



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

Report to:	Pensions Committee
Date:	23 September 2022
Subject:	Responsible Investment Update Report

Summary:

This paper provides the Committee with an update on Responsible Investment activity during the first quarter of the financial year 2022/23 (April to June inclusive).

Recommendation(s):

The Committee consider 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 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.

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 by collaborating with other investors and by responding to governance and industry consultations.

Outcomes Achieved through LAPFF 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 announced two major initiatives, one relating to climate change and one relating to human rights. The climate change initiative is linked to LAPFF's work on 'Say on Climate' and aims to issue voting alerts to ensure companies set meaningful corporate climate strategies and initiatives. The human rights initiative is a visit by the LAPFF Chairman to communities affected by the Mariana and Brumadinho tailings dam collapses in Minas Gerais, Brazil. More details on this will be shared with the Committee via the weekly update from the LAPFF Chairman.
- As the quarter covered peak voting season LAPFF voting alerts covered:
 - Mining companies where shareholders are only able to vote on climate progress disclosures rather than climate plans. LAPFF believes that shareholders should have an annual vote on company plans and strategies not just results.
 - Technology companies including: Amazon, Meta Platforms and Alphabet on a range of ESG issues, including: human rights (particularly labour rights), lobbying, climate and board accountability.
 - Oil and Gas companies including BP and Shell, opposing their climate plans and supporting the 'Follow This' shareholder resolution.
- Collaborative engagement during the quarter included: LAPFF joining two calls with companies to discuss their approaches modern slavery and reporting, as part of the Rathbones Votes Against Slavery engagement. This targets FTSE 350 companies that fail to comply with Section 54 of the Modern Slavery Act.
- LAPFF has been involved in a number of collaborative investor initiatives. Including: work with the Investor Initiative for Responsible Care organised by UNI Global, of which LAPFF is a founding member. The coalition includes 130 institutional investors with \$3.8 trillion in assets. It aims to improve employment and care standards to protect shareholder value. During the quarter, LAPFF, alongside other lead investors, has contacted Real Estate Investment Trusts (REITs) working within the nursing home sector and signed a letter regarding the EU Care Strategy to further the coalitions work.

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 – 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 Q2 2022](#)). Highlights from their work during the quarter include:

- An overview of the quarter’s RI activity including: the launch of the second private markets programme; a summary of the quarters voting, as April to June covers peak voting season; and details of a collaboration with other UK pension funds to look at how they can support the climate transition in emerging markets.
- An industry update providing details of: results of the Department for Work and Pensions consultation for Paris alignment reporting in occupational pension schemes; the launch of a UK Transition Plan Taskforce to develop a standard for climate transition plans in the UK; and publications on science-based targets for net zero financial reporting, embedding stewardship in the asset manager and asset owner relationship and an updated framework from the Taskforce in Nature-related Financial Disclosure.
- High level information on voting activity for the quarter across all Border to Coast funds. The quarter is peak voting season, with Border to Coast voting at 573 meetings during the quarter, covering 8,750 agenda items. In 72% of meetings Border to Coast cast at least one vote against the recommendations of management.
- Engagement activity, which included 530 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.

3.3 Border to Coast has published its annual [Responsible Investment and Stewardship Report](#), demonstrating the progress it has continued to make as an active steward of Local Government Pension Scheme (LGPS) assets in 2021/22. It has also

published its [Task Force on Climate-Related Financial Disclosures \(TCFD\) Report](#), which evidences its commitment to transparency in reporting.

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 Q2 2022](#)).
- 4.2 During the quarter Robeco have voted at 573 AGM's, the percentage of meetings where they have at least one vote against management is 72%. During the quarter they have engaged with companies on 76 occasions on topics including: the environment, corporate governance and social matters. This quarter's report provides details on Robeco's new net zero emissions theme, which is an extension to their existing corporate decarbonation theme; reflects on the 2022 AGM season and the key trends coming out of this; and provides an update on their three year single use plastic company engagement theme.

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 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 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 2,339 times, and engaged 122 times with 103 companies on topics including remuneration, climate change and board composition.
- 5.3 LGIM also produce an ESG Report specifically for the Future World Fund. This details key ESG metrics including carbon footprint and weighted average carbon intensity data, as well as voting and engagements statistics for the last 12 months. This report is available on the LGIM website 10-12 weeks after the quarter end ([Future World Fund](#)).

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 April to June 2022 can be found on the Border to Coast website: [Integrated Full Details Voting Report Q2 2022](#).

7.0 **Border to Coast Environmental, Social and Governance (ESG) Reporting**

- 7.1 Border to Coast have worked with MSCI, the investment research company, to provide quarterly ESG and carbon reports. The reports include an ESG rating, weighted score for the quarter and the direction of travel, as well as information on the best and worse companies in the sub-fund. The report also includes details on carbon emissions and intensity.
- 7.2 For the quarter ended 30 June 2022 the ESG reports can be found at:
- Appendix C: Global Equity Alpha Sub-fund;
 - Appendix D: UK Listed Equity Sub-fund; and
 - Appendix E: Sterling Investment Grade Credit Sub-fund.
- 7.3 *“This disclosure was developed using information from MSCI ESG Research LLC or its affiliates or information providers. Although Lincolnshire County Council Pension Fund information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the “ESG Parties”), obtain information (the “Information”) from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness, of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose. The Information may only be used for your internal use, may not be reproduced or re-disseminated in any form* and may not be used as a basis for, or a component of, any financial instruments or products or indices. Further, none of the Information can in and of itself be used to determine which securities to buy or sell or when to buy or sell them. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.”*

**In accordance with the Licence Agreement between Border to Coast Pensions Partnership Limited and MSCI ESG Research (UK) Limited.*

7.4 In summary:

- Global Equity Alpha – marginal increases in the weighted ESG score in both the Fund and benchmark saw both increase their rating to ‘AA’ over the quarter. The Fund saw several upgrades over the period, including: Fiserv, Danaher, Charter Communications and EasyJet. Automotive components company, BorgWarner, was the sole downgrade due to increasing risks associated with warranty payments.

The fund’s carbon intensity metrics were broadly stable over the quarter and remain materially below the benchmark. Exposure to fossil fuel reserves comes primarily from the fund’s allocation to diversified mining company, Glencore, which represents c.0.8% of the overall fund.

- UK Listed Equity – the ESG weighted score remained consistent in the quarter, retaining its ‘AAA’ rating and is slightly above the benchmark. This is due to the fund holding a higher weighting of companies considered to be ‘Leaders’ and no ‘Laggards’. The fund is generally underweight the lowest ESG rated companies relative to the benchmark.

The Fund is currently below the benchmark for carbon emissions, carbon intensity and weighted average carbon intensity (WACI) and all carbon metrics reduced in the quarter. All of the largest contributors to portfolio WACI are rated Level 4 or 4* by the Transition Pathway Initiative (highest rating) and many have sector leading Carbon Transition Plans to be net-zero by 2050.

- Sterling Investment Grade Credit – the fund is rated AA. The ESG weighted score was stable over the quarter, being marginally below that of the benchmark index overall. The lower scoring relative to the benchmark is driven by active positioning, with the fund holding fewer companies considered to be ‘Leaders’. Despite this the fund retains its very high rating of AA, which is classed as ‘Leader’.

It is worth noting that while the availability and quality of ESG data has been improving in recent years, there can still be material gaps across the fixed income market. This is particularly prevalent where a debt-issuing entity does not also issue publicly-listed equity, which, in most cases, the fixed income issuer maps to.

The fund is currently below the benchmark for WACI. The largest contributor, London Power Networks, is an overweight position relative to benchmark. No single position dominates the portfolio WACI. Exposure to companies owning fossil fuel reserves is lower relative to the benchmark. The largest contributors include BP (via their financing vehicle), Equinor and Centrica.

Conclusion

8.1 This report brings to the Committee information on the various Responsible Investment (RI) activities that have been undertaken on behalf of the Fund during the quarter.

Consultation

a) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the Head of Pensions.

Appendices

These are listed below and attached at the back of the report	
Appendix A	Border to Coast Global Equity Alpha Voting Activity
Appendix B	Border to Coast UK Listed Equity Voting Activity
Appendix C	Border to Coast Pensions Partnership - ESG Quarterly Report - Global Equity Alpha
Appendix D	Border to Coast Pensions Partnership - ESG Quarterly Report - UK Listed Equity
Appendix E	Border to Coast Pensions Partnership - ESG Quarterly Report - Investment Grade Credit

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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