LINCOLNSHIRE COUNTY COUNCIL PENSION FUND

STEWARDSHIP CODE 2020/21

"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

<table>
<tr><th colspan="2">Fund Facts (as at 31 March 2021)</th></tr>
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Membership

73,944

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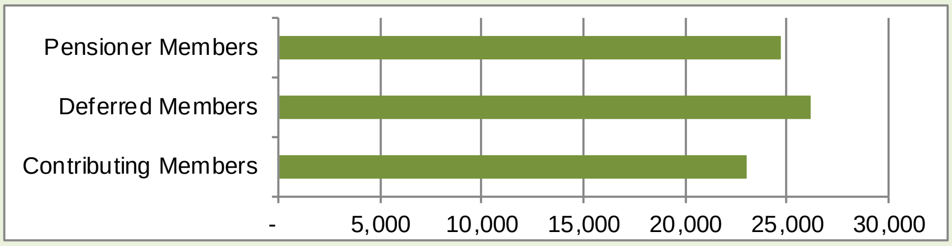

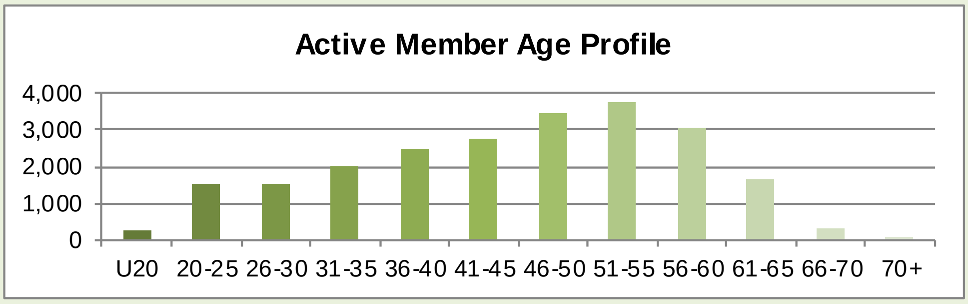

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Employers

249

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Contributing employers, either in Lincolnshire, or providing services to these employers, include: local councils, internal drainage boards, academies and admitted bodies.

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Invested Assets

£2.7bn

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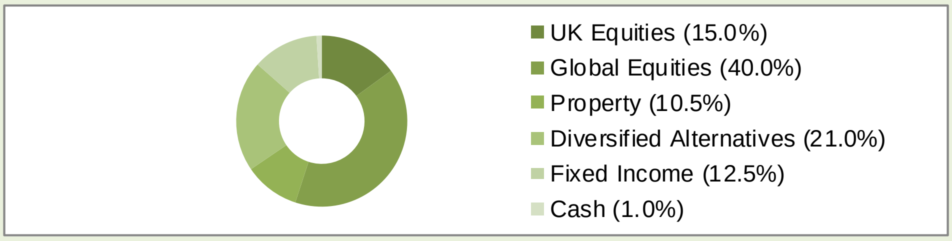

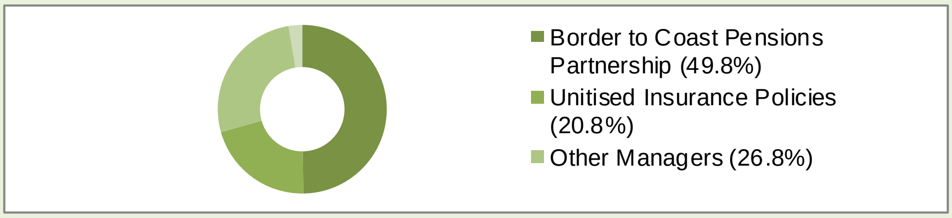

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Lincolnshire Pension Fund

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.

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

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

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

Fund Governance Structure

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

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

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

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

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

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

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

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

Name and title	Relevant Qualifications	Years Relevant Experience
Jo Ray – Head of Pensions	IMC	22
Claire Machej – Accounting, Investment and Governance Manager	CPFA (studying IMC)	3

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 11 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 three Border to Coast sub-funds: Global Equity Alpha, UK Listed Equity and Investment Grade Credit. This represented 49.8% of the Fund assets as at 31 March 2021. As Border to Coast will, overtime, be the main asset manager for the Fund's investments, a strong oversight and governance structure has been created.

The governance structure has been developed to allow Border to Coast to function efficiently and for Funds to control and hold it to account. Each member Fund has two roles with Border to Coast: that of shareholder and owner of the Company (at Lincolnshire this role is carried out by the Executive Director of Resources, the S151 Officer for the Council), and as an investor in the products managed by Border to Coast, which is the responsibility of the Pensions Committee. Oversight of the Company is undertaken through a Joint Committee, made up of the Chairs of the Partner Fund Pensions Committees. On a day-to-day basis, Fund Officers and Border to Coast work together to develop policies, sub-funds and provide continuous feedback to the 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 scheme has around 74,000 members who will or do receive benefits from the scheme. The Fund also has 249 active employers contributing to the scheme at 31 March 2021.

As a defined benefit scheme, the benefits received by members are set out in statute, as are contribution rates for active members. Employers within the scheme bear the financial risk and are responsible for making up any funding shortfall that arises. Contribution rates for employers are calculated at the triennial valuation, alongside the overall funding position.

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

Funding Strategy Statement and Investment Strategy Statement

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

Funding Strategy Statement (FSS)

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

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

- To ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;

- To ensure that employer contribution rates are reasonably stable where appropriate;

- To minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return;

- To reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and

- To use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

Investment Strategy Statement (ISS)

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

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

Round Up of the Year

The Covid-19 pandemic had a significant effect on markets during 2020, on how the team worked and how we communicated with others. However, as an open defined benefit scheme, our focus is on the long term and the Funds investment strategy and approach were unchanged by the pandemic. During the year meetings with the Committee and Board moved to be held virtually, as did meetings with Border to Coast, Fund managers and other partners.

Key stewardship activity undertaken across the year:

- Appointment of a climate change/ESG focused manager;
- Workshops with Border to Coast on Responsible Investment (RI) policies;
- Approving the Border to Coast RI policies and aligning our own policies;
- Addition of a standalone stewardship report as part of the quarterly suite of Committee reports; and
- Voting and engaging on key issues with a wide range of global companies, through our asset pool and LAPFF.

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

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

Activity:
The Fund's policies are the mechanism through which it expresses and implements its investment beliefs, strategy and culture. They provide the framework for effective governance and stewardship – both of Fund assets and of the Fund as a whole. The Fund considers that having investment beliefs clearly defined assists it to choose managers and other service providers whose approach is most closely aligned to our own. These beliefs were developed through facilitated decision-making which challenged Committee members to consider investment and RI beliefs, to develop a strategy for the long term benefit of the Funds employers and members. The Fund formally reviews its Investment Strategy Statement and other policies annually in March to ensure that they remain fit for purpose (i.e. continue to reflect the Fund's purpose and investment beliefs as well as meeting regulatory requirements), and to provide an opportunity for the Committee to discuss and reflect on the current policy and consider if any changes are required. Details of the review of the policies in March 2020, in preparation for the year ended 31 March 2021, can be found at agenda item 11 in the Committee Papers. The Fund's Investment Strategy Statement was updated for the start of 2020/21 across a number of areas including the addition of the Committee's investment beliefs and responsible investment beliefs.

Outcome:
The Committee has agreed a set of investment beliefs that are detailed in our ISS, and have expanded **Belief 5** (Environmental, social and governance (ESG) issues are important to the long term success of the Fund) to create a set of Responsible Investment beliefs, to enable them to be held to account by scheme members and other stakeholders. These RI Beliefs are set out below with reasoning: **Belief 1:** Companies with a responsible ESG policy are expected to outperform companies without an ESG policy, over the longer term. *The Committee believes that companies that have well developed ESG policies will generally provide better long term performance than those companies that have not considered ESG factors in their business.* **Belief 2:** The Committee considers that company engagement, rather than disinvestment, would be the better approach to fulfilling their responsible investment objectives. However, should a company not respond to engagement, disinvestment

would be a consideration. 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.

Belief 3: Climate change and the expected transition to a low carbon economy is a long term financial risk to Fund outcomes.

The Committee believes that climate change risk and the transition to a low carbon economy should be factored into asset allocation decisions and also investment decisions by managers to reduce the long term financial risk, but also to take advantage of the opportunities that may be available.

Belief 4: The Committee should focus on meeting its financial obligations to pay benefits to members. Financial considerations should therefore carry more weight than non-financial considerations.

The main objective of the Pension Fund is to ensure that it is able to pay benefits to its members as and when they fall due. Therefore financial considerations will be at the forefront of any investment or asset allocation decisions.

Belief 5: The Fund's active investment managers should embed the consideration of ESG factors into their investment process and decision making.

The Committee believes that the consideration of ESG factors when making investment decisions should not be an add-on but should be embedded into the whole investment selection process. Any active managers appointed by the Fund will be expected to evidence this.

Belief 6: The Fund should collaborate with other investors if it could have a positive impact, and also engage with them and investment managers to better understand ESG risks.

The Committee believes that the Fund has a stronger voice when working with others, be it Border to Coast Pensions Partnership, Local Authority Pension Fund Forum (LAPFF) or any other organisations. The Fund will work with them and the investment managers to ensure that it understands the ESG risks and how best to address them.

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

Activity:
As is 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 Fund operates an external manager structure, with all assets managed by externally and with the Fund using expert professional services to support its stewardship activities: • Border to Coast, who have a dedicated 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; • Robeco, who are the pool's appointed voting and engagement specialist, again they provide stewardship services to the Fund for the investments held with Border to Coast; and • The final source of support in this area for the Fund is provided by the Local Authority Pension Fund Forum (LAPFF). LAPFF is a sector wide group with membership from 81 local authority pension funds and six LGPS pooling companies. LAPFF acts for its members on engagement with companies, providing voting alerts, collaborating with others to increase the voice of shareholders and responds to consultations on behalf of its members. The Fund has established annual RI processes which allow the Committee to have the opportunity to contribute to the direction of RI work for the Fund. Quarterly activity then allows the Committee oversight of activities undertaken. This starts in January 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 consistent application to all Fund assets. The Committee also reviews key policy documents in March to ensure they reflect the current views of the Fund. The fund then reports RI activity to the Committee on a quarterly basis to highlight the stewardship activity undertaken over that period, to provide assurance and give them the opportunity to review and challenge the work undertaken on the Fund's behalf.

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.

The introduction of a quarterly Stewardship Report has allowed members of the Committee greater opportunity to review stewardship activity and influence with the work of the Fund. This is a public report to allow the Fund's stakeholders to be aware of what we are doing.

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.

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.

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

There may be a conflict of interest when making investment decisions if an opportunity arose in the local area. The investment might be beneficial to the local electorate, but not for the Fund. To avoid any potential conflict of interest, the Fund does not have any strategic commitment to local investment, and no local investments have been made in the 2020/21 financial year.

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

Activity:

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

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

Part of the work undertaken by LAPFF is at a market-wide level. During the year LAPFF has focused its attention in this area on failure in the audit and accounting regime, where regulation is 'consumer' based, rather than offering protection to shareholders. The Forum have identified changes at the Financial Reporting Council (FRC) as key to creating a more stable, transparent and effective regulatory environment. They have engaged with the Financial Conduct Authority (FCA) on this matter.

Outcome:

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. Where the Committee is not satisfied that one of its investment managers has sufficiently identified or responded to a particular risk this has been cause for it to decide to disinvest from a particular strategy, having taken the appropriate advice. This was evidenced in October 2020 when the Committee made a decision to terminate one of its managers, as they no longer believed that their strategy was appropriately managing all market risks.

LAPFF continues to support the recommendations for reform to the FRC proposed by the Kingman Review. As part of their ongoing engagement with companies, they encourage them to lead by example in how they respond to market and systemic risks.

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

Activity:

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

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

The Committee receive a quarterly report on stewardship activities undertaken by Border to Coast, Robeco and LAPFF, including voting activity.

Outcome:

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

The Pension Board, as part of its annual review of the risk register at its July 2020 meeting, made recommendations to the Committee's October 2020 meeting, through the Board's quarterly report, to introduce two new risks to the risk register. The Committee considered these recommendations and approved the additions.

Work on RI and Stewardship policies starts in advance of their review and approval by the Committee in January. 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.

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 is undertaken in a variety of ways:

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

Outcome:

The annual employer meeting was held virtually on 11 March 2021. One of the presentations covered Stewardship and Responsible Investment specifically covering the Lincolnshire Fund and activities undertaken during that year. These are interactive meetings where all employers are able to question, challenge and input into the direction and activities of the Fund.

Over the year the Fund has responded to a number of requests from scheme employers on RI related matters proposals. An example of this is a letter received in December 2020 from the Chief Executive at North Kesteven District Council regarding the climate emergency and the actions taken by the Fund. A direct response was provided which also signposted the employer to existing information available on the website.

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

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

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, prior to 2020, the Committee developed a set of RI Investment beliefs, as set out in principle one. As part of this process the Committee undertook an in-depth consideration of its ESG beliefs, receiving training and completing a comprehensive survey to develop these principles.

The Fund invests in a wide variety of asset classes across a number of investment managers, but predominately with Border to Coast who currently manage, all actively managed equities and bonds. The Fund has worked with Border to Coast and other partner funds to formulate the company's approach to responsible investment and to ensure that it is aligned to the policies of the partner funds (including Lincolnshire). The Fund's RI Policy states that when analysing potential investments (across all funds, asset classes and geographies), they expect investment managers to consider

ESG factors, including climate change, as an integral part of the investment decision-making process. Of particular relevance are factors which could cause environmental and reputational risk ultimately leading to a reduction in long-term value.

All managers were contacted in February 2021 to ask whether they intended to sign up to the new Stewardship Code, if so then when, how they will be reporting this to us and what will be included in that report. Those that were not planning to sign up were asked to explain why.

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

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

The Fund monitors Border to Coast to ensure that it is fully integrated through: quarterly reporting, quarterly meetings and 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 Stewardship Report for 2020/21.

Following the termination of a manager in October 2020, we worked closely with our Investment Consultant to appoint a new manager with strong RI credentials, to better reflect the Committees RI beliefs. This resulted in the appointment of Legal and General Investment Management, and an investment into their Future World Fund.

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

Border to Coast – Engagement with Yorkshire Water (fixed income)

Reason for engagement: Following conclusions drawn from the performance assessment conducted by the Environment Agency ('EA') in 2019, Yorkshire Water was identified as an outlier within the water utilities sector in the UK and was among the lowest scoring. This, coupled with the increasing pressures that ever-changing weather patterns bring as a result of climate change, means that through investments in such companies, portfolios are potentially exposed in the medium to long term to the impacts of climate risk.

Objectives: To better understand the reason for the company's weak performance within the water utilities sector in pollution, leakage and meter rates, and determine whether its current strategy is strong enough to ensure improvement in its management of climate risk.

Scope and process: Engagement has been driven by information discovery of Yorkshire Water's specific climate-related risk exposure to understand the relative investment position and to encourage change and influence improvements in pollution, leakage and meter rates, which were among some of the worst in the industry according to the EA's report. Research revealed that the unusually low performance from the company had been somewhat influenced by extreme weather during the EA's reporting year (2018). Cognisant of extreme weather events likely to occur over the coming years, Yorkshire Water appears to be investing significant amounts into data-driven systems and physical infrastructure that combat leakages and limit pollution. The company is also investing in bio-resource plants which will help it to increase self-generated renewable energy.

Outcome: The company is taking serious steps to significantly improve performance, which will ultimately strengthen credit ratings. Monitoring of the progress will continue and further investigation around pollution levels may be required.

LAPFF – Engagement with Barclays (listed equity)

Reason for engagement: Barclays this year faced a climate resolution for the first time. The resolution was supported and co-filed by a group of investors and investor groups who recognised that financial institutions play a large role in both the problem of and the solutions to the climate crisis. Barclays recognised it had to do more on climate but responded by issuing its own resolution with content it thought was achievable. The combination of the shareholder resolution and the company resolution created a dilemma for LAPFF.

Objectives: The Forum was keen to express support for both the shareholders and the company for moving in the right direction, but it was not immediately clear which resolution should have been supported.

Scope and process: LAPFF Chair, Cllr Doug McMurdo, engaged extensively with both Barclays and ShareAction, the non-governmental organisation representing the investor group in the negotiations with Barclays on the shareholder resolution. In the end, LAPFF believed that the two resolutions were very similar and were reconcilable, so the Forum supported both resolutions and maintained positive relationships with both Barclays and ShareAction. LAPFF saw this engagement with Barclays as the beginning of investor engagement with financial institutions on climate.

Outcomes: The Forum, through its multi-stakeholder approach, was able to bring other investors and Barclays closer together on their visions for Barclay's climate approach. While implementation of the Barclays resolution still needs to be monitored, the Forum's role in facilitating dialogue between stakeholders was important in achieving a positive outcome in this engagement.

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

Activities:

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

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

Objectives were set for the Independent Investment Advisor in their role supporting the Pensions Committee, in November 2019. As part of an annual review, the Investment Advisor was asked to report their performance against those objectives at the March 2021 meeting of the Pensions Committee. The Committee considered whether the objectives had been met and whether any improvements where required, or changes made to the objectives.

Work has been undertaken with Border to Coast to provide an advisory service on the investment with LGIM to ensure that they are meeting the requirements of the Fund's and Border to Coast's RI policies.

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

Outcomes:

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

The advisory agreement with LGIM is expected to be signed and completed in 2021/22.

The Committee has a better understanding of the ESG risks within the portfolios, and how these are managed by Border to Coast and the underlying managers, and is able to challenge the rationale of any investments that it deems a high risk.

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

Activity:

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

- Assess their portfolios in relation to climate change risk where practicable.
- Incorporate climate considerations into the investment decision making process.
- Engage with companies in relation to business sustainability and disclosure of climate risk in line with the Financial Stability Board's Task Force on Climate

related Financial Disclosures (TCFD) recommendations.

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

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

Outcome:

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

- During the quarter ended 31 December 2020, LAPFF undertook 172 engagements with 145 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, and one example is:
    - A Forum representative attended Legal and General Investment Management's annual stakeholder forum, an event to highlight upcoming issues for LGIM to consider in its voting and investing activities, to ensure that LAPFF's views were included.

- Border to Coast publish a quarterly stewardship newsletter detailing the activity undertaken on our behalf, and an example is:
    - Following the destruction by Rio Tinto of an aboriginal heritage site in 2020 and the implications for the wider mining sector, Border to Coast co-signed a letter along with other investors managing assets of over $10 trillion. This sought assurances on the issue of indigenous community rights and a company's social license to operate. The letter was sent to the top 71 international mining companies and all other major companies that operate in Australia.

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

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

- Invesco, who managed a large global equity portfolio until February 2021, provided their 2020 ESG Investment Stewardship Report, describing their engagement approach and a number of case studies.

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 £50bn of assets. Border to Coast are 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 over £300bn in assets under management, provides an effective means of collaboration. LAPFF itself is open to discussing any other forms of collective action with other investors and groups, expanding their reach.

Outcome:
The Fund monitors its investment managers' engagement activities through regular reports and discussions and welcomes instances where it sees its investment managers working with other investors. Examples include: • Border to Coast coordinates quarterly Responsible Investment workshops with partner funds which work collaboratively to consider RI issues and coordinate responses to maximise the impact of the Partner Funds. At these workshops current RI issues and engagements are discussed and proposed responses to consultations and initiatives shared. There are opportunities to share resources to maximise the impact of partner funds and BCPP through a collaborative approach to our shared interests. • Border to Coast, on behalf of the partner funds, is partnered with a number of organisations including LAPFF on a range of issues, Climate Action 100+, and the 30% Club which promotes board and senior management diversity, the Workforce Disclosure Initiative, the LGPS Scheme Advisory Board Code of Transparency, and the Institutional Investor Group on Climate Change. • LAPFF participated in wider collaborations with the Church of England and Sarasin & Partners on the tailings dam safety initiative, which won the Principle for Responsible Investment's Project of the Year award during 2020. LAPFF visited Brazil to establish what progress has been made on reparations for the tailings dam failures and to assess what measures are in place to prevent future failures. • LAPFF has been engaging with US-based investors on the Investors for Opioid & Pharmaceutical Accountability (IOPA) engagement, and LAPFF is a member of the Workforce Disclosure Initiative (WDI) and the CCLA 'Find it, Fix it, Prevent it' engagement to eradicate modern slavery.

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. Examples include:

- LAPFF had tried repeatedly to meet with the Boeing board to discuss the company's approach to dealing with the 737 MAX disasters. The two jet crashes in Indonesia and Ethiopia, along with increasingly worrying findings of additional safety concerns with the aircraft, raised concerns about a range of risks for passengers, the company, and investors. The LAPFF Chair met with investor relations representatives to discuss the 737 MAX but felt a discussion with a board member about the company's strategic approach to dealing with the MAX disaster would be in order. However, the company refused to allow access to the board for such a discussion. Therefore, the Forum issued a voting alert to convey its concerns about the situation to its members and to recommend action to the company through voting. Further escalation measures are being discussed and considered in this case.
- Robeco, Border to Coast's voting and engagement provider, had been engaging with Alphabet Inc. about the various social issues that had surfaced showing that artificial intelligence's (AI's) ethical development and deployment couldn't be guaranteed unless concerns were appropriately addressed. As a leading technology company, Alphabet Inc. is exposed to financially material risks from its development and use of AI. Following persistent efforts to enter a constructive dialogue with the company, engagement remained challenging. In escalation, Robeco co-led the filing of a shareholder proposal at Alphabet's AGM asking for a human rights risk oversight committee to be established, comprised of independent directors with relevant experience. Some 16% of shareholders voted in favour of the resolution, which was a substantial part of the non-controlling shareholder votes. In response, Alphabet announced an update of its Audit Committee Charter, which now includes the review of major risk exposures around sustainability and civil and human rights. This is in line with the request to formalise board oversight and is a first step towards getting this in place on specific sustainability-related issues, such as human rights.
- When researching a particular proposed bond issuance from Wirecard, LGIM's proprietary ESG research tool raised red flags about the German fintech company's governance. The underlying logic for this particular issue gave rise to further worries because Wirecard planned to use the proceeds to repay some bank loans, suggesting that lenders wanted this exposure off their balance sheets. Wirecard's response to the accounting allegations was unsatisfactory, and in some respects even more concerning than the allegations themselves. As a result of LGIM's robust research and investment stewardship, none of LGIM's active bond funds invested in Wirecard. At Wirecard's 2019 AGM, LGIM voted against the discharge of all individual members of the management and supervisory boards, in a rare and significant step as part of their vote escalation policy. The company filed for insolvency on 25 June 2020 after admitting that €1.9 billion cash on its balance sheet did not exist. Its former CEO Markus Braun was arrested on suspicion of false accounting and market manipulation. Whilst the Fund does not hold bonds with LGIM, this provided reassurance on their ESG research tool and escalation process, which are used across the equity fund that we do hold.

PRINCIPLE 12: Signatories actively exercise their rights and responsibilities

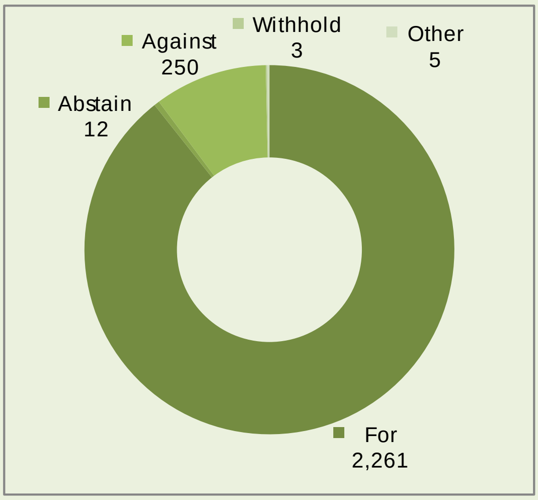
Activity:
Exercising rights and responsibilities is fundamental to improving investment outcomes. Rights exist primarily through shareholdings but can be derived through other means. When making an investment, the associated rights and responsibilities are clearly understood by the Fund and its investment 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 in light of developing corporate governance standards and evolving best practice. This review is led by Border to Coast with the eleven partner funds being heavily involved. The policy is also reviewed by Robeco, using the International Corporate Governance Network Global Principles, the UK Stewardship Code and the UN Principles for Responsible Investment as benchmarks. As the Fund has aligned its policy to that of Border to Coast, the approaches are identical. The Fund's Corporate Governance and Voting Guidelines sets out how it expects managers to approach supporting or opposing company management, depending upon the circumstances. 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.

Outcome:
A number of changes were made to the Corporate Governance and Voting policy as a result of the review in 2020. They include: • voting against the Chair if the company is a high carbon emitter and the Transition Pathway Initiative score is zero or one; • expanding the types of shareholder proposals that could be supported; and • voting against all political donations. Details of all the changes are available in the November 2020 meeting papers of the Joint Committee.

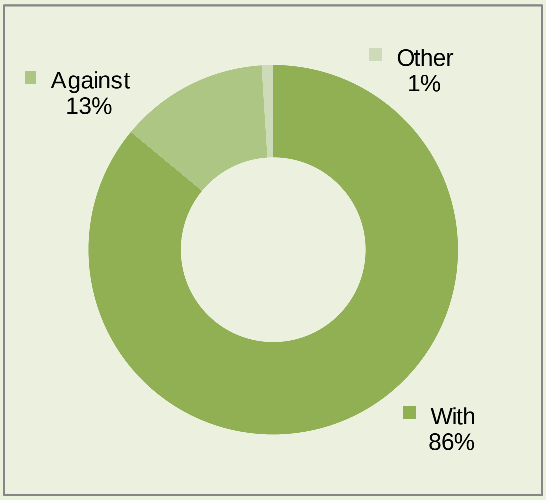
Examples of some manager's voting records for 2020/21 are shown below:

Votes cast for Border to Coast's Global Equity Alpha Fund (177 meetings)

Votes Cast

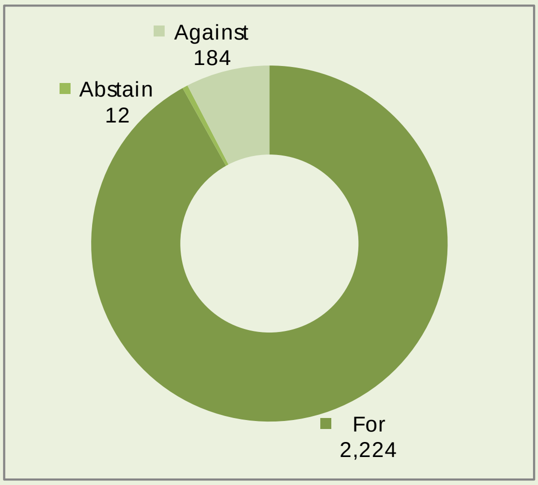


With or Against Management

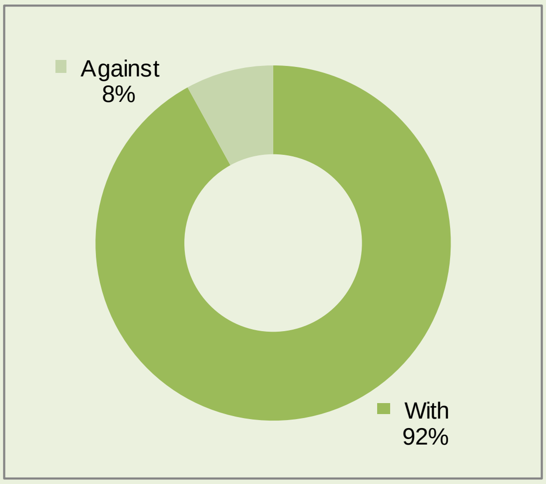


Votes cast for Border to Coast's UK Listed Equity Fund (149 meetings)

Votes Cast



With or Against Management



Appendix A – Action Plan

Principle:	Action:	Target Date
PRINCIPLE 1: Purpose, investment beliefs, strategy & culture enable stewardship that creates long-term value for employers & beneficiaries leading to sustainable benefits for the economy, the environment and society	Annual policy reviews – revisit Investment Beliefs and RI Beliefs to ensure they still reflect current views of the Committee.	February 2022
	Following elections in May 2021, undertake training with new Committee members to ensure beliefs and culture are understood and embedded.	July 2021
	Consideration of stewardship implications in Investment Strategy Review.	September 2021
PRINCIPLE 2: Signatories' governance, resources and incentives support stewardship	Continue quarterly report 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.	On-going
	Undertake a structure review of the internal team to provide additional resource for stewardship monitoring.	By March 2022
PRINCIPLE 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first	Annual review of policy.	March 2022
	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	Continue working with Border to Coast and LAPFF.	On-going
	To identify any opportunities for further collaborative work with other organisations.	On-going
	The Fund will further develop its risk assessment of the impact of Climate Change on its investments and plans to undertake an assessment with its investment managers of the impact of Climate Change on its investments	On-going

Principle:	Action:	Target Date
PRINCIPLE 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities	To sign up to an advisory agreement with Border to Coast to assist in monitoring the stewardship activity of LGIM.	June 2021
	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	Include more information on stewardship in the Member Newsletter and request direct feedback.	October 2021
	Employer meeting will provide an update on stewardship.	March 2022
PRINCIPLE 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities	The Fund plans to 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
	The Fund will continue to work with the managers identified as not signing up to the new Stewardship Code to understand and validate their reasons, and will monitor the progress of those that are planning to sign up.	On-going
PRINCIPLE 8: Signatories monitor and hold to account managers and/or service providers	To sign up to an advisory agreement with Border to Coast to assist in monitoring the stewardship activity of LGIM.	June 2021
	Increase information required from other managers (non-Border to Coast) to provide enhanced monitoring.	On-going

Principle:	Action:	Target Date
PRINCIPLE 9: Signatories engage with issuers to maintain or enhance the value of assets	Expand the quarterly RI Update report to include more examples of engagement to provide more information to the Committee and Board, to assist them to challenge activity undertaken on our behalf.	On-going
	Work with B2C 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	Continue to work closely with B2C and LAPFF to ensure that any collaboration is effective.	On-going
PRINCIPLE 11: Signatories, where necessary, escalate stewardship activities to influence issuers	Clarify escalation expectations in the RI Policy.	January 2022
	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	It is more challenging for assets other than equities. There has been very little opportunity to exert influence over company management or the managers of investments held directly by the Fund. The main barrier is lack of scale. However for assets managed by Border to Coast this is expected to become more of an opportunity as the range of asset classes and the value of investments managed by the company increases.	On-going

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