ALLOCATION AT 31 MARCH 2023

March 2023	Retail %			Offices %			Industrial %	Other %		Total %
	Standard Retail	Shopping Centres	Retail Ware House	London	Rest of South East	Rest UK	All	Other Prop.	Cash	
abrdn	8.1%	3.1%	9.7%	10.9%	0.0%	0.0%	46.8%	13.1%	8.3%	100.0%
Aviva	0.0%	0.0%	47.6%	0.0%	0.0%	0.0%	0.0%	30.4%	22.0%	100.0%
Blackrock	1.3%	2.1%	12.0%	11.6%	3.1%	5.7%	41.7%	20.0%	2.5%	100.0%
Royal London	4.8%	0.0%	9.1%	28.6%	3.1%	0.0%	38.3%	9.0%	7.0%	100.0%
Weighted Average	5.1%	2.1%	12.7%	13.6%	1.4%	1.6%	40.7%	15.4%	7.4%	100.0%
IPD UK Pooled Property Fund Indices	6.1%	0.9%	11.8%	11.6%	7.4%	5.0%	37.8%	12.1%	7.3%	100.0%
Difference (absolute)	-1.0%	1.2%	0.9%	2.0%	-6.0%	-3.4%	2.9%	3.3%	0.1%	

Appendix A

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

Report to:	**Pensions Committee**
Date:	**21 September 2023**
Subject:	**Investment Pooling Consultation**

Summary:

This report shares with the Committee a draft response to the Governments recent consultation on investment pooling in the LGPS.

Recommendation(s):

That the Committee consider, discuss and approve the draft consultation response on the consultation "LGPS – Next steps on Investment".

Background

1. As mentioned at the Pensions Committee on 13 July, and shared in the weekly email on 17 July, the long-awaited consultation on LGPS investment pooling was published on Tuesday 11 July 2023. The consultation can be found at: Local Government Pension Scheme (England and Wales): Next steps on investments - GOV.UK (www.gov.uk).

2. A working group was created including representatives from Border to Coast and the Partner Funds, with the objective of delivering a single response from Border to Coast that could be co-signed by the Joint Committee. This has been shared with all members of the Officer Working Group for further comment, and a draft taken to the Border to Coast Board. A meeting was held with all Joint Committee members on 30 August to explain the rationale for the draft response and to provide early sight ahead of the Joint Committee meeting being held on 28 September, where is it being taken for approval. In addition, it was expected that all Partner Funds would submit their own response, aligned to the Border to Coast one but with any issues pertinent to their own situation covered.

3. To provide further context to the response from Border to Coast:

- The consultation is championed by HM Treasury and is seeking to understand the barriers to implementing the proposals, rather than being a fully open consultation.
- The main political parties are understood to support the policy intent, therefore any change in government is likely to see the proposals proceed.
- In many ways the consultation reflects the Border to Coast model, however other pools have differing levels of engagement and participation.
- To maximise influence, the response seeks to provide constructive commentary on how the policy objectives can be most effectively delivered, whilst maintaining the flexibility required to evolve how Border to Coast operates. It also looks to ensure that any unintended consequences are brought to the fore.

4. The Government does not believe that, across the LGPS, pooling has been fully or appropriately implemented and more benefits can be delivered. The key points raised in the consultation are:

- A plan for all assets to transition to a pool within a reasonable timeframe (Government considers this to be 31 March 2025)
- The Government believes in the benefits of scale, and expects there to be a smaller number of pools in the future (suggesting that c.£100bn is an optimal size) and that all pools should be able to access internal investment management capabilities through working with other pools
- Individual funds are to delegate more to their pools, use them as advisors on investment strategy, and strategies should be implementable by the pool. Investment strategy should be a broad instruction regarding asset class and level of risk
- Increase the training (and knowledge) of Pension Committee members
- Consistent reporting to track the progress of pooling; also each fund to report returns against appropriate benchmarks with an aim of being able to compare across funds
- Confirms the LGPS is to develop plans to invest 5% of their assets to support the policy objectives of Levelling Up
- Seeks to double LGPS allocation to Private Equity to 10%
- It suggests that if a Fund doesn't adhere to future Government policy, their position as an Administrating Authority can be removed through existing powers.

5. Government has indicated that this is to be seen as a three-stage approach over a period of time, with assets transitioning first, then greater collaboration across pools, then consolidation. However, this does raise concerns that if consolidation is the overall policy intent, then funds will be unwilling to transition assets if they believe there will be further transitions at some point as a result of pool mergers, therefore duplicating costs.

6. A high-level summary of the draft position from Border to Coast, as discussed with Joint Committee members on 30 August, is set out below. The full version of the

response will be shared in the Joint Committee papers, ahead of their 28 September meeting.

Consultation Question	**Border to Coast Proposed Position**
Question 1. Do you consider that there are alternative approaches, opportunities or barriers within LGPS administering authorities' or investment pools' structures that should be considered to support the delivery of excellent value for money and outstanding net performance?	• Support the broad thrust of the consultation. • No <u>fundamental</u> barriers to increasing scale. • Key issue to delivering this is good governance.
Question 2. Do you agree with the proposal to set a deadline in guidance requiring administering authorities to transition listed assets to their LGPS pool by March 2025?	• Support the principle of transferring, or having a clear path to transition, assets to pools. • Seek clarity on definitions, particularly on passive investments. • Raise the issue of 5% of assets outside pool if it meets other policy intent (e.g. local investment).
Question 3. Should government revise guidance so as to set out fully how funds and pools should interact, and promote a model of pooling which includes the characteristics described above?	• Support the broad approach, although emphasise Administering Authority's remain responsible for setting investment strategies.
Question 4. Should guidance include a requirement for administering authorities to have a training policy for pensions committee members and to report against the policy?	• Support the approach. • Ask this is addressed as part of the Good Governance project.
Question 5. Do you agree with the proposals regarding reporting? Should there be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how should this requirement operate?	• Welcome standard and consistent reporting. • Raise the challenges of reporting against a benchmark and provide an alternative mechanism to the deliver policy intent.
Question 6. Do you agree with the proposals for the Scheme Annual Report?	• Support clear and consistent reporting. • Highlight concern on cost of additional reporting requirements, and any reporting should be focused

	on simplicity (to aid understanding and support oversight).
Question 7. Do you agree with the proposed definition of levelling up investments?	• Support proposed definitions. • Request 5% of assets can be invested outside pool to support local investments.
Question 8. Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?	• Support in principle but raise several challenges to doing this.
Question 9. Do you agree with the proposed requirements for the levelling up plan to be published by funds?	• Support proposals but emphasise role of Administering Authority is to deliver appropriate risk adjusted returns.
Question 10. Do you agree with the proposed reporting requirements on levelling up investments?	• Agree with the reporting requirements.
Question 11. Do you agree that funds should have an ambition to invest 10% of their funds into private equity as part of a diversified but ambitious investment portfolio? Are there barriers to investment in growth equity and venture capital for the LGPS which could be removed?	• Emphasise Administering Authorities are responsible for their investment strategies. • Seek to expand definition of private equity to "private growth capital" and that these strategies should be global in nature (and not limited to UK).
Question 12. Do you agree that LGPS should be supported to collaborate with the British Business Bank and to capitalise on the Bank's expertise?	• Agree that there are several potential partners, including UK Investment Bank. • Note the principle of pooling was to remove costs and highlight the risk of BBB introducing a new layer of fees.
Question 13: Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?	• Welcome the consistent application across the LGPS.
Question 14: Do you agree with the proposed amendment to the definition of investments?	• No comments.

Question 15: Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so please provide relevant data or evidence.	• No.

7. From this company response, Partner Funds have created their draft consultation responses, and the Lincolnshire Pension Fund draft response is attached at appendix A. The response has been written from the viewpoint of the Fund, rather than Border to Coast, but is generally aligned. The changes mainly reflect the position of the Lincolnshire Fund, such as how we currently invest in private markets. However, there the key differences that some funds have included or added, that the Committee may wish to discuss, are set out below:

   - Some funds have mentioned fund consolidation in looking at the wider LGPS ecosystem, and to enable appropriate capacity and capabilities at a fund level to deliver their objectives. Is this something the Committee would like to include?
   - References to the private markets offering from Border to Coast have been amended to reflect our use of Morgan Stanley for our private markets mandate.
   - References to retaining 5% outside of the pool for local investment have been amended as the Fund does not include geographically local investment (i.e. Lincolnshire) in its investment strategy. Local in the wider sense of Levelling Up is seen as UK.
   - The response in question 4 proposes that consideration should be given to properly remunerating pensions committee members given the significant training requirements and responsibilities of committee membership. Some funds are not including this in their response.

8. The deadline for responses is 2 October 2023, and any proposed amendments to this draft will be made to meet that deadline.

9. Any comments or questions that the Committee may have on the Border to Coast response for the Joint Committee to raise, can be sent to the Chairman of this Committee, Cllr Strengiel, who will raise them at the 28 September meeting.

Conclusion

10. The long-awaited consultation on the next steps for investment pooling was issued on 11 July 2023. Border to Coast will be responding with a co-signed response from the Joint Committee, and Partner Funds are expected to respond in a similar vein, but with any points pertinent to their own situations. The draft response for the Lincolnshire Fund is attached at appendix A for consideration and approval.

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	Lincolnshire Pension Fund Draft Consultation Response – LGPS: Next Steps on Investment

Background Papers

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

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

Lincolnshire COUNTY COUNCIL Working for a better future

By email to lgpensions@levellingup.gov.uk

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Dear Sir or Madam

LOCAL GOVERNMENT PENSION SCHEME: NEXT STEPS ON INVESTMENTS

Lincolnshire County Council (Lincolnshire) welcomes the opportunity to respond to this consultation on the supplementary issues and draft regulations in relation to the "Local Government Pension Scheme (LGPS): Next steps on investments".

Lincolnshire is the Administering Authority for the Lincolnshire Pension Fund (LPF) as part of the LGPS. The Fund has assets of over £3 billion and has approximately 260 employers.

We welcome this consultation on the future of the LGPS and believe it is an important contribution to how we can collectively build on some of the good practice that has evolved across the LGPS since 2016.

In 2018, LPF's jointly owned pooling company, Border to Coast Pensions Partnership Limited (Border to Coast), began managing investments on behalf of 11 Partner Funds. The Partner Funds came together with an agreed set of principles that continue to guide how we work together. As a partner Fund of Border to Coast we are delivering against Central Government's original pooling policy objectives:

- Over £40bn pooled through Border to Coast, with clear plans to increase this in the years to come;

- £65m of net cost savings had been delivered to 31 March 2023, with expectations to increase this to £340m by 2030 (for LPF, the cumulative savings net of setup, operating and transition costs at 31 March 2023 were £3.65); and

- Improved investment governance and professionalism through a regulated structure.

Border to Coast adds significant value to LPF above and beyond the original pooling objectives, particularly in relation to responsible investment. They have built a centre of expertise, taking the lead on behalf of Partner Funds on active stewardship on climate change and other issues, and working collaboratively with groups such as Climate Action 100+ to deliver real world change. The collective scale also increases our influence as an active steward in other areas – whether on executive pay, or on driving standards in Responsible Investment and ESG disclosure.

LPF has made significant strides since 2018, with all our listed assets now pooled (or under pooled management), with plans established for pooling our real estate assets.

That said, while significant progress has been made, evolution is not fixed. We recognise the need to review and adapt to reflect both our individual development and to meet the various dynamic challenges that may impact us in pursuit of paying pensions in an affordable and sustainable manner. Any evolution should be consistent with the guiding principle that it is the responsibility of LPF to agree an investment strategy consistent with our fiduciary obligation to meet the pension promise of our scheme members, while ensuring that contributions for scheme employers remain stable and affordable.

It is regrettable, given the importance of governance to the successful delivery of the Government's policy objectives in this consultation, that there has not been a response to the Scheme Advisory Board's (SAB) recommendations in relation to the Good Governance Project. Concluding this work would have addressed some of these objectives.

Please see our responses to the questions raised below:

Question 1: Do you consider that there are alternative approaches, opportunities or barriers within LGPS administering authorities' or investment pools' structures that should be considered to support the delivery of excellent value for money and outstanding net performance?

The ecosystem in which the LGPS operates is changing and it is important to acknowledge and adjust to this, to ensure we can continue to collectively deliver for LGPS members. This includes the increasing regulatory and governance complexity and burden on individual Funds.

This challenge can be addressed through:

- Engaged and informed Pension Committees and Local Pension Boards, exhibiting an appropriate level of knowledge, understanding and professionalism. They should be supported by experienced officers, exclusively dedicated to the Pension Fund, with the right resources and support to develop, and manage the oversight of their investment strategies.

- Appropriately resourced pools, which can support the development and implementation of the investment strategies of their Partner Funds. As centres of expertise these pools can provide wider support for Partner Funds.

In operating any system, good governance is fundamental. This can cover a wide range of issues, but includes the establishment of clear divisions of responsibilities, robust oversight and simplified, flexible decision-making, including effective delegations to specialists trusted to exercise sound judgement over the long-term. The importance of this is often underestimated.

The "governance premium" is thought to be around 0.6% per annum additional return (and has been estimated as high as 1-2% p.a.). This can be evidenced[1] via asset owners with "good governance". This relates primarily to clear delegation of investment decision-making with strong oversight and scrutiny by the asset owner Pensions Committee. It is based on research over the last 20 years. We recognise that standards are variable, with smaller funds, in particular, less likely to rate themselves as highly on important measures of quality. While each fund and pool should consider their own governance frameworks, progress on the 'Good Governance' review will support the LGPS and progress would therefore be welcomed by all[2].

Scale can deliver significant benefits. A 2022 publication[3] by CEM looked at the case for scale for pension schemes. Its findings were that asset pooling led to lower staff costs per assets invested due to the ability to internalise certain investment capabilities, and to lower external management fees due to the negotiating strength that comes from the value of mandates being placed, negotiated by professional investors whose interests are fully aligned with the ultimate asset owners.

However, scale doesn't always deliver additional benefits; seeking scale without addressing the critical issues such as good governance, management of conflicts of interest, a common vision and culture (within the Pool and among Partner Funds), complexity of investment strategies, and client needs, can either inhibit, or damage, a pools ability to deliver.

Delivering the benefits of pooling can be challenging and requires an understanding at officer and elected member level of both the benefits and costs of compromise, and an ability to assess where such compromise does not have a material impact on the risk/return profile that the Partner Fund wishes to achieve.

In considering the LGPS ecosystem and ensuring that good outcomes are delivered it is important to recognise and manage the potential conflict of interests that both investment consultants and pools may have in providing investment advice to Funds.

There has been greater progress and success in pooling where Funds have worked constructively with their advisors, consultants and their pools. In this situation the benefits that come from pooling in both investment outcomes and reduced ongoing governance and advisory costs are considered.

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[1] Pension Policy Institute: "Defined Benefits: the role of governance"

[2] The PLSA research, "LGPS: Views from inside the scheme" states that three-quarters of respondents believe government and regulators should focus on good governance (74%).

[3] A case for scale, February 2022

Question 2. Do you agree with the proposal to set a deadline in guidance requiring administering authorities to transition listed assets to their LGPS pool by March 2025?

We support the principle of transferring, or having a clear path to transition, assets to pools. Each funds' ISS should include a transition plan for assets to be transferred to the pools, as well as the composition and justification of any assets remaining outside the pool.

Partner Funds have already transferred most of their assets to Border to Coast. Further transfers are planned over the next few years. Each transfer event is predicated on the launch of an investment fund, the development of which typically takes six to twelve months including receiving approval by the FCA. There will be times when due to the complexity of the investment fund, such as property, this timescale may be longer. Resources to develop new funds are limited and imposing an arbitrary timescale could lead to hasty fund launches of sub-optimal investment funds.

We would welcome clarity and understanding on the position of legacy illiquid assets, particularly those in private markets. With fees already negotiated, and with typically no ability to adjust them post commitment, transferring these assets to the pool may simply incur new legal and tax costs. There may be occasions when the pools (where appropriate) can support Partner Funds on the oversight of legacy illiquid assets as they run-off.

For private market investments, where the pool does not provide the full managed service that existing managers provide (including full cash flow management), there may be additional time required for the pool to develop these capabilities, assuming they are able. Funds should be able to justify why any investments are not transferring within the expected timeframe.

We would also welcome clarity on 'passive' investments. In our current arrangements, we have jointly procured index funds in large, liquid and low-cost pools. These assets benefit from additional oversight from Border to Coast, and there is no obvious value for them to be replicated within the Pool. We believe that these investments should continue to be considered pooled ("assets under pool management").

Question 3: Should government revise guidance so as to set out fully how funds and pools should interact, and promote a model of pooling which includes the characteristics described above?

Through Border to Coast we have developed a model of pooling which has successfully allowed us to meet the government's objectives for pooling. We support the approach set out in the consultation, which reflects how we have sought to pool. However, we would urge caution on being overly prescriptive in describing any model in guidance as this may stifle innovation and the ability of Partner Funds and pools to respond to changing circumstances.

Administering Authorities are responsible and accountable for their investment strategies. A pool such as Border to Coast could potentially play a significant role in supporting the development of, and being responsible for implementing, a Partner Fund's investment strategy. However, robust governance arrangements need to be in place to manage potential conflicts, and to ensure proper oversight and scrutiny by Partner Funds can take place.

When drafting guidance, due consideration should be given to investment strategies that meet needs of a diverse employer group. This could include employers with differing maturity characteristics that may benefit from different investment approaches to protect their position.

Question 4. Should guidance include a requirement for administering authorities to have a training policy for pensions committee members and to report against the policy?

The key to a successful approach is ensuring decisions are made by the right people, with the right level of knowledge, at the right time.

It is important that there is local accountability for target returns, risk appetite, and investment beliefs that underpin the investment strategy to deliver cost effective and sustainable pensions.

As outlined in the consultation, and something we support, the role of a Pension Committee is to review and approve the investment strategy, and to provide oversight and scrutiny on how this is being executed. To be effective in this role, Committees will need to have in place appropriate delegation of functions to officers, who have sufficient experience and knowledge to support the Committee. In turn, officers and Committees can be supported by the centre of investment expertise that resides in the pool that they own, which is also responsible for the implementation and management of that Funds investment strategy.

The knowledge and understanding of Pensions Committees may be supported by independent advisors and consultants, who can play a key role in supporting the Committee in their responsibilities in the oversight and scrutiny of the investment strategy by the pool.

For Pension Committees, a key component to this is an effective training policy, which is reported against as part of clear delegation of functions between Committee and officers. This is something LPF manages in a structured way.

We recognise the difference in the current training requirements between Pension Committees and Local Pension Boards. We believe it is appropriate that the requirements for sitting on a Pension Committee should at least match that of membership of a Local Pension Board.

Given both the significant training requirements, and the responsibilities of membership of a Pension Committee, we believe it is appropriate that Pension Committee members should be appropriately remunerated.

We believe Government proposals in relation to the interaction of pools and funds, and the training of pension committee members, should be addressed as part of a holistic response to the Good Governance Project report completed by the Scheme Advisory Board to ensure changes take place within a framework focused on delivering the best outcomes for LGPS members.

Question 5. Do you agree with the proposals regarding reporting? Should there be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how should this requirement operate?

We support the proposal to have standard reporting requirements with clear and consistent definitions. We would welcome this is being progressed as part of the Good Governance project. We would also welcome a complete review of the regulations to simplify and streamline processes.

While support reporting net savings, this needs greater consideration, specifically "against what?". In calculating our savings, we are comparing our current position with data from 2015/16, which is not reflect the market pricing we see today. This information has become dated and is arguably irrelevant. Equally, a focus on cost may also drive unintended consequences, particularly given the desire from the Government to increase investment in more expensive asset classes, such as private markets. As the pooling journey continues, it may be appropriate to use other reporting mechanisms.

We have significant concerns on the proposals to produce standard reporting on investment returns. Each individual fund has its own investment strategy and risk appetite. Even within a single pool, although two funds may superficially have similar investment strategies, they may be seeking to deliver significantly different outcomes. There is a danger that returns reported against an inappropriate benchmark are taken out of context and could lead to poor investment decisions being made.

Question 6. Do you agree with the proposals for the Scheme Annual Report?

We support clear and consistent reporting by the Scheme Advisory Board, provided the Board is sufficiently resourced to undertake the work and it is undertaken in such a way as to minimise the data collection burden on funds.

We also note the broader issue of increased reporting for the LGPS. The research in "LGPS: Views from inside the scheme" found that over half (54%) of respondents feel that the legislation/regulatory requirements are already too complex to execute, while two in five (43%) continue to feel legislation/ regulatory requirements hinder them from doing their job effectively.

This is not to diminish the fundamental role of transparency and reporting. This is essential to ensure accountability, and to drive best practice across the LGPS. However, simplicity is key. Partly driven by the scale and complexity in current reporting requirements, we understand a recent review by SAB suggested that nearly a third of LGPS funds were not meeting their annual report disclosure requirements.

Simply adding additional reporting requirements not only adds cost, but there is a significant negative impact for the intended audience of the scheme members due to the volume and complexity of information being published. We believe that the impact assessment of changes in guidance, in terms of cost, transparency, and in the ability of readers to interpret what is shared, should be taken in the context of the ongoing review of LGPS reporting requirements being undertaken by the Scheme Advisory Board.

Question 7. Do you agree with the proposed definition of levelling up investments?

Although we do not disagree with the definition outlined in the consultation, it should be stressed that levelling up investments should be consistent with the investment strategies of Funds.

Through Border to Coast, a new private markets strategy, 'UK Opportunities'[4] is being developed. Set to launch in April 2024, we believe this could in future provide LPF with opportunities to invest in the regions across the UK, including venture and growth capital, should it fit in with the investment strategy agreed by the Pensions Committee. This would ultimately support the policy intent outlined in the Levelling Up white paper.

Question 8. Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?

Collaboration has been, and should continue to be, a hallmark of strength in the LGPS. If a pool is unable to effectively develop and manage an investment proposition, there may be merit in sourcing this capability through another LGPS pool. However, it needs to be recognised that there are several implications that need to be fully considered and risks mitigated. These include issues such as:

- Proposition development – the Border to Coast propositions are designed with, and for, 11 Partner Funds who are both shareholders and customers. Care will be required should external pool customers wish to invest in them or evolve existing propositions. The existing governance structures and processes will need to be reviewed to overcome this challenge.

- Niche strategies – certain investments may have capacity issues. For example, despite significant demand, the initial Climate Opportunities strategy at Border to Coast was capped at £1.35bn, which reflected the availability of suitable market opportunities. The demand from Partner Funds was significantly above this figure. Care will be required in balancing the needs of shareholder customers vs external pool customers for capacity constrained investments.

- Cost model – as shareholders, existing customers principally manage risk through Border to Coast's regulatory capital. Different arrangements would need to be developed for non-shareholder external pool customers.

- Managing demand – in owning and building Border to Coast, there has been a structured approach to its growth, building capacity and capability to reflect Partner

[4] https://www.bordertocoast.org.uk/news-insights/border-to-coast-marks-five-years-of-delivery/

Funds long term needs. This is likely to be absent with non-shareholder customers and, in accepting external customers, there is a risk of managing inflows and outflows of capital. This could destabilise the ability to plan the required capacity in various functions of the business. There are also similar considerations regarding management of liquidity in certain propositions.

Management of additional customers will require careful consideration, particularly noting the potential additional layer of due diligence costs that will be required as a regulated asset manager investing into another regulated asset manager’s vehicle.

Nonetheless, if these issues are overcome, it could be easier to manage this on a pool-to-pool basis, rather than an individual fund-to-pool basis.

Question 9. Do you agree with the proposed requirements for the levelling up plan to be published by funds?

The objective of LPF is to generate the appropriate risk adjusted returns to ensure we can pay pensions as and when they fall due, and set employer contribution requirements in an affordable and sustainable manner. Where ancillary objectives can be co-delivered without impacting these returns or increasing risk, such as those outlined in the Levelling Up White Paper, this is to be welcomed. We believe that Levelling Up, effectively delivered, has the potential to create growth; including creation of jobs, drive productivity, improve people’s quality of life and better health and wellbeing outcomes.

However, LGPS assets are invested to deliver appropriate risk adjusted returns and should not be used to implement any Central Government policy objective – no matter how laudable they may be.

We welcome the recognition in the consultation that each Fund is responsible for setting their investment strategy, designed to deliver the appropriate risk adjusted returns they require.

Any investment strategy and associated reporting on Levelling Up needs to be through the principal asset classes (e.g. Real Estate, Private Equity, Infrastructure, Private Credit, etc). This ensures that the risk adjusted returns are considered on the same basis. This can be reported via a Fund’s ISS.

Question 10. Do you agree with the proposed reporting requirements on levelling up investments?

We are comfortable with the proposals, albeit we note that this again expands the reporting and regulatory requirements on Funds, which will have resource implications.

Question 11. Do you agree that funds should have an ambition to invest 10% of their funds into private equity as part of a diversified but ambitious investment portfolio? Are there barriers to investment in growth equity and venture capital for the LGPS which could be removed?

Administering Authorities remain responsible for their investment strategies. As open defined benefit pension schemes, it is essential that we adopt appropriate diverse investment strategies designed to balance risk and return to ensure the LGPS remains affordable with stable employer contributions.

As part of this approach, private markets can play an important role. An allocation to private markets (including property) of 27% is already included in our investment strategy.

We note the reference to private equity and technology. This is a very narrow part of the market. Early-stage growth, especially that focused on technology, is relatively high risk. For investors who have not made meaningful or any previous commitments to private capital more broadly, this is a challenging entry point and risks volatile returns or losses, which would likely discourage future investment in private markets.

A broader definition, covering 'private capital' allows investors to build private market risk appetites which suits their own circumstances, rather than pushing everyone to a more narrowly defined and therefore potentially crowded part of the market with more volatile returns.

We believe we already substantially meet the aspiration to invest 10% of our assets in these areas. Recognising our current extensive UK investment exposure across our asset allocation, the opportunity set should be global in nature.

The most effective way to encourage any investment in the UK is the provision of a stable investing environment through policy certainty. If the LGPS and private capital is being asked to make large, long-term, capital investments, the Government needs to offer corresponding long-term guarantees and the necessary policy certainty to protect these potential investors. Examples include policy certainty on renewable energy, transport and other climate transition considerations; improvements to the planning regime to accelerate development opportunities and to enable clearer partnership opportunities with Local Authorities; and the development of structures, perhaps with the support of organisations such as the British Business Bank (BBB) and the UK Infrastructure Bank (UKIB) to enable risk sharing and return visibility.

While there is understandably a continued focus on costs, it must be recognised that private markets are a more complex and expensive asset class.

Question 12. Do you agree that LGPS should be supported to collaborate with the British Business Bank and to capitalise on the Bank's expertise?

There are a range of potential partners that can support the LGPS pools to deliver growth capital in the UK, BBB and the UKIB being two examples.

Given their state ownership and strategic focus to 'crowd in' other investors, these institutions may be well placed to support the LGPS pools source and commit to ventures that meet their normal investment criteria.

We do note that one of the key objectives of LGPS pooling was to reduce the fee burden paid by pension funds. In in a private market context, this included reducing the reliance on fund of fund structures which introduce an additional layer of fees and carry (profit share) expense. As such, any vehicle should be offered on a cost only basis if the intention is to encourage greater participation in this part of the market. An additional layer of fees would deter potential investors. BBB will be investing balance sheet capital into all investments, so a successful investment policy would deliver profitability for them without this fee income.

Question 13: Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?

LPF already sets strategic objectives for investment consultants and we welcome its consistent application across the LGPS.

Question 14: Do you agree with the proposed amendment to the definition of investments?

Yes.

Question 15: Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so please provide relevant data or evidence.

No.

Yours faithfully

Jo Kempton
Head of Pensions

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
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Agenda Item 8

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Appendix A

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Appendix B

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Agenda Item 9

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Appendix A

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Agenda Item 10

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Agenda Item 11

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Appendix A

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