



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

Report to:	Pensions Committee
Date:	17 March 2022
Subject:	Responsible Investment Update Report

Summary:

This paper provides the Committee with an update on Responsible Investment activity during the third quarter of the financial year 2021/22 (October to December 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), Robeco, who are appointed by Border to Coast to provide voting and engagement services and Legal and General Investment Managers. The report also provides an update on the net zero metrics work which is underway with Border to Coast, and on the Fund's Stewardship Code submission to the Financial Reporting Council.

2.0 Local Authority Pension Fund Forum Membership

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 Forums current engagement themes include: climate risk, social risk, governance risk and reliable accounting risk. They also act through liaising with others and by responding to consultations.

Outcomes Achieved through LAPFF Company Engagement

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

- LAPFF undertook engagements covering: climate change, human rights, governance, employment standards, social risk audit practices and environmental risk. This included engagements with:
 - Mining companies on all environmental, social, and governance (ESG) areas. During the quarter LAPFF received ESG updates from Vale, Rio Tinto and Anglo American, on areas such as climate planning and health and safety.
 - Arcelor Mittal, National Grid and Lyondell Basell on the Climate Action 100+ benchmark initiative and with BP on the company's energy transition plan and whether a 'Say on Climate' is planned for their 2022 AGM.
 - Barrett Developments, as the property sector is a major contributor to carbon emissions, from buildings once in use, and also from building materials and the building process itself. A meeting was held on progress towards net zero homes and for their operations.
- Over the last couple of years, LAPFF has engaged intensively with mining companies on their human rights practices. The engagement has focused on the participation of affected stakeholders in mining company activities and decision-making. Based on these engagements LAPFF aim to produce a report on its views regarding mining companies and human rights.
- Collaborative engagements included: co-signing a letter to FTSE All-Share companies asking them to set out their strategy to manage the transition to net zero and provide an annual provision for shareholders to vote on their plans. LAPFF also joined a group of international investors to call for action to cut methane emissions in the US.
- Policy Engagement included: LAPFF support for the All-Party Parliamentary Group (APPG) for local authority pension funds' Just Transition Inquiry. The group's inquiry has looked at the role investors can play in ensuring the transition to net zero considers the social implications for employees, consumers, communities and supply chains.

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 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, engagement and litigation.

3.2 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 Q4 2021](#)). Highlights from their work during the quarter include:

- Publication of Border to Coast's 2022 Responsible Investment Policy and Corporate Governance and Voting Guidelines. These policies were approved by the Pensions Committee at the meeting in December.
- Border to Coast joined the global Net Zero Asset Managers Initiative. The initiative seeks to mobilise action from the asset management industry to drive the transition to net zero. In addition to this, in November they joined 22 other investors to co-sign a letter to the 'Big 4' audit firms (PwC, Deloitte, EY and KPMG) supporting net-zero aligned audits.
- An industry update, covering COP26 Climate Summit and the UK Government Roadmap to Sustainable Investing.
- High level information on voting activity for the quarter across all Border to Coast funds.
- Engagement activity, which included 723 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.
- Collaboration activity, which covered: cybersecurity, collaborations with Climate Action 100+ on their March 2022 assessment, Workforce Disclosure Initiative on the development of workforce-related reporting and Transition Pathway Initiative on the TPU energy sector report.

- 3.3 Border to Coast produce quarterly ESG reports for their equity sub-funds. These are included on this agenda as part of the Investment Management Report at Item 14.

4.0 Robeco 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 Engagement Report Q4 2021](#)).
- 4.2 During the quarter Robeco have voted at 131 AGM's, the percentage of meetings where they have at least one vote against management is 44%. During the quarter they have engaged with companies on 108 occasions on topics including: corporate governance, environmental and social. This quarter also saw the launch of Robeco's new 'Acceleration to Paris' engagement theme.

5.0 Legal and General Investment Management 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 Q4 2021](#)) detailing their activity during the quarter, across all their investment products. The report covers their ESG activity, significant and summary voting activity, a global public policy update and information on engagement activity. During the quarter LGIM voted against management 1,274 times, and engaged with 233 companies on topics including climate change, remuneration and board composition.

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 detailed proxy voting reports, which are attached at appendix A (Global Equity Alpha) and B (UK Listed Equities).
- 6.3 Please contact the author of this report if you wish to see further details on votes cast over the quarter.

7.0 Net Zero Reporting and Metrics

- 7.1 The Fund has been working with Border to Coast and the other partner funds to commission a suite metrics which will measure net zero progress and contribute to future reporting requirements in this area (such as Taskforce on Climate Related Financial Disclosure and TCFD reporting).

- 7.2 Net zero reporting and metrics is a developing area, there are a numerous frameworks and methodologies which currently exist for measuring this and carbon emissions. The primary focus of this work is to select industry standard metrics which can be measured and compared consistently over time and across the sector. The key principles for selecting metrics are:

- Primary objective of measuring greenhouse gas (GHG) reductions in the real economy;
- Set clear, science-based targets at the portfolio and asset class level;
- Clear and easily applied methodologies based on publicly available information;
- Meet mandatory requirements e.g. Taskforce on Climate Related Financial Disclosure reporting, DLUHC/DWP requirements, FCA regulations;
- Reliable, verifiable and objective;
- Achievable;
- Consistent over time;
- Practical to implement;
- Based on industry standard guidance to enable peer group comparison; and
- Stakeholders should be able to easily assess whether they are aligned with the goals of the Paris Agreement.

- 7.3 The partner funds and Border to Coast have identified the key areas where net zero metrics will be applied. These include:

- Green house gas (GHG) emissions / GHG intensity;
- Percentage of Asset Under Management (AUM) in 'Climate Solutions';
- Percentage of AUM in 'Green Revenues';
- Percentage of AUM in fossil fuel reserves;
- Transition pathway alignment: percentage of AUM in net zero aligned assets;
- Low carbon transition score;
- Temperature alignment; and
- Sectoral decarbonisation pathways.

- 7.4 The Fund will use this data to meet any future net zero / climate reporting requirements and will expect all material managers to provide the data required to assess these key metrics.

8.0 Stewardship Code Submission and Feedback

- 8.1 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.

- 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 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.
- 8.3 The Fund prepared and submitted a Stewardship Code Report for 2020/21 (attached at Appendix C). Feedback from the Financial Reporting Council (FRC) on the submission is due in March 2022. A verbal update will be provided to the Committee at the meeting on 17 March.

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	Lincolnshire Pension Fund Stewardship Code Submission 2020/21

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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