



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

Report to:	<b>Pensions Committee</b>
Date:	<b>15 July 2021</b>
Subject:	<b>Responsible Investment Update</b>

**Summary:**

This paper provides the Committee with an update on Responsible Investment activity during the fourth quarter of the financial year 2020/21 (January to March inclusive).

**Recommendation(s):**

The Committee note the report and 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) and Robeco, who are appointed by Border to Coast to provide voting and engagement services.

**Local Authority Pension Fund Forum Membership**

1.2 The Fund participates in the Local Authority Pension Fund Forum that has a work plan addressing the following matters:

- **Corporate Governance** – to develop and monitor, in consultation with Fund Managers, effective company reporting and engagement on governance issues.
- **Overseas employment standards and workforce management** – to develop an engagement programme in respect of large companies with operations and supply chains in China.

- **Climate Change** – to review the latest developments in Climate Change policy and engage with companies concerning the likely impacts of climate change.
- **Mergers and Acquisitions** – develop guidance on strategic and other issues to be considered by pension fund trustees when assessing M&A situations.
- **Consultations** – to respond to any relevant consultations.

### Outcomes Achieved through LAPFF Company Engagement

1.3 The latest LAPFF engagement report can be found on their website at [www.lapfforum.org](http://www.lapfforum.org). Some of the highlights during the quarter included:

- During this quarter LAPFF undertook engagements with 38 companies, on issues ranging from human rights and employment standards to climate change reporting and environmental risk. The outcomes of these engagements are shown in the company progress report, included in their quarterly engagement report.
- LAPFF Chair, Cllr Doug McMurdo, met with a range of large global asset managers to discuss their approaches to responsible investment. Topics covered climate change, human rights, and audit, among others. The goal of these engagements is to ensure that asset managers are engaging on behalf of LAPFF members in a way that facilitates LAPFF's responsible investment policies and objectives.
- The Forum met with General Motors (GM) and Volkswagen (VW). Both companies outlined their commitments to investing in and scaling up electric vehicle production. VW stated that it was committed to achieving net zero by 2050 and highlighted the reputational damage to the company caused by the emissions scandal. GM stated that it was aiming for an all-electric future, was aiming for carbon neutrality, and was working with the Science-Based Taskforce Initiative on this aim. Two weeks after the engagement GM formally announced its plans for carbon neutrality by 2040 in products and operations and its aspiration to eliminate tailpipe emission for light-duty vehicles by 2035.
- LAPFF continues to engage with Shell. In addition to its own engagement, LAPFF is engaging via the CA100+ group of investors on Shell. The Forum is very keen to continue the collaboration with other investors, and make sure that investors collectively communicate a consistent and robust case to ensure all aspects of the company's financial outcomes and performance are understood fully.
- A shareholder resolution was filed for the 2021 HSBC AGM asking for publication of a strategy, with short, medium and long-term targets, to reduce the company's exposure to fossil fuel assets on a timeline aligned with the goals of the Paris agreement. Following the resolution filing, LAPFF

participated in a meeting in February 2021 hosted by Investor Forum with the CEO and Chair to discuss the resolution. The company has acknowledged that 'expansion of coal-fired power is incompatible with the goals of the Paris agreement, and has committed to phasing out coal-fired power and thermal coal mining in the EU and OECD by 2030 and other regions by 2040. Further, in line with the resolution, HSBC has committed to set, disclose and implement a strategy with short- and medium-term targets to align its financing across all sectors with the goals of the Paris climate agreement. It will use 1.5C pathways that are not overly reliant on negative emissions technologies. Commitments made by the company are set out in a special resolution tabled by the bank for its 2021 AGM. The bank has committed to publishing a new coal policy by the end of 2021.

- 1.4 Members of the Committee should contact the author of this report if they would like further information on the Forum's activities.

#### Border to Coast Pensions Partnership and Robeco

- 1.5 Border to Coast is the pooling company chosen by Lincolnshire Pension Fund. Border to Coast are 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, engagement and litigation.
- 1.6 Their approach to RI and stewardship is set out in their RI Policy and Corporate Governance and Voting Guidelines. These documents can be viewed on the Border to Coast website (<https://www.bordertocoast.org.uk/sustainability/>). 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 on their website:  
<https://www.bordertocoast.org.uk/app/uploads/2021/02/Quarterly-Stewardship-Report-Q4-2020-Final.pdf>.
- 1.7 In addition to the direct RI work undertaken by Border to Coast they have appointed Robeco to provide voting and engagement services. During the quarter Robeco have voted at 141 AGM's, where the percentage of meetings where they have at least one vote against management is 55%. During the quarter they have engaged with companies on 72 occasions on topics including: corporate governance, environmental management and human rights. A copy of their quarterly activity report can be found on the Border to Coast website:  
[https://www.bordertocoast.org.uk/?dlm\\_download\\_category=engagement](https://www.bordertocoast.org.uk/?dlm_download_category=engagement)

## Voting

- 1.8 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.
- 1.9 Border to Coast has produced detailed proxy voting reports, which are attached at appendix A (Global Equity Alpha) and B (UK Listed Equities).
- 1.10 Please contact the author of this report if you wish to see full detail of all votes cast over the quarter.

## Border to Coast RI Survey – Lincolnshire results

- 1.11 In April this year, Border to Coast sent all Partner Funds Committee members, Board members and officers their RI Survey. The survey sought views on a number of connected topics to enable them to collectively understand:
- current levels of understanding of RI
  - views of Border to Coast’s existing communications and what people want to hear more about
  - how RI is currently managed and integrated
  - how RI work across the pool should be prioritised in the future
- 1.12 The responses would be used to assess where Border to Coast are currently, and whether (and how) resources should be developed to ensure they are delivering on what has been jointly committed to. In addition to understanding across the pool, each Partner Fund has also received a report back on their own results. This is attached at appendix C.
- 1.13 The results of the overall survey have been brought to the Joint Committee meeting held on 13 July, and those papers have also been shared with Committee members.
- 1.14 Whilst the Committee membership has changed significantly since this survey was undertaken, it may still be useful to see how the Lincolnshire responses compare to the collective responses. Highlighted below are the pages with specific Lincolnshire detail, with comments as appropriate.
- Page 3 – Breakdown of who completed the survey (by role) for your Fund’s respondents – the 13 respondents were across most roles.
  - Page 4 – Breakdown of level of understanding of our Fund’s respondents (Q3) – understanding was generally good, consistent with other funds.
  - Page 6 – Breakdown of our views on each type of update (Q4) – this was generally positive, but perhaps highlighted the need for better signposting of some Border to Coast documents.

- Page 7 – Breakdown of RI issues that we want to hear about (Q5) – there was a broad range of issues that respondents wanted to hear about, with investment decisions and ESG integration having the most interest, and Border to Coast's collaborations having the least interest. This was broadly consistent with the overall response from all funds.
- Page 8 – Breakdown of how well we believe Border to Coast develops its approach in consultation with officers and the Joint Committee (Q6) – generally positive responses. The responses from all those surveyed differed quite markedly across different roles.
- Page 9 – Breakdown of how we rate our understanding of how Border to Coast integrates RI into investment decisions and on-going investment and corporate strategy (Q7) – large proportion of average understanding; perhaps an area to ask Border to Coast to concentrate on when they next appear before the Committee. As with question 6, the responses from all those surveyed differed quite markedly across different roles.
- Page 10 - Breakdown of what we see as the biggest challenges in further developing Border to Coast's RI strategy (Q8) – the main response here for Lincolnshire was a lack of consistent data and reporting in key asset classes, which was seen as the second biggest challenge across all responses; with the biggest challenge being the lack of consensus between partner funds on RI strategy.

1.15 The final pages of the survey identify topics within the comments, and the next steps for Border to Coast. The survey highlights the importance of dialogue and discussion in development and implementing a strategic and sustainable approach to RI. Upcoming activities with Border to Coast include:

- July – Joint Committee workshop on engagement themes & climate change
- September – OOG RI workshop: RI Policy review
- October – Annual Conference
- October – OOG RI workshop: Net Zero

#### Border to Coast – Net Zero proposal

1.16 As can be seen from the upcoming activities above, Border to Coast are exploring the intention to be "Net Zero" by 2050. This refers to achieving an overall balance between greenhouse gas emissions produced and emissions taken out of the atmosphere. Countries, companies and investors are all under increasing pressure to commit to Net Zero by 2050. There is also considerable pressure on LGPS funds from divestment lobbyists.

1.17 Border to Coast will be working with Partner Funds to explore how it can achieve this aim whilst considering how they can support Partner Fund's own commitments, how it can be net zero as an organisation and what net zero means as an investor.

1.18 This is a complex area, as it is not just about decarbonisation targets or divesting from Oil and Gas. There needs to be engagement with companies and policy makers, and the use of forward looking metrics to measure alignment.

1.19 In order to better understand the various issues, and for Lincolnshire to explore its own intention to become net zero, it has been suggested in the Annual Training report, at agenda item 11 of this Committee, that Border to Coast are invited to present a session on Net Zero at the September training meeting.

#### Scheme Advisory Board (SAB) Responsible Investment A-Z

1.20 SAB has launched an RI A- Z Guide. This provides a glossary of RI terms, organisations, standards and legislation. It is indexed by:

- classification (what it is);
- category (where it fits in Environmental, Social and Governance (ESG); and
- status (in the context of the LGPS legislative framework)

The guide also includes LGPS specific case studies.

1.21 The guide can be found on the SAB website: <https://ri.lgpsboard.org/items>.

#### **Conclusion**

2.1 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 RI Survey - Lincolnshire results

## 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](mailto:claire.machej@lincolnshire.gov.uk).

This page is intentionally left blank