



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

Report to:	Pensions Committee
Date:	01 December 2022
Subject:	Responsible Investment Update Report

Summary:

This paper provides the Committee with an update on Responsible Investment activity during the second quarter of the financial year 2022/23 (July to September 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 Management.

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:

- The second quarter of 2022/23 saw the LAPFF Chairman, Cllr Doug McMurdo, visit Brazil as part of LAPFF's broader work on mining and human rights. LAPFF believe that social and environmental impacts by investee companies are financially material for investors. During his trip, Cllr McMurdo met with communities affected by the 2015 Mariana (owned by BHP and Vale) and 2019 Brumadinho (owned by Vale) dam collapses. He also met with the Chair of Vale and senior executives from the company. At the end of the trip, he met with a number of Brazilian investors at a meeting led by ESG-focused asset manager, JGP Asset Management, with whom LAPFF has been partnering on this project.
- LAPFF engaged with 35 companies on issues ranging from employment standards, climate change, board composition and human rights. Including:
 - National Grid, where a voting alert was issued about concerns with its transition plan. A meeting was held with the Head of Sustainability and Company Secretary ahead of the AGM to discuss concerns, followed by attendance at the AGM, where progress on Scope 3 targets was challenged.
 - Electric Vehicle Manufacturers about their approach to responsible mineral sourcing and a 'Fair and Just Transition'. LAPFF met with Ford to discuss its approach to human rights and responsible mineral sourcing. The meeting was a short, but was followed up with a range of questions which the company has promised to answer. The company's participation in the Initiative for Responsible Mining Assurance was discussed.
- Collaborative engagement during the quarter included:
 - LAPFF continue to investigate issues with the forced labour of Uyghurs in China;
 - Work with Rathbones' Vote Against Slavery which is engaging with FTSE350 companies that fail to comply with Section 54 of the UK's Modern Slavery Act; and
 - Working with Access to Nutrition Index (ATNI), LAPFF is co-leading an engagement with Kellogg's. A meeting was held with the company in August to discuss progress.
- LAPFF responded to 'A Call for Evidence' on a Sector-Neutral Framework for private sector transition plans in mid-July from the Transition Plan Taskforce (TPT). TPT was set up by the UK government to develop a 'gold standard' for

climate transition plans. The TPT aims to help financial institutions and companies prepare rigorous transition plans.

- 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 Q3 2022](#)). Highlights from their work during the quarter include:

- An overview of the quarter's RI activity which included: the publication of their Responsible Investment and Stewardship (RI) Report and Taskforce on Climate-related Financial Disclosures (TCFD) Report for 2021/22; the launch of the Net Zero Implementation Plan which details how they will address the systematic risk of climate change, drive reductions in real world carbon emissions, and reduce their carbon footprint to net zero by 2050 or sooner; and the Border to Coast annual conference which was held at the end of September.
- An industry update providing details of: the rise of anti-ESG sentiment in the US; the UN biodiversity conference (COP15) which will take place in December 2022; publication of a framework to assess banks on how they are transitioning to net zero, published by the Transition Pathway Initiative (TPI), in collaboration with the Institutional Investor Group on Climate Change (IIGCC); and the Principles for Responsible Investment (PRI) global consultation on it's future vision, mission and purpose.
- High level information on voting activity for the quarter across all Border to Coast funds. Border to Coast voted at 134 meetings during the quarter,

covering 1,599 agenda items. In 56% of meetings Border to Coast cast at least one vote against the recommendations of management.

- Engagement activity, which included 248 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 A year after Border to Coast announced their commitment to reach net zero greenhouse gas emissions by 2050 or sooner, they have published their full [Net Zero Implementation Plan](#). This is a target-driven plan detailing how they will address the systemic risk of climate change, drive reductions in real world carbon emissions, and reduce their carbon footprint.

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 Active Ownership Report Q3 2022](#)).

4.2 During the quarter Robeco have voted at 134 AGM's, the percentage of meetings where they have at least one vote against management is 56%. During the quarter they have engaged with companies on 55 occasions on topics including: the environment, social and corporate governance matters. This quarter's report provides details on the launch of Robeco's Sustainable Investing (SI) Open Access Initiative, which involves sharing their data with clients and academics; two new engagement themes: on diversity and inclusion, and on the environmental side a stream on natural resource management, as well as an update on their ongoing engagement activity.

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 Q3 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 482 times, and engaged 137 times with 114 companies on topics including: remuneration, gender diversity, and climate change.

- 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 ([Future World Fund ESG Report Q3 2022](#)).

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 July to September 2022 can be found on the Border to Coast website: [Integrated Full Details Voting Report Q3 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 September 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**

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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 ‘AAA’ over the quarter. This was driven primarily by a strong trend of upgrades over recent periods, including several material holdings: Bank of America, Bayer, Booking Holding, Adient and Airbnb.

The fund’s carbon intensity metrics saw mixed changes over the period, with weighted average carbon intensity (WACI) relatively stable, while absolute portfolio emissions increased by c.18% relative to the benchmark. The increase was driven by a greater allocation to Heidelberg Cement over the period, a company that accounts for c.37% of total portfolio emissions alongside an increasing exposure to aviation. 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 WACI. Carbon emissions increased in the quarter mainly driven by a slightly increased weighting to Shell and BP, plus BP reporting higher annual emissions. WACI and carbon intensity remained stable in the quarter.

- 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 whilst 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 above the benchmark for WACI owing to portfolio positioning, whilst portfolio emissions on an absolute basis remain below the benchmark. No single position dominates the portfolio WACI or carbon emissions metrics. Exposure to companies owning fossil fuel reserves is lower relative to the benchmark. The largest contributors include: Equinor, Centrica and BASF.

8.0 Stewardship Code 2022

8.1 The Financial Reporting Council (FRC) introduced the new UK Stewardship Code in 2020. The Code sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those who support them. The Code comprises twelve 'apply and explain' principles for asset owners, 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 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 report annually to remain a signatory.

8.3 The Fund became one of the first Local Authority Pension Fund signatories to the Code, following submission of a report for 2020/21. Appendix F is the Fund's second submission and covers stewardship activities and outcomes for the financial year 2021/22. Feedback from the FRC on the latest submission, and confirmation that the Fund remains a signatory to the Code, is expected in the first quarter of 2023.

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	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
Appendix F	Lincolnshire Pension Fund Stewardship Code Submission 2021/22

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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