



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

Report to:	Pensions Committee
Date:	08 June 2023
Subject:	Responsible Investment Update Report

Summary:

This paper provides the Committee with an update on Responsible Investment activity during the final quarter of the financial year 2022/23 (January to March 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 the quarter include:

- LAPFF, in conjunction with Sarasin & Partners, CCLA and the Ethos Foundation, wrote to all the FTSE All-Share (368 letter sent) requesting that Boards provide shareholders with the opportunity to support their greenhouse gas emission reduction strategy by putting an appropriate resolution on the AGM agenda. Some companies have responded and committed to Say on Climate votes, but these are in the minority. LAPFF will continue to engage on this issue with companies so that shareholders can express their views specifically about climate strategies, something that will become more important with the introduction of transition plans and as the financial risks of climate change become even clearer.
- LAPFF engaged with 397 companies (54 excluding the letters noted above) over the quarter, including on issues ranging from climate change and environmental risk to human rights and supply chain management. Including:
 - Asking McDonalds to publicly disclose the findings of a water risk assessment and physical risk scenario analysis undertaken in 2020. LAPFF met with them as part of a coalition of investors to discuss the company's approach to managing environmental risks across its agricultural supply chain.
 - Nestle Chair, Paul Bulcke, hosted a roundtable with investors in March. He provided a high-level overview of the company's financial and ESG strategies before taking questions from investors. LAPFF asked about the company's approach to reducing Scope 3 emissions which, as demonstrated in its reporting, has a large focus on regenerative farming. The company also talked about a fair and just transition in its net zero roadmap, as well as plastics, ShareAction's Healthy Markets campaign (which LAPFF also supports), and executive compensation.
- Other work by LAPFF during the quarter included:
 - LAPFF participated in a Climate Action 100+ collaborative meeting with General Motors (GM), covering the impact of the Inflation Reduction Act in the US, GM's targets and how GM is planning on reaching its ambitions. The company plans to have capacity in excess of one million EV units in both North America and China by 2025; and
 - As a member of the Investor Initiative for Responsible Care, a coalition of 138 responsible and long-term investors in the care sector, they have been engaging with public policy makers, including meeting with the EU Commissioner responsible for care. This meeting came off the back of a new EU care strategy, and discussions focussed on how the implementation of the strategy could support the aims of responsible

investors in the sector to improve care quality and employment standards to help deliver sustainable returns.

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.

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 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 2023](#)). Highlights from their work during the quarter include:

- An overview of the quarter's RI activity which included: voting and engagement activity during the quarter; the retention of their Stewardship Code status; how they have strengthened their expectations for climate action at oil and gas companies; and collaborative work they have done calling for companies to consider worker perspectives in their strategic decision making. Border to Coast have strengthened their RI team with two new joiners – a responsible investment analyst and a climate change manager.
- An industry update providing details of the Net Zero engagement initiative, work being undertaken on climate considerations in sovereign bonds, the results of the Workforce Disclosure Initiative report, and the sixth assessment from the Intergovernmental Panel on Climate Change which highlighted the

risk of rising temperatures and the measures that must be taken to mitigate them.

- High level information on voting activity for the quarter across all Border to Coast funds. Border to Coast voted at 139 meetings during the quarter, covering 1,703 agenda items. In 65% of meetings Border to Coast cast at least one vote against the recommendations of management.
- Engagement activity, which included 802 engagements, carried out by: the internal team; external managers appointed by Border to Coast; Robeco, as the Pool's engagement and voting manager; internal portfolio managers; and by LAPFF.

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 Q1 2023](#)).

4.2 During the quarter Robeco have voted at 139 AGM's, the percentage of meetings where they have at least one vote against management is 65%. During the quarter they have engaged with companies on 76 occasions on topics including: the environment, social and corporate governance matters. This quarter's report provides details on the lifecycle management of mining, the progress on the "Acceleration to Paris" program, and corporate governance reform in the US.

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 2023](#)) detailing their activity during the quarter, across all their investment products. The report covers the key activity from their Investment Stewardship team, their latest Climate Impact Pledge updates, their collaboration with ShareAction on European chemical companies, and a selection of significant votes. During the quarter LGIM engaged 535 times with 491 companies on topics

including: climate impact pledge, ethnic diversity, remuneration, climate change and strategy.

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. The latest quarter update for this report will be available on the LGIM website ([Future World Fund ESG Report Q1 2023](#)) later in June.

5.4 The [LGIM 2022 Active Ownership report](#) was shared with the Committee in the weekly update email of 2 May 2023. This report outlines the decisive action they took with the aim of delivering positive change on behalf of clients on a broad range of ESG issues in 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 appendices A (Global Equity Alpha) and B (UK Listed Equities). Full details of the votes cast during the period January to March 2023 can be found on the Border to Coast website: [Integrated Full Details Voting Report Q1 2023](#).

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 31 March 2023 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*

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7.4 In summary:

- Global Equity Alpha – The Fund’s weighted ESG score and that of the benchmark were stable over the quarter and remain at AAA. The Fund scores slightly above the benchmark overall, due to its higher proportion of companies considered ESG leaders amongst their global peer group.

The Fund does have exposure to several CCC-rated companies, due predominantly to the recent establishment of an explicit emerging markets allocation. These companies are a relatively low proportion of the overall Fund, and the Fund remains underweight to emerging markets relative to the benchmark.

The Fund is currently below the benchmark for portfolio financed emissions, carbon intensity and weighted average carbon intensity (WACI).

Between them, Heidelberg Cement and Holcim account for around 62% of portfolio financed emissions, due to the carbon intensive nature of the cement production process. Therefore, the carbon metrics of the Fund are currently highly sensitive to each of these companies’ scope 1 emissions, as well as any fluctuations in investment value and/or allocation.

- UK Listed Equity – The weighted ESG score remained consistent over the quarter at AAA and remains above the benchmark. This is due to the Fund holding a higher weighting of companies considered to be ‘Leaders’. During the quarter several companies were upgraded including Dr Martens, DWF Group, Halma and IP Group.

The Fund is currently below, or in-line with, the benchmark for carbon emissions, carbon intensity and weighted average carbon intensity (WACI). All carbon metrics remained level when compared with the last two quarters.

- Sterling Investment Grade Credit – Scoring and overall contribution was stable over the quarter at AAA. The Fund scores below the benchmark on a Weighted ESG score basis, driven primarily by an overweight position in UK Government Bonds (rated A) of approximately 5%.

The Fund is currently below the benchmark for portfolio financed emissions, carbon intensity and weighted average carbon intensity (WACI). Enel and EDF contribute close to half of the Fund’s financed emissions.

Exposure to companies owning fossil fuel reserves is lower relative to the benchmark, with the largest contributors including BP, Equinor and Centrica.

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

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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