



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

Report to:	Lincolnshire Pension Board
Date:	14 October 2021
Subject:	Responsible Investment Update

Summary:

This paper provides the Board with an update on Responsible Investment activity during the first quarter of the financial year 2021/22 (April to June inclusive).

Recommendation(s):

The Board 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 Board 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. Some of the highlights during the quarter included:

- During this quarter LAPFF undertook engagements with 59 companies, on issues ranging from human rights and employment standards, to climate change reporting and environmental risk, to general governance and board issues. The outcomes of these engagements are shown in the progress report, included in their quarterly engagement report.
- LAPFF Vice-Chair, Cllr Rob Chapman, met with National Grid representatives as part of the Environmental, Social and Governance (ESG) roadshow the company is undertaking prior to the July AGM. The primary objective for LAPFF was to assess company progress against the Climate Action 100+ benchmark in anticipation of questions to put to the chair prior to the 2021 AGM. National Grid has now set a new Scope 3 targets to reduce carbon emissions to 37.5% below the 1990 baseline by 2034. Scope 3 emissions are by far the largest proportion of the company's emissions. A follow up meeting is scheduled with the company's new chair in July prior to the AGM.
- During the quarter, LAPFF worked to raise the profile of the link between human rights and financial performance at mining companies. The impetus for this engagement has come from speaking with mining companies for whom law suits and fines spanning many years persist and grow while human rights issues remain unresolved. Consequently, LAPFF asked a question at the Rio Tinto AGM about whether the company would be willing to quantify the financial cost of its social failures. Noting the complexities in doing so, it would be helpful for investors to understand some of the financial consequences of mining companies' social failings in order to make clear that they are losing money when companies do not respect human rights and broader social issues in their operations. LAPFF has also raised this issue with BHP and Vale in engagement meetings. LAPFF will continue to drive home the link between social and environmental failures by mining companies and poor or reduced long term financial returns for investors.
- Collaborative engagements have progressed with Investors for Opioid and Pharmaceutical Accountability (IOPA). The group has run a number of Vote No campaigns, notably at Cardinal and AmerisourceBergen. The group also wrote to the chairs of compensation committees at eleven companies, scrutinising how executive compensation had been handled in light of charges being brought for opioids settlements. Other collaborations during the quarter have included: on climate initiatives, co-signing letters to the U.S. Securities and Exchange Commission on climate related financial disclosure requirements and an investor call for methane and flaring regulations at a federal level in the U.S.

- The Forum responded to a number of consultations during the quarter, including: the DWP Consultation – ‘S’ in ESG. Although the consultation did not cover LGPS funds, as pension regulation and legislation for the sector tends to mirror DWP’s in the end. LAPFF also submitted a response to HM Treasury’s Consultation on Aviation Tax Reform. With aviation expected to grow to be the biggest source of UK emissions by 2050, it is a significant contributor to the material financial risks of climate change with the potential for loss of shareholder value.

1.4 Members of the Board 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 ([Border to Coast 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 at on their website ([Quarterly Stewardship Report Q2 2021](#)). Highlights from their work during the quarter include:

- Border to Coast has published their Responsible Investment (RI) and Stewardship Report, and their Taskforce on Climate related Financial Disclosures (TCFD) Report for 2020/21. The RI report provides a detailed view of Border to Coast’s approach to stewardship and the management of the investment risks and opportunities associated with ESG factors and demonstrates their commitment to the UK Stewardship Code. The TCFD Report illustrates their approach to managing climate related risks and opportunities.
- High level information on voting activity for the quarter across all Border to Coast funds.
- Engagement activity, which included 315 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.
- Work undertaken through collaborations. Border to Coast has carefully selected the partners to collaborate with. During the quarter activity has included: Workforce Disclosure Initiative have launched a findings report from its 2020 survey on wage levels, staff turnover and workers’ rights.

- 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 551 AGM's, the percentage of meetings where they have at least one vote against management is 74%. During the quarter they have engaged with companies on 78 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 ([Robeco Quarterly Engagement Report Q2 2021](#)).
- 1.8 From this quarter Border to Coast have also published ESG reports for their equity sub-funds. These reports are included in the Investment Management Report at Item 12 on this agenda.

Voting

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

Financial Reporting Council (FRC) – new Stewardship Code

- 1.12 The UK Stewardship Code 2020 sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. 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. The Code comprises a set of 'apply and explain' Principles for asset managers and asset owners, and a separate set of Principles for service providers. The Code does not prescribe a single approach to effective stewardship. Instead, it allows organisations to meet the expectations in a manner that is aligned with their own business model and strategy. The Code has 12 principles under the headings:
- Purpose and governance;
 - Investment approach;
 - Engagement; and
 - Exercising rights and responsibilities.
- 1.13 To become a signatory to the Code, organisations must submit, to the FRC, a Stewardship Report demonstrating how they have applied the Code's Principles in the previous 12 months. The report may cover any 12-month period beginning after 1 January 2020. 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 annually report to remain signatories.

1.14 During the quarter Border to Coast published their [Border to Coast Responsible Investment & Stewardship Report 2020/21](#). This will be submitted for review by the FRC by the end of October. The Fund is currently working on its report for the financial year 2020/21, a copy of this will be submitted to FRC for their review and brought to the Board later in the year.

Investment and Responsible Investment beliefs

1.15 At the training session held in September the Committee and Board received a presentation from Hymans Robertson on the Fund's Investment Strategy. At this training it was agreed that the Committee would like to review the existing Investment and Responsible Investment beliefs, which have been in place for a number of years, in advance of the review of the Investment Strategy linked to the 2022 Triennial Review. The existing beliefs are published on the Pension Fund website:

- [Investment Beliefs](#)
- [Responsible Investment Beliefs](#)

1.16 A further training session will be held in February 2022 to review and propose revised beliefs, these will then be formally approved at the Committee meeting in March 2022.

Conclusion

2.1 This report brings to the Board 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

Background Papers

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

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