



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

Report to:	LGPS Local Pension Board
Date:	14 July 2022
Subject:	Responsible Investment Update Report

Summary:

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

Recommendation(s):

The Board note the report and discuss the Responsible Investment activity undertaken during the quarter.

Background

1.1 This report provides a summary of various Responsible Investment (RI) activities that have been undertaken on behalf of the Fund during the quarter, and updates the 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), Robeco, who are appointed by Border to Coast to provide voting and engagement services and Legal and General Investment Managers.

2.0 Local Authority Pension Fund Forum – RI Activity

2.1 The Fund participates in the Local Authority Pension Fund Forum. LAPFF acts to promote the highest standards of corporate governance to protect the long-term value of local authority pension fund assets. The Forum's current engagement themes include: climate risk, social risk, governance risk and reliable accounting risk. They also act 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, environmental risk, audit practices and finance and accounting. This included engagements with:
 - Mining companies on all environmental, social, and governance (ESG) areas. During the quarter LAPFF met Freeport McMoran, areas covered included the importance of Indigenous community consent and relations, and corporate governance matters following Board changes at the company.
 - Occupied Palestinian Territories (OPT) Engagement – LAPFF continues to ask companies to undertake human rights impact assessments on their operations in the Occupied Palestinian Territories.
 - Companies on environmental matters, including: Chipotle about conducting a full value chain water risk assessment; LyondellBasell (chemicals company) about climate change and decarbonisation; and Arcelor Mittal about climate change.
- The war in Ukraine has highlighted that in addition to climate change problems oil and gas also carry problems with the security of supply, the ethics of supply and the volatility of prices. These matters will be built into future LAPFF engagements with oil and gas companies.
- Collaborative investor meetings during the quarter included: the Asia Collaborative Engagement Platform for Energy Transition, here LAPFF meets with other investors to progress collaborative engagement with banks and energy companies in Asia on climate and energy transition. LAPFF also joined the Investor Alliance on Human Rights (IAHR) this quarter to connect with other investors globally to engage with companies on human rights issues.
- LAPFF has been involved in a number of collaborative investor initiatives during the quarter. Including: joining other investors in writing to the US Securities and Exchange Commission (SEC) on climate disclosure and supporting a collaborative letter to French auditors about disclosure on material climate-related risks.

2.3 Further details on their work during the quarter can be found in the quarterly engagement report. Members of the Board should contact the author of this report if they would like further information on the Forum's activities.

- 2.4 Elections to the LAPFF executive committee are held every year ahead of the LAPFF AGM in October. The request for nominations will be made in August with a deadline for submission at the beginning of September. Details of the process and nomination form for the year ahead will be shared with the Pensions Committee members when received, so any member wishing to join the LAPFF executive committee can submit a nomination.

3.0 Border to Coast Pensions Partnership – RI Activity

- 3.1 Border to Coast is the pooling company chosen by Lincolnshire Pension Fund. Border to Coast is a strong advocate of RI and believe that businesses that are governed well and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. As a representative of asset owners, they practice active ownership by holding companies and asset managers to account on Environmental, Social and Governance (ESG) issues that have the potential to impact corporate value. They also use shareholder rights by voting at company meetings, monitoring companies, carrying out engagement and litigation.
- 3.2 Their approach to RI and stewardship is set out in their [Responsible Investment Policy](#), [Corporate Governance and Voting Guidelines](#) and [Climate Change Policy](#). These documents can be viewed on the Border to Coast website. They also publish a quarterly stewardship newsletter detailing the activity they have undertaken during the quarter. A copy of the report for the latest quarter can be found at on their website ([Quarterly Stewardship Report Q1 2022](#)). Highlights from their work during the quarter include:
- An overview of the quarters RI activity including: the launch of the Listed Alternatives sub-fund which includes exposure to renewable energy, digital infrastructure and specialist healthcare; the announcement that Border to Coast became a signatory to the UK Stewardship Code; and they were recognised with a Good Governance Award at the annual LAPF Investment Awards.
 - An industry update providing details of: the Intergovernmental Panel on Climate Change (IPCC) Sixth Assessment Report on climate change; the release of the Taskforce on Nature-related Financial Disclosures (TNFD) framework; and the establishment of the International Sustainability Standards Board (ISSB), which was announced at COP26 in November 2021, and is seen as a major step to a single set of global ESG reporting standards.
 - High level information on voting activity for the quarter across all Border to Coast funds. March saw the start of peak voting season, with Border to Coast voting at 121 meetings during the quarter, covering 1,398 agenda items.

- Engagement activity, which included 327 engagements, was 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.
- 3.3 Border to Coast produce quarterly ESG reports for their equity and fixed income sub-funds. These are included on this agenda as part of the Investment Management Report at Item 17.

4.0 Robeco – RI Activity

- 4.1 In addition to the direct RI work undertaken by Border to Coast they have appointed Robeco to provide voting and engagement services. A copy of their quarterly activity report can be found on the Border to Coast website ([Robeco Quarterly Engagement Report Q1 2022](#)).
- 4.2 During the quarter Robeco have voted at 121 AGM's, the percentage of meetings where they have at least one vote against management is 60%. During the quarter they have engaged with companies on 67 occasions on topics including: the environment, corporate governance and social matters. This quarters report looks at how Robeco assess companies displaying controversial behaviours in light of the Russia-Ukraine crisis, their new three-year palm oil engagement cycle, and lifecycle management of mining including the importance of integrating sustainability.

5.0 Legal and General Investment Management – RI Activity

- 5.1 Legal and General Investment Management (LGIM) manage 15% of the Fund's portfolio, which is invested in the Future World Fund (global equities). The Future World Fund invests systematically in a globally diversified portfolio of quoted company shares; the index is designed to favour investment in companies which exhibit characteristics that have historically led to higher returns or lower risk than the market as a whole, and companies which are less carbon-intensive or earn green revenues. LGIM also builds ESG factors and responsible investing into all it's 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 Q1 2022](#)) 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 546 times, and engaged 158 with 126 companies on topics including climates 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 summary proxy voting reports, which are attached at appendix A (Global Equity Alpha) and B (UK Listed Equities). Full details of the votes cast during the period January to March 2022 can be found on the Border to Coast website: [Integrated Full Details Voting Report Q1 2022](#).

7.0 **Review of Legal and General Investment Management (LGIM) – Responsible Investments Oversight Report**

- 7.1 The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship remains with individual Pension Funds. However, as one of the benefits of asset pooling, the Fund is able to utilise the RI capacity at Border to Coast and has appointed them in an advisory capacity to provide oversight of the investment we have with LGIM. They have carried out a strategic review of the RI arrangements in place and during the quarter Border to Coast produced their first oversight report covering the responsible investment activity undertaken by LGIM.
- 7.2 The oversight review covered the following areas:
- Firm-level policies and resourcing;
 - Investment process and research;
 - Stewardship and collaboration; and
 - Climate change.

The review encompassed completion of a bespoke questionnaire by LGIM and analysis of the responses and additional supporting documentation by the Border to Coast RI team. The Border to Coast RI team also held a ‘deep-dive’ meeting with members of the LGIM Investment Stewardship Team.

- 7.3 Overall this work concluded that LGIM’s RI and stewardship activity is well resourced and engagement activity is structured, with clear objectives and milestones for companies to achieve. Stewardship and active ownership are important to LGIM, this is demonstrated through the substantial amount of information it makes publicly available. RI and stewardship can be difficult for passive managers because they are essentially forced to hold all companies in the index, however, with the launch of funds, such as the Future World Fund, LGIM are able to bring more pressure onto companies.

Conclusion

8.1 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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