



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

Report to:	Pensions Committee
Date:	14 December 2023
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 2023/24 (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 the quarter include:

- Company engagement: LAPFF engaged with 182 companies over the quarter, on issues ranging from environmental risk and climate change to human rights and supply chain management. Including:
 - For a number of years LAPFF has been engaging with financial institutions, including banks and insurance companies, on climate issues. Most recently these discussions have focused on biodiversity and environmental impacts of climate change. This engagement will explore company strategies in relation to natural resources and their link to climate. To achieve this LAPFF has written to 13 global insurers to engage on their approaches to decarbonisation and natural resources. There have been responses from four companies so far. LAPFF will continue to send letters and set up meetings with these companies over the coming months.
 - Say on climate change, climate and transition plans. During the quarter LAPFF organised a letter to 35 companies in high-emitting sectors, who are considered to face heightened climate risks and whose actions are essential to the accelerated action required to meet the Paris goals. LAPFF gained support from a wider group of investors and had 18 signatories to these letters. The letter stressed the importance of climate-related risks to investors. It also urged companies to provide resolutions to enable shareholders to express their view on climate strategies through a specific AGM vote. LAPFF will be tracking the responses to these letters and will continue to engage with companies about holding a climate transition plan vote.
 - Electric vehicles: LAPFF has continued its engagement with electric vehicle manufacturers to better understand how they are addressing the risks associated with minerals for batteries in their vehicles. There is increasing legislation relating to corporate sustainability being enacted around the world in this area (including the EU Battery Regulation which came into effect in August 2023) which companies will be required to comply with. During the quarter LAPFF met with Volkswagen and Volvo Group.
- Other work by LAPFF during the quarter included:
 - Collaborative engagement: during the quarter LAPFF has re-signed onto a FAIRR engagement focusing on working conditions at food producers, mainly in North and South America. LAPFF has also signed onto two new engagement streams, one examining antimicrobial resistance in animal pharmaceutical industry and the other analysing quick service restaurant antibiotic policies, both with a focus on the concern about increasing global antimicrobial resistance. More than 20 companies have been

contacted across these three workstreams. The FAIRR initiative is a collaborative investor network that raises awareness of material ESG risks and opportunities caused by intensive animal production.

- Consultation responses: LAPFF has responded to the UN Working Group on Business and Human Rights consultation on investors, ESG, and human rights. The Working Group is tasked with identifying ways to implement the UN Guiding Principles on Business and Human Rights and has been increasingly interested in the role investors can play in this regard. LAPFF set out a range of measures it employs to supporting both ESG and human rights.

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 believes 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, and the latest copy can be found on their website ([Quarterly Stewardship Report Q3 2023](#)). Highlights from their work during the quarter include:

- An overview of the quarter's RI activity which included: voting and engagement activity; and an update on the activity of the RI team, which included the publication of Border to Coast's [Responsible Investment and Stewardship \(RI\) Report](#) and [Climate Change Report](#) for 2022/23. The quarter also included the Border to Coast conference, here net zero was high on the agenda, which included a discussion with Mark Carney, the UN Special Envoy for Climate Action and Finance, and a session on the power of engagement.

- The industry update providing details of:
 - A [letter](#) signed by Border to Coast and 32 other supporters urging the UK Prime Minister not to backtrack on vital policy measures that support the UK's transition to net zero.
 - The Taskforce on Nature-related Financial Disclosures ('TNFD') [final recommendations](#) for nature-related risk management and disclosure, published in September. The recommendations aim to inform better decision making by both companies and investors around nature-positive outcomes.
 - The IIGCC latest [guidance](#) on climate solutions, published in September.
- High level information on voting activity for the quarter across all Border to Coast funds. Border to Coast voted at 191 meetings during the quarter, covering 1,904 agenda items. In 58% of meetings Border to Coast cast at least one vote against the recommendations of management. The report also includes voting case studies relating to: Constellation Brands and National Grid plc.
- Engagement activity, which included 550 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. The report also includes engagement case studies on engagement on modern slavery and a just transition to net zero.

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 2023](#)).
- 4.2 During the quarter they have engaged with companies on 76 occasions on topics including: environment, social, and corporate governance matters. This quarter's report provides details on a just transition and corporate governance in emerging markets, sovereign engagement and proxy voting.

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 2023](#)) detailing their activity during the quarter, across all their investment products. The report covers the key activity from their Investment Stewardship team, details of significant engagement activity and voting during the quarter, and policy update. During the quarter LGIM engaged 1,303 times with 1,285 companies on topics including: climate impact pledges, remuneration, income inequality, board composition and strategy. 680 of their engagements were in North America, 229 in Asia Pacific (ex-Japan), 156 in Europe (ex-UK), and 95 in the UK.
- 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. The latest report available covers Q2 2023 ([Future World Fund ESG Report Q2 2023](#)).

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). During the quarter:
- [Global Equity Alpha](#) – 529 votes were cast, with 84 votes against management, and 71 meetings were attended. In 60% of meetings one or more votes were cast against management recommendations.
 - [UK Listed Equity](#) – 370 votes were cast, with 21 votes against management, and 23 meetings were attended. In 67% of meetings one or more votes were cast against management recommendations.
- 6.3 Full details of the votes cast during the period July to September 2023 can be found on the Border to Coast website: [Integrated Full Details Voting Report Q3 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 worst companies in the sub-fund. The report also includes details on carbon emissions and intensity.

7.2 For the quarter ended 30 September 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 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 – the fund’s weighted ESG score was stable over the period (remaining at ‘A’) and is above the benchmark.

There were a large number of upgrades in the quarter, including: Capital One, Reliance Industries, British American Tobacco and Hargreaves Lansdown. Nanofilm Technologies was upgraded in the quarter from 'CCC', however, over the same period a position in Shanghai Friendess Electronic Technology which is rated 'CCC' was acquired.

In terms of its carbon emissions and carbon intensity the Fund remains materially below the wider index on all metrics, owing to the underweight allocations to some high emitting sectors including oil and gas. Heidelberg

Materials and Holcim account for around 50% of portfolio financed emissions, down from 62% in Q1 2023. Emissions fell during the period, owing primarily to a lower portfolio weighting in each company (-0.2% combined in the quarter). Due to their involvement in cement production, the carbon metrics of the Fund are highly sensitive to each of these companies' emissions, as well as any fluctuations in their investment value and/or allocation.

- UK Listed Equity – the fund's weighted ESG score remained consistent over the quarter at 'AA' and remains above the benchmark. This is due to the Fund holding a higher weighting of companies considered to be 'Leaders'. Furthermore, the fund does not hold any companies considered to be 'Laggards' ('CCC' or 'B' rated companies).

No companies were downgraded in the quarter, and several were upgraded including British American Tobacco, Haleon, Smith & Nephew and Tate & Lyle.

The Fund is currently below, or in-line with, the benchmark for financed emissions and carbon intensity. Weighted Average Carbon Intensity (WACI) remains slightly above the benchmark. Although the Fund remains slightly above the benchmark for WACI, both WACI and financed emissions decreased in the quarter. This was largely due to a restatement of Shell's carbon emissions in an annual update and is more aligned to the Q1 2023 figure. Furthermore, CRH was removed from the FTSE All Share following a switch of the main listing to the US and the fund's position was subsequently reduced in size. CRH previously accounted for ~13% of financed emissions.

- Sterling Investment Grade Credit – the fund's overall ESG score was stable at 'AA' over the quarter. 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 ~5%.

The Fund is currently in line with the benchmark for portfolio financed emissions, carbon intensity and weighted average carbon intensity (WACI). Financed emissions and WACI increased in the quarter largely driven by MSCI's increased coverage of debt issuers linked to airlines, such as American Airlines and United Airlines.

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

- 8.1 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 can 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 have completed their second oversight report covering the responsible investment activity undertaken by LGIM.

8.2 The oversight included: completion of a bespoke RI questionnaire by LGIM; analysis of questionnaire responses and additional supporting documentation provided by LGIM; and a deep-dive meeting between the Border to Coast Responsible Investment Team and members of the LGIM Investment Stewardship Team.

8.3 The oversight review covers the following areas:

- Policies, Resourcing and Governance
- Investment Process and Research
- Stewardship and Collaboration
- Climate Change

8.4 Overall the report concluded that LGIM continue to be a leader in active ownership.

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.

This report was written by Claire Machej, who can be contacted on 01522 553641 or claire.machej@lincolnshire.gov.uk.

This page is intentionally left blank