

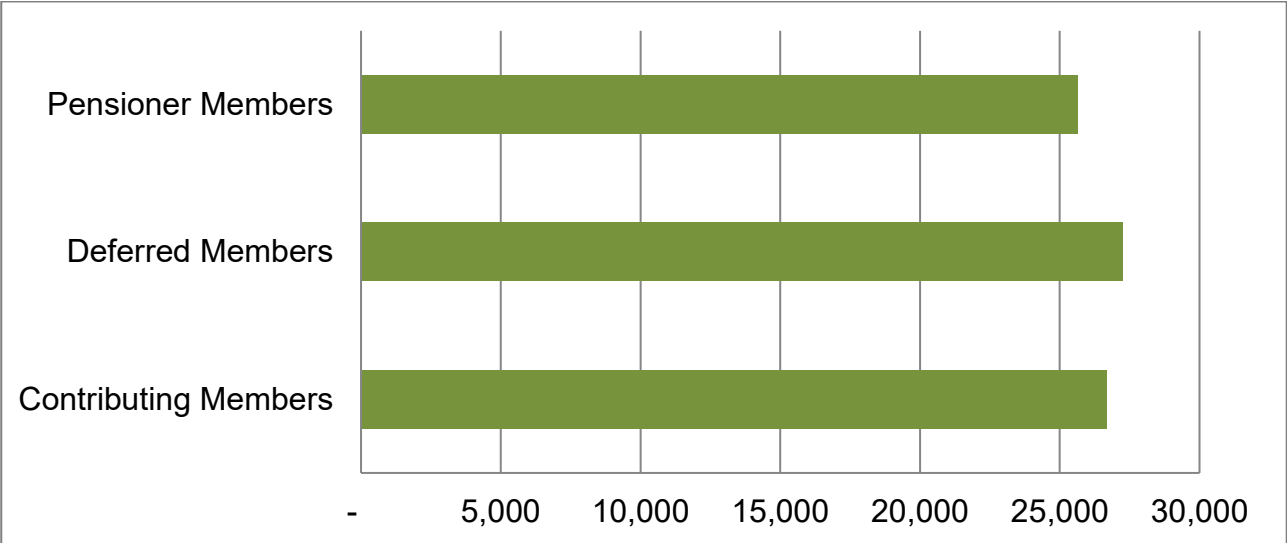
Stewardship Code 2022/23

“Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.”

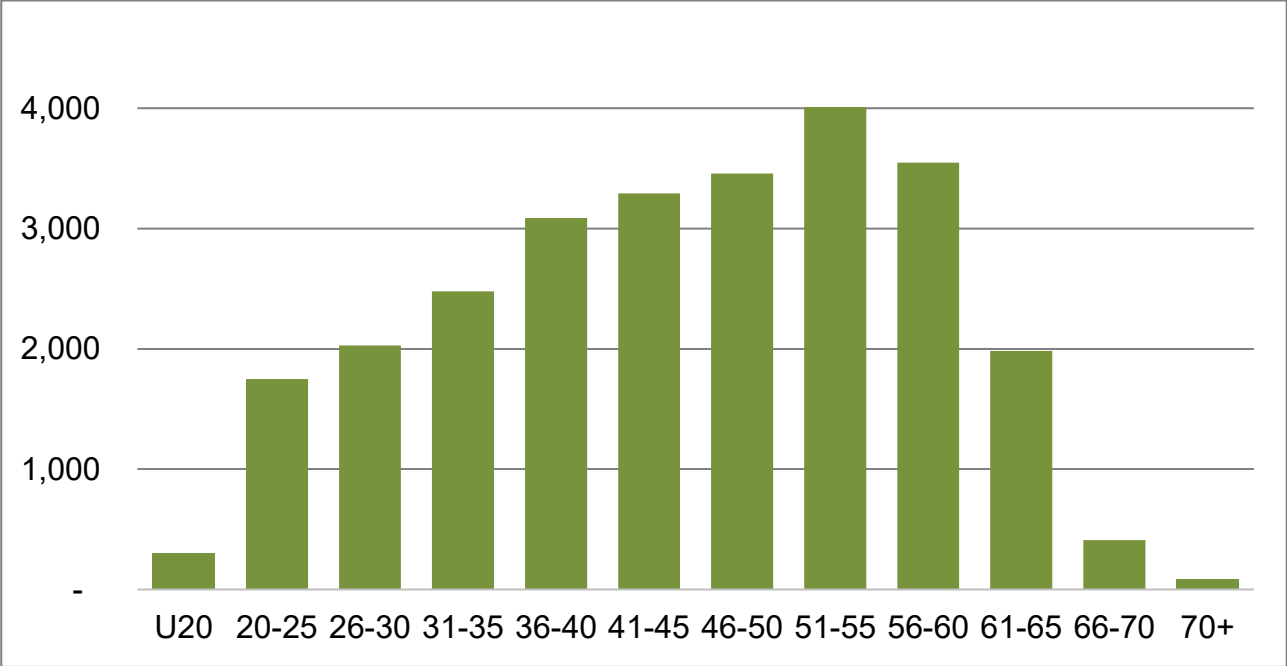
Background and Context

Fund Facts (as at 31 March 2023)

Total Membership: 79,573



Active Member Age Profile

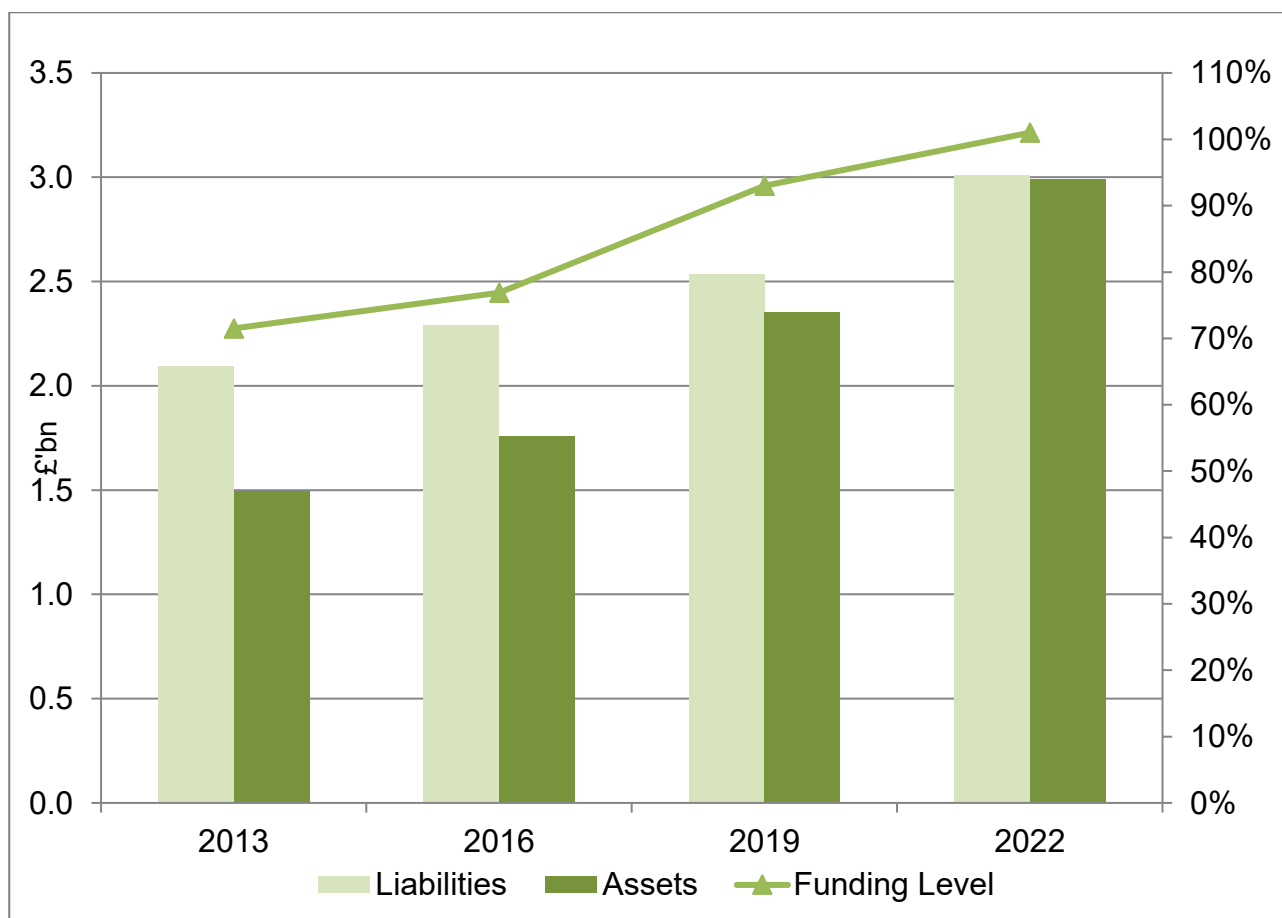


Employers: 256

Contributing employers, either in Lincolnshire, or providing services to these employers, include:

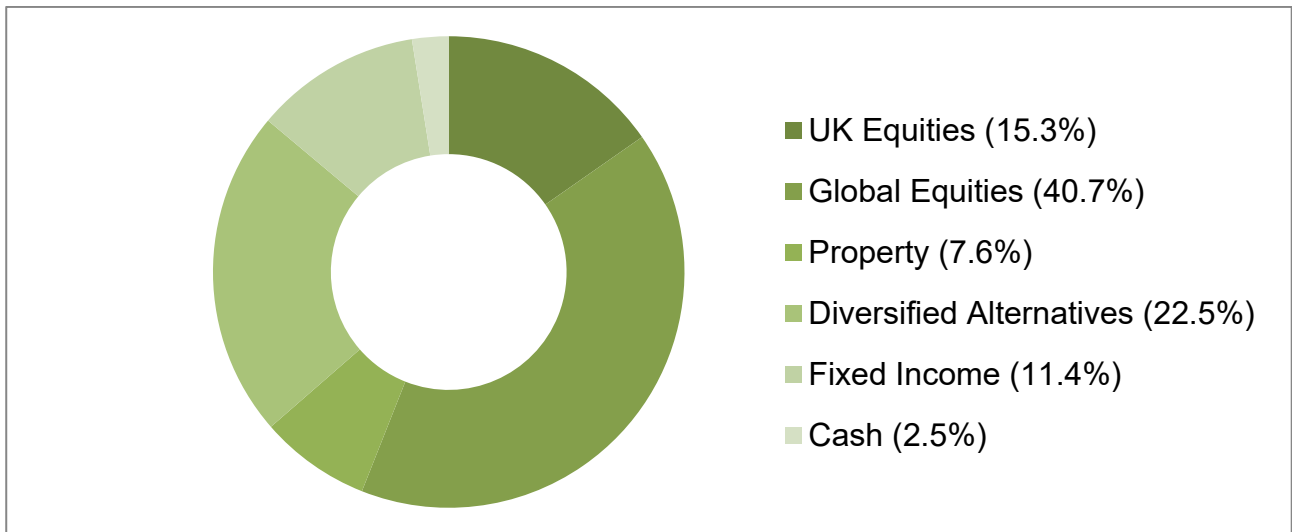
Employer Type	Number
Academies	184
Community Admission Bodies	4
Councils and Police	10
Further Education Bodies	4
Internal Drainage Boards	9
Resolution Bodies	1
Small Scheduled Bodies	28
Transferee Admission Bodies	16

Funding Position

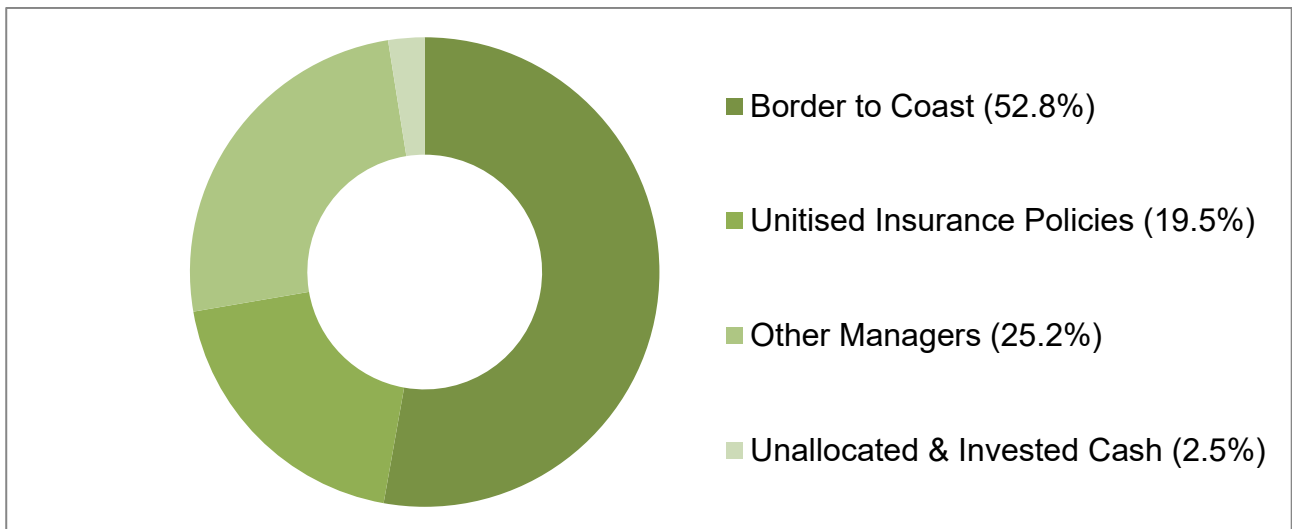


Invested Assets: £3.0bn

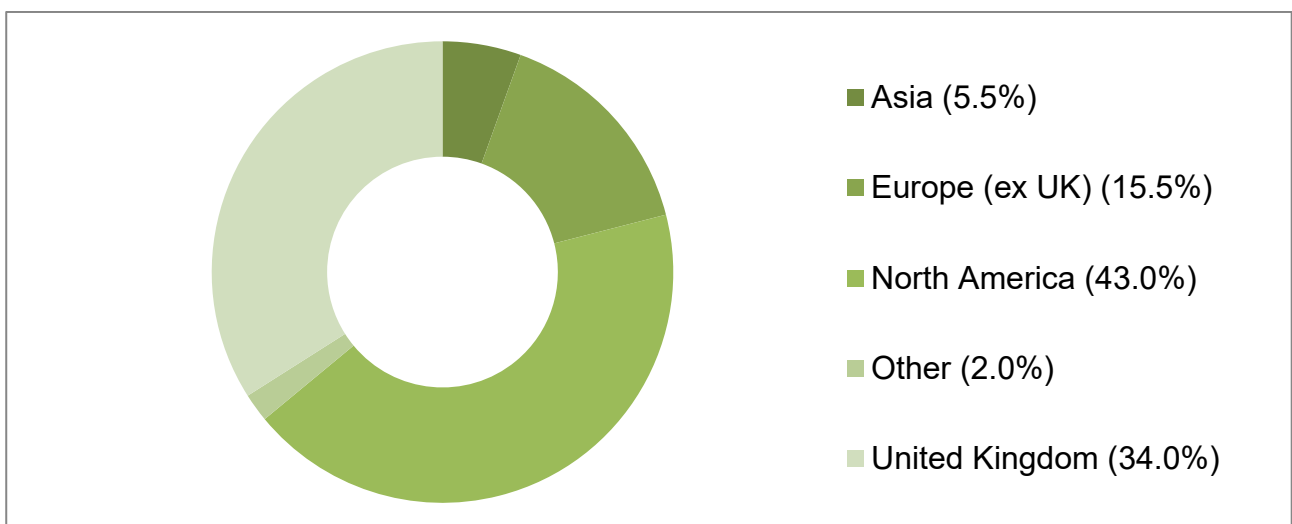
By Asset Class:



By Asset Manager:



By geography:



Lincolnshire Pension Fund

Lincolnshire Pension Fund (the "Fund") is part of the Local Government Pension Scheme (LGPS), which is a statutory scheme established by an Act of Parliament and governed by the Public Services Pensions Act 2013 (PSPA 2013). It is a contributory defined benefit scheme to provide pensions and other related benefits for all eligible employees of local government and other participating employers. The LGPS is a multi-employer scheme which is open to new membership. The LGPS operates on a 'funded' basis, this means that contributions from employees and employers are paid into a fund which is invested, and from which pensions are paid.

As the scheme is well funded and open to new members, with the majority of its employers being secure, tax-backed employers, the Fund is able to take a long-term view on investments and generally looks over a twenty year plus period when assessing its investment strategy. A young scheme member joining today may not be entitled to take their pension for another 50 years, so all investment decisions are made with a long-term focus.

Scheme regulations are set on a national basis, but individual Funds are managed by designated administering authorities at a local level. The LGPS, unlike private pension schemes, does not have Trustees but has a committee made up of elected Councillors and other interested parties, representing other employers in the Fund and scheme members. The Fund's Pensions Committee performs similar duties to Trustees, under the administering authority of Lincolnshire County Council, and is the decision-making body responsible for the investments and the administration of benefits under the scheme.

The Fund has oversight and scrutiny from a Local Pension Board, established under the PSPA 2013. The Board's role is to assist the Committee in securing good governance and administration of benefits for the scheme members and employers.

The purpose of the Fund is to provide pensions and other associated benefits to Lincolnshire's LGPS members when they fall due. In order to do this, it seeks to achieve sustainable, risk-adjusted performance of its investments over the long-term. More information on the Fund can be found in the [Annual Report and Accounts](#).

Fund Governance Structure

Lincolnshire County Council, as Administering Authority for the Fund, has delegated the investment arrangements of the Pension Fund to the Pensions Committee (the "Committee"), who decide on the investment policy most suitable to meet the liabilities of the Fund. Terms of Reference for the Committee are set out in the [Council's Constitution](#) (on page 48).

The Committee is made up of County Councillors, and employer and scheme member representatives as detailed in the table on page five. This ensures that both employers, who bear the financial risk of the Fund, and scheme members who will be, or are, receiving benefits from the scheme, are involved in the decision-making process. All members of the Committee have full voting rights. All councillors are required to follow the code of conduct set out within the constitution.

Body/category of bodies represented:	Membership
Lincolnshire County Council (elected Councillors)	8
District Council Representative (West Lindsey District Council)	1
Small Scheduled Body Representative (Witham Internal Drainage Boards)	1
Academies Sector Representative (De Aston School, Market Rasen)	1
Scheme Member Representative (Unison)	1
Total:	12

During 2022/23, the Committee met quarterly to provide oversight and challenge across all areas of the Fund. In addition to this, two meetings were held for manager presentations and there were two training meetings.

The Committee has a fiduciary duty to its employers and members and is required to take account of financially material considerations, whatever their source, and this includes environmental, social and governance considerations, including climate change. It recognises the vital role of being a responsible asset owner to meet its requirements to be a long-term sustainable investor.

In order to effectively carry out their role, the Committee obtain professional advice as and when required, from suitably qualified persons, including external advisers, investment managers and officers of the Council. The Fund's principle professional advisors are summarised in the table below:

Role	Advisor
Investment Consultant:	Hymans Robertson
Independent Advisor:	Peter Jones
Main Asset Managers (managing over 5% of assets):	Border to Coast Pension Partnership (Border to Coast) Legal and General Investment Management BlackRock Investment Management Morgan Stanley Investment Management
Voting and Engagement Advisor:	Local Authority Pension Fund Forum (LAPFF)

Internally, the Committee is supported by Officers of the Council including the Executive Director of Resources (S151 Officer and scheme administrator for the Fund), Assistant Director – Finance, Head of Legal Services (Monitoring Officer), Head of Pensions, and Accounting, Investment and Governance Manager. The key officers involved in the day-to-day management of the Fund, are set out below, with relevant qualifications and experience:

Name and title	Experience	Relevant Qualifications	Years Relevant Experience
Jo Kempton Head of Pensions	Jo started in the Pensions team in 1999, as an Investment Officer, and has worked through positions of Assistant Investment Manager, Investment Manager and has been Head of Pensions since 2008. She has covered every aspect including internal portfolio management, fund accounting and governance. Prior to the pensions team Jo working in the accountancy and financial systems teams at the Council.	IMC	24
Claire Machej Accounting, Investment and Governance Manager	Claire joined the team in 2018, having previously worked as a Head of Finance for the Council in the Corporate team. She is a fully qualified accountant and has completed stage one of the IMC qualification and expects to complete the second stage in 2023.	CPFA (studying for IMC)	5

Additionally, the County Council established a Local Pension Board (the "Board") under Regulations 105 to 109 of the Local Government Pension Scheme Regulations 2013 (as amended) which operates independently of the Pension Fund Committee. The purpose of the Board is to assist the Administering Authority in its role as a scheme manager, as set out in the Board's Terms of Reference. Such assistance is to:

- a) Secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme, and;

- b) Ensure the effective and efficient governance and administration of the Scheme.

The Board consists of four voting members; two representing Scheme Members and two representing Scheme Employers, and an Independent Chairman.

Pooling – Border to Coast Pensions Partnership

To meet the government's requirement to pool assets, the Fund joined Border to Coast Pensions Partnership ('Border to Coast') with eleven other like-minded Funds. Border to Coast was created in 2018 as a wholly owned private limited company registered in England and Wales, authorised and regulated by the Financial Conduct Authority (FCA) as an alternative investment fund manager (AIFM).

It is the Fund's intention to invest its assets via Border to Coast as and when suitable sub-funds become available. To date, the Fund has transitioned assets into four Border to Coast sub-funds: Global Equity Alpha, UK Listed Equity, Investment Grade Credit and Multi Asset Credit. This represented 52.8% of the Fund assets as at 31 March 2023. As Border to Coast will, overtime, be the main asset manager for the Fund's investments, a strong oversight and governance structure has been created.

The governance structure has been developed to allow Border to Coast to function efficiently and for Funds to control and hold it to account. Each member Fund has two roles with Border to Coast: that of shareholder and owner of the Company (at Lincolnshire this role is carried out by the Assistant Director - Finance, the Deputy S151 Officer for the Council), and as an investor in the products managed by Border to Coast, which is the responsibility of the Pensions Committee. Oversight of the Company is undertaken through a Joint Committee, made up of the Chairs of the Partner Fund Pensions Committees. On a day-to-day basis, Fund Officers and Border to Coast work together to develop policies, sub-funds and provide continuous feedback to Border to Coast. The roles and responsibilities of Border to Coast, the Fund and its other stakeholders can be found in the Border to Coast [Governance Charter](#).

Employers and Scheme Members

The Fund, as a participant in the LGPS, is a defined benefit scheme. The Lincolnshire Fund has around just over 79,500 members who will or do receive benefits from the scheme. The Fund also has 256 active employers contributing to the scheme at 31 March 2023.

As a defined benefit scheme, the benefits received by members are set out in statute, as are contribution rates for active members. Unlike a defined contribution scheme, employers, rather than scheme members, bear the investment risk and are responsible for making up any funding shortfall that arises because of poorly performing investments. Contribution rates for employers are calculated at the triennial valuation, alongside the overall funding position.

The Fund regularly engages with both employers and members to ensure they are aware of developments which may have an impact on them.

Funding Strategy Statement and Investment Strategy Statement

Within LGPS regulations, the Fund is required to have and publish a Funding Strategy Statement and an Investment Strategy Statement.

[Funding Strategy Statement \(FSS\)](#)

This document is prepared in collaboration with the Fund's actuary and, after consultation with the Fund's employers and investment adviser, it is approved by the Pensions Committee. It sets out the process for the setting of employer contribution rates. The FSS is reviewed in detail at least every three years as part of the triennial valuation process.

The FSS sets out the objectives of the Fund's funding strategy:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

[Investment Strategy Statement \(ISS\)](#)

This document sets out the primary objective of the Fund, which is to provide pension benefits for members and their dependents, as and when they fall due. It states how the Committee aims to fund the benefits in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets.

The ISS sets out the agreed investment beliefs, responsible investment beliefs, investment strategy, the approach to risk and how it will pool investments.

Round Up of the Year

During the year, the triennial valuation and reviewing the investment strategy with the Pensions Committee have been a major focus. The Fund has worked hard on engaging with employer stakeholders to ensure the valuation results are sustainable for the Fund and for the individual employers. The Committee have also dedicated their time to reviewing and considering potential changes to the investment strategy, and this work continued into 2023/24. This will be used as a platform for the Committee to consider responsible investment further, including net zero monitoring and target setting in the coming year.

The Fund has also dedicated time to reviewing how time and resources are best used to meet the current requirements of the Fund. This review has resulted in the proposed recruitment of two additional team members to give greater focus to investment and responsible investment matters and supporting and monitoring employer and contractor activity. The format and agendas for Pensions Committee meetings has also been reviewed, to ensure there is adequate time for discussion and training at each meeting.

The eight meetings available each year have been changed so four focus on investment and responsible investment, and four meetings focus on administration and governance. Each meeting will also include an element of training and presentations/updates from external providers, including investment managers. Both these changes will be fully implemented in 2023/24.

Specifically in terms of stewardship, the following activities have been undertaken across the year:

- Workshops with Border to Coast on Responsible Investment (RI) policies culminating in approving the Border the Coast policies and aligning our own policies;
- Workshops with Border to Coast on wider RI issues, including net zero target setting, science-based pathways and net zero frameworks;
- Working with our private market manager to better understand and challenge how they consider, implement and report on RI matters;
- Expansion of the quarterly stewardship report to include ESG and carbon metrics on our equity and fixed income funds managed by Border to Coast; and
- Voting and engaging on key issues with a wide range of global companies, through our asset pool and LAPFF.

Areas for improvement in the stewardship activities undertaken by the Fund are highlighted in the action plan at appendix A.

PRINCIPLE 1: Purpose, investment beliefs, strategy & culture enable stewardship that creates long-term value for employers & beneficiaries leading to sustainable benefits for the economy, the environment and society

Activity:

The Fund's policies are the mechanism through which it expresses and implements its investment beliefs, strategy, and culture. They provide the framework for effective governance and stewardship – both of Fund assets and of the Fund as a whole. The Fund considers that having investment beliefs clearly defined assists it to choose managers and other service providers whose approach is most closely aligned to our own. These beliefs were developed through facilitated decision-making which challenged Committee members to consider investment and RI beliefs, to develop a strategy for the long-term benefit of the Funds employers and members.

The Fund formally reviews its Investment Strategy Statement and other policies annually in March to ensure that they remain fit for purpose (i.e. continue to reflect the Fund's purpose and investment beliefs as well as meeting regulatory requirements). It also provides an opportunity for the Committee to discuss and reflect on the current policy and consider if any changes are required. Details of the review of the policies in March 2022, in preparation for the year ended 31 March 2023, can be found at agenda item 11 in the [Committee Papers](#).

The investment beliefs and the responsible investment beliefs were reviewed in a training session held in February 2022. This involved a three-hour session facilitated by the Investment Consultant, exploring in depth whether the current sets of beliefs were still representative of the Committee's views, and challenging them to ensure that they could be translated into an investment strategy. The revised beliefs were approved by the Committee in March 2022 (the final beliefs can be found at item 10 in the March [Committee Papers](#)). The Fund's investment beliefs will be reviewed periodically to ensure that they continue to represent the views of the Committee.

The Pensions Committee, whilst being a political Committee under Local Government Regulations, is regularly reminded of its fiduciary duty to the scheme beneficiaries rather than to the Council or the elected members' constituents. Induction training is mandatory for all new members of the Pensions Committee to ensure that beliefs and culture are understood and embedded.

The Committee monitors the responses to the members satisfaction surveys carried out by the administration provider. These are reported to the Committee quarterly.

Outcome:

The Committee reviewed and updated its Investment Beliefs at the beginning of 2022. These are detailed in the ISS. As part of the review an overarching statement across the investment beliefs was added, stating:

It is recognised that environmental, social and governance (ESG) issues are important to the long-term success of the Fund, and the Committee aims to integrate consideration of these issues into all aspects of the Fund's investment arrangements.

The full detail on the beliefs can be found at item 10 in the [Committee Papers](#), however after much discussion and debate, only one amendment was made to the RI Beliefs which is set out below with reasoning:

Belief 2: The Committee considers that company engagement, rather than disinvestment, is the better approach to fulfilling their responsible investment objectives. However, should a company not respond to engagement, disinvestment should be considered.

Disinvestment on a whole sector basis is not within the Committee's beliefs. Disinvestment is a blunt tool that is not believed to provide the best outcomes over the medium to long term. The Fund will, through its managers and other organisations, engage with companies to bring change, but will consider company disinvestment if engagement fails. While disinvestment on a whole sector basis is not considered appropriate, the Fund will not invest in companies whose products do not comply with the Geneva Convention.

This has been amended to change "could" to "should" on the consideration of disinvestment in companies not responding to engagement. In addition, the line in the narrative on companies not complying with the Geneva convention has been added.

Following the addition of an academies sector representative to the Pensions Committee, one-to-one training was delivered by the Head of Pensions before their first Committee meeting in March 2023. The training covers all aspects of managing the pension fund, including their fiduciary duty responsibilities.

The Pensions administration service reports show that generally scheme members are happy with the service received. The 2022/23 Fund Annual report showed the satisfaction levels across the four previous survey periods, and is shown below:

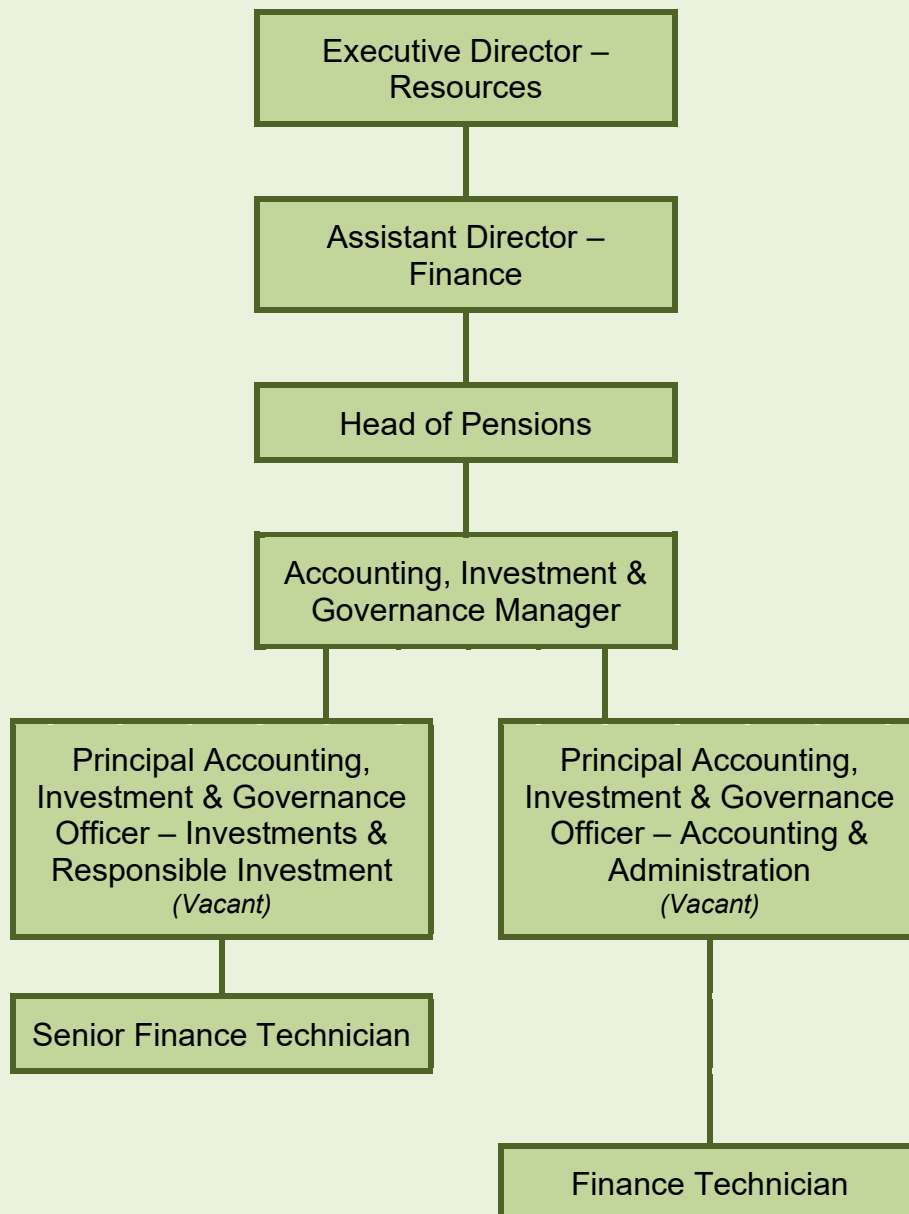
April – June 2022	July – Sept 2022	Oct – Dec 2022	Jan – March 2023
80.2%	90.4%	81.3%	89.9%

PRINCIPLE 2: Signatories' governance, resources and incentives support stewardship

Activity

As is fully detailed in the background, Fund governance is the responsibility of the Pensions Committee, as set out within statute. To assist the Committee in discharging their responsibilities, quarterly meetings are held which provide various reports to enable them to have oversight and challenge across all areas of the Fund, including investments and responsible investment.

The structure of the internal team responsible for the management of the Pension Fund is shown below:



The Head of Pensions is responsible for the day to day management of the Fund, and the Accounting, Investment and Governance Manager works closely with her and is responsible for stewardship monitoring and reporting. Details of the experience of the key

Activity

personnel are shown in the background, under Fund Governance. There is no performance management or reward system in place at the Council.

The structure was reviewed in early 2022, and a new post was established to enable more time to be spent on monitoring managers and their stewardship activities, in addition to providing other support in the team. Recruitment to this was undertaken during the summer of 2022, however this was not successful. The candidates did not have sufficient experience and knowledge to successfully undertake the role. The role was reviewed and was split into two posts, one focusing on investments and responsible investments, and the other focusing on accounting and fund administration. They have been established as training posts to allow candidates to develop into the roles once appointed. Recruitment to these posts will be undertaken later in 2023.

As the internal team is very small, the Fund operates an external manager structure, with all assets managed externally and with the Fund using expert professional services to support its stewardship activities:

- Border to Coast, the Fund's asset pool which invests on its behalf, have a dedicated and growing team working on RI matters for all pooled investments, from tendering and selecting managers, to ongoing monitoring once a manager is selected and supporting industry wide initiatives. Border to Coast's Stewardship report can be found on its website at [Responsible Investment - Border To Coast - Sustainable Pension Investments](#);
- Robeco, who are the pool's appointed voting and engagement specialist, provide professional stewardship services to the Fund for the investments held with Border to Coast; and
- The Local Authority Pension Fund Forum (LAPFF), is a sector wide group with membership from 87 local authority pension funds (with assets valued at £350bn) and seven LGPS pooling companies. LAPFF acts for its members on engagement with companies, providing voting alerts, collaborating with others to increase the voice of shareholders and responds to consultations.

The Fund has established annual RI processes which allow the Committee to have the opportunity to contribute to the direction of RI work for the Fund. Quarterly activity reporting then allows the Committee oversight of activities undertaken. The process starts in December with the review and approval of RI and Voting policies. The policies relate to all Fund investments and are aligned with Border to Coast policies to ensure a consistent application across all Fund assets. The Committee also reviews key policy documents in March to ensure they reflect the current views of the Fund. The Fund then reports RI activity to the Committee on a quarterly basis to highlight the stewardship activity undertaken over that period, to provide assurance and to give the opportunity to review and challenge the work undertaken on the Fund's behalf.

The Pensions team within the Council is very small. All appointments have been made through the Council's recruitment process, which monitors diversity across the Council. The Council has a [diversity and inclusion policy](#) and encourages a supportive and inclusive culture. The Council believes: *People from different backgrounds, cultures and experiences bring value to the workplace and we believe that diversity and inclusion bring benefits. We work better and improve services if we have a supportive*

Activity

environment. By respecting these differences, colleagues, customers, communities, and other stakeholders can feel valued.

Within the Pensions team, there are currently two females and two males. The make-up of the Pensions Committee, as set out in the background, is taken from elected members, scheme employers and a scheme member representative. Diversity of backgrounds and opinions is brought into the Committee as Councillor members come from different political groups, with wide-ranging life and career experience. In addition, the co-opted members come from various backgrounds reflecting the views of employers and scheme members.

The Council encourages diversity across the Councillor members, however, the Pension Fund has no influence over council candidates and committee members.

Outcome:

The Fund has a clearly defined and documented set of [RI policies](#) that it works to, which are published and available to all stakeholders. They are aligned with Border to Coast's policies so that we are all working towards the same aims and objectives. They were last approved by the Committee in December 2022.

The quarterly [Responsible Investment Update Report](#) continues to be developed to allow members of the Committee greater opportunity to review stewardship activity undertaken on its behalf, and influence the work of the Fund. The report covers the work of LAPFF, Border to Coast, Robeco and Legal and General Investment Management on stewardship matters. In addition to this the report covers voting information and we have been able to move the ESG and carbon information for the Funds two equity funds and the sterling investment grade credit fund, managed by Border to Coast, into this public paper.

The governance approach to support stewardship by using external professionals and the group weight of either Border to Coast partners or LAPFF ensures that maximum impact is achieved through the engagement and research done by professional experts. The Fund operates with a small internal team covering all Fund matters from investments to administration to governance. It believes that the use of external experts in this field provides the best use of resources for the Fund. It also allows the Fund to have a greater impact, as by working with others the Fund has a larger profile when approaching the market and individual companies.

The Committee meeting structure was reviewed during 2022/23 to allow more time for the Committee to discuss, amongst other things, stewardship issues and actions. Under the new arrangements there will be four meetings looking at investments, responsible investment and stewardship, and four meetings for administration and governance. Each meeting will include an element of training. The changes were approved by the Committee at its meeting in December 2022 and implemented from April 2023.

Recruitment to the new post identified as part of the structure review, a Principal Investment, Governance and Accounting Officer, was unsuccessful. A further review has

Outcome:

been undertaken to create two career grade posts to grow employees into the role. It is expected that this will be recruited to later in 2023.

PRINCIPLE 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first

Activity:

The make-up of the Pensions Committee is mainly County Councillors, who are elected to serve their constituents within Lincolnshire; however, their role in managing the Pension Fund is to serve the beneficiaries and employers of the Fund.

All members of the Committee undertake initial training when they join the Committee. This training covers the [Code of Conduct and Conflicts of Interest Policy](#) and explains the role of the Committee to serve beneficiaries and employers. While making decisions for the Pensions Committee other political and county council considerations should be disregarded. This message is reinforced throughout the year at Committee meetings and as and when investment opportunities are discussed.

Outcome:

The Code of Conduct and Conflicts of Interest Policy is reviewed annually by the Committee and is published on the Fund's website.

The policy explains what a conflict of interest is and provides examples for Committee Members of potential conflicts. The policy stipulates that all potential conflicts of interest must be declared initially on appointment and then at each meeting of the Committee as matters arise in the normal course of business. The policy also explains how conflicts will be dealt with and resolved. The Fund also maintains a register which captures potential and actual conflicts.

Within the Conflicts of Interests Policy, Committee members are specifically required to have consideration of their stewardship responsibilities in managing the Pension Fund.

The new academies representative on the Committee was appointed and trained during the financial year. They attended their first Committee meeting in March 2023.

There may be a conflict of interest when making investment decisions if an opportunity arose in the local area. The investment might be beneficial to the local electorate, but not for the Fund. To avoid any potential conflict of interest, the Fund does not have any strategic commitment to local investment, and no local investments have been made in the 2022/23 financial year.

PRINCIPLE 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system

Activity:

The Fund conducts a full risk assessment of its activities which is reviewed annually by the Committee and Board and is published as part of the Fund's Annual Report. The annual review of the risk register considers the risk to the Fund's investments from market fluctuations, interest rates, currency, credit and failure by its investment managers, asset pool, or custodian. In addition, the Fund recognises in the register the risk to investments from ESG factors including the impact of climate change on long-term investment returns.

The Fund's foremost mitigation against market-wide and systemic risk is a well-diversified investment strategy. Therefore, it is important the Committee receives the appropriate training and that it commissions advice to be able to select from and monitor a wide variety of investments. The Fund has an appointed investment consultant for its strategic asset allocation, investment strategy and manager monitoring. During 2022/23 the Committee began the progress of reviewing its investment strategy, alongside work on the 2022 triennial valuation. Work on the investment strategy has included general training, from the investment consultant, on asset classes and the associated risks and opportunities. Following this the Committee requested detailed training on credit assets classes to inform their decision-making. Further training on equities and property is planned for 2023/24 to allow the Committee to finalise the new investment strategy,

Part of the work undertaken by LAPFF, on behalf of the Fund and other members, is at a market-wide level. During 2022/23 this has focused on company governance, and financial and climate reporting.

- LAPFF joined other investors in writing to the US Securities and Exchange Commission (SEC) on climate disclosures and supported a collaborative letter to French auditors about disclosure on material climate-related risks (reported to Committee in July 2022).
- LAPFF responded to 'A Call for Evidence' on a Sector-Neutral Framework for private sector transition plans in mid-July 2022 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 (reported to Committee in December 2022).

Russia's invasion of Ukraine

The Russian invasion of Ukraine concentrated minds on geopolitical risks and the widespread impact it had across the globe. The speed at which it happened and the shockwaves throughout global economies heightened the need to better understand and assess these risks. To address this the Fund increased its communications with managers and requested regular reporting on Russian investments and activity in companies with high exposures to Russia. In addition, consideration has been given to where similar events could occur, and wider reporting of how geopolitical risks are considered by managers in their investment decision making process has been received.

Activity:

Banking Crisis March 2023

The collapse of US firm Silicon Valley Bank (SVB) on March 10 sent shockwaves through the financial system. Although previously little-known in the UK, SVB - which was the 16th-largest US bank by deposits - had become the go-to bank for US tech startups. SVB failed after a series of interest rate hikes by central banks triggered a run on its deposits. Customers began to withdraw money over and above what was in SVB's bank reserves, causing a liquidity crisis. The failure of SVB was followed two days later by another, that of New York-based Signature Bank. Credit Suisse, had to find support from the Swiss Central Bank after it admitted it had found material weakness in its financial reporting. All this caused a sharp sell-off in banking shares.

To address this the Fund increased its communications with managers about exposures to the main troubled banks, and also the banking sector overall.

Outcome:

The Fund relies heavily on its managers and service providers to identify and respond to market-wide and systemic risks but plays a key role in challenging and questioning what they are doing, to seek assurance on their processes and procedures.

The identification and management of risk is a key part of the discussions and monitoring that the Pension Fund undertakes on a quarterly basis as a minimum.

LAPFF continues to make and support recommendations for improving company reporting to highlight market wide risks, particularly around climate change. They achieve this through engagement with policy makers, providing responses to sector-wide initiatives and through their ongoing engagement with companies.

Russia's invasion of Ukraine

The Russian invasion brought geopolitical risks to the fore, and the Fund reported on a weekly basis initially to the Committee on direct and in-direct investment exposure to Russia, then moved to monthly reporting as markets stabilised. Communication with managers was increased to fully understand the impact on the Fund and any potential wider impact due to the sanctions or price moves as a result of the situation.

- Border to Coast, the manager with the largest exposure to Russia, held a meeting with partner funds to explain the impact of the situation and what the options were, to enable discussion and involvement in the decisions to be made on those investments. It was agreed that as and when markets normalised, further discussion would be had about the actions to be taken. The Fund sought and obtained clarity on the wider risk framework around geopolitical issues and was content that it was effectively managed across all asset classes.
- LAPFF also identified the issues around oil and gas security of supply, ethics of supply and the volatility of prices highlighted by the war in Ukraine. These matters have been built into future LAPFF engagements with oil and gas companies.

Outcome:

Banking Crisis March 2023

This followed a similar process to the Russian invasion mentioned above. Manager's exposure to Silicon Valley Bank, Signature Bank and Credit Suisse were established and questions were asked of them to ensure they were responding appropriately. The situation continues to be monitored.

PRINCIPLE 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities

Activity:

The Fund has a number of relevant policies that are reviewed as detailed below:

- The Investment Strategy Statement is reviewed annually or immediately after any significant change in investment policy and contains the Fund's RI beliefs. See principle 1 above.
- The Responsible Investment Policy and Corporate and Voting Policy is reviewed annually. This is reviewed and approved by the Committee in December in advance of the start of the voting season. It is aligned with the Border to Coast policies to ensure consistency across all holdings.
- The Conflicts of Interest Policy is reviewed annually. See principle 3 above.
- The Training Policy is reviewed annually, and a training plan approved each year in July.
- The Risk Management Policy and Risk Register are approved annually and any changes to the risk register are reported to the Committee on a quarterly basis.

The Fund receives quarterly reports on stewardship activities undertaken by Border to Coast, Robeco, LAPFF and LGIM, including engagement and voting activity, along with ESG and carbon metrics information. This is presented quarterly to the Pensions Committee for discussion.

The Fund sought assurance from the reporting it received from managers on their stewardship activity. Specifically, the Fund has engaged with its private market manager during 2022/23 to gain a better understanding of how they integrate stewardship and responsible investment thinking into the selection and monitoring of investments made on our behalf. Fund officers and the Pensions Committee now receive more detailed information on this as part of the regular reporting received from the manager.

Outcome:

Policies have been reviewed at least annually. This ensures that they are kept up to date and are regularly considered by the Committee, which ensures that the policies continue to reflect their views on the direction of the Fund.

Work on RI and Stewardship policies starts in advance of their review and approval by the Committee in December. During the year Fund officers work with Border to Coast to identify what is important to each Fund and how this should shape the direction of the Pool and Fund RI policies. In addition to this, work is undertaken with the Joint Committee to identify their priorities. This information is important to ensure all Funds can support and will approve aligned RI policies. This streamlines the activities undertaken by Border to Coast.

During 2022/23 the Fund fully reviewed and updated its risk register to reflect the most up to date thinking in this area. The focus of the register is on documenting risks which are a genuine threat to the Fund and are being actively managed, and removing risks that are accepted and are being managed by routine work and activities. In doing this the Fund reviewed all aspects of its work, including: governance, investments, funding, operational and people risks.

The Fund has reviewed the Stewardship Code Statements from its key asset managers, Border to Coast, LGIM and Morgan Stanley, to receive assurance that their reporting is fair, balanced, and understandable, which in turn enables the Fund to report that way. All managers have been successful in their submissions to the FRC.

PRINCIPLE 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them

Activity:

Communication and feedback from scheme members and employers are undertaken in a variety of ways:

- Annual employers meeting;
- [Scheme member newsletters](#);
- Consultation with employers on key policy documents;
- All Committee and Board Meetings are open to members of the public and papers are published and available for review;
- The Fund publishes an [Annual Report](#) containing up to date details of investments and stewardship;
- [Key policy documents](#) are published on the Pension Fund website;
- Contact details for the Fund are also published for any comments from scheme members or employers;

Activity:

- Direct contact with scheme members and employers; and
- Direct representation, with full voting rights, on the Committee and Board of scheme members and employers other than the County Council.

The [Autumn 2022](#) Scheme member newsletter invited all our scheme members to contact us with their views, as set out in the extract below:

Stewardship and responsible investment are an integral part of the fund's investment strategy and decision making, and the fund works closely with Border to Coast to ensure that it invests in a sustainable way. Through Border to Coast, and also in its membership with the Local Authority Pension Fund Forum (LAPFF), the fund engages with companies on key environmental, social and governance issues, such as carbon reduction, executive pay, human rights and fair accounting. We were successful in meeting the requirements of the Financial Reporting Council (FRC) in submitting our Stewardship Code Statement for 2020/21, which can be found on our shared website.

The fund is always keen to hear its members' views on stewardship and responsible investment, so please contact us at pensions@lincolnshire.gov.uk with any comments you may have.

This was considered to be the most economical way of reaching out to all the 79,500 scheme members.

As detailed in the background, the investment time horizon is 20 plus years, and that is on a rolling basis, as the Fund is open to new members who may not be receiving their pension for another 50 years or more. Given the long-term relationship that scheme members have with the Fund, the Fund tries to ensure that members are aware of how their pension is invested and managed.

As is also stated, the risk of investment decisions sits solely with the employers, in that their contribution rates will rise if returns are below that required. Scheme members' benefits are set out in statute and fully guaranteed, so whilst consideration of their investment preferences is given, and the Fund communicates how it manages its stewardship responsibilities, the main objective is to ensure returns are sufficient to meet the long-term liabilities without large increases in employer contribution rates.

Outcome:

The annual employer meeting was held virtually on 21 February 2023. The Fund updated included details on Stewardship and Responsible Investment. These are interactive meetings where all employers can question, challenge and input into the direction and activities of the Fund.

Membership of the Committee and Board includes employer and scheme member representatives. Through the Committee and Board meetings held over the year, these representatives have had the opportunity to input into and comment on the fund's stewardship and investment approach.

Outcome:

The Fund is happy to engage with employers and scheme members on an ad hoc basis to provide additional information on Stewardship matters. Such responses are reflected on and used to consider the development of wider future communications.

One example of such questions was received in July 2022, when a question came from an employer following a report from LGPS Divest about the LGPS's investments in Israel, specifically what the Pension Fund's policy was on any such investments. A response was provided as set out below:

The Pensions Committee takes responsible investment very seriously and invests within the guidelines set out in regulations and guidance from the LGPS Scheme Advisory Board (SAB).

In November 2019, the LGPS Scheme Advisory Board (SAB) drafted guidance for Responsible Investment in the LGPS, to clarify the parameters within which investment decisions can be made with regard to the integration of ESG (Environmental, Social and Governance) factors. Following feedback, SAB decided to take stock until more is known about the government's position on the proposed climate change provisions in the Pension Schemes Bill and the implications of the Supreme Court's judgement involving the Palestine Solidarity Campaign. We are still awaiting this guidance.

The Fund has a number of documents on its shared website setting out how it invests, its investment and responsible investment beliefs and what considerations are taken into account. These can be found at <https://www.wypf.org.uk/publications/policy-home/lpf-index/>.

The employer was content with the response.

The request set out within the Autumn 2022 newsletter for views from scheme members received no responses, despite it being sent to all 79,500 scheme members. This has therefore not proved to be an effective method to encourage feedback. The Fund is working with its administrators to see what methods might encourage more engagement.

PRINCIPLE 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities

Activity:

The Fund's responsible investment beliefs and approach to assessing investments are included within the [Investment Strategy Statement](#). This core policy document explains how the Fund seeks to systematically integrate stewardship and investment to fulfil its responsibilities. The Committee believe that, as long-term investors, integrating environmental, social, and corporate governance considerations into the investment management process improves risk adjusted returns and creates long term sustainable investments.

To support this, the Committee reviewed its Investment and RI Investment beliefs, as set out in principle one, during 2021/22. As part of this process the Committee undertook an

Activity:

in-depth consideration of its general investment beliefs and its RI beliefs, receiving training and completing a comprehensive survey to develop these principles. This exercise will be repeated periodically to ensure the beliefs remain up to date and reflect the Committees current views.

The Fund invests in a wide variety of asset classes across a number of investment managers, but predominately with Border to Coast who currently manage all actively managed equities and bonds. The Fund has worked with Border to Coast and other partner funds to formulate the company's approach to responsible investment and to ensure that it is aligned to the policies of the partner funds (including Lincolnshire). The Fund's RI Policy states that when analysing potential investments (across all funds, asset classes and geographies), they expect investment managers to consider ESG factors, including climate change, as an integral part of the investment decision-making process. Of particular relevance are factors which could cause environmental and reputational risk ultimately leading to a reduction in long-term value.

The Fund considers the ESG credentials, policies, and procedures as part of the appointment process for all prospective managers with the aim of ensuring that ESG is well established in the managers appointed. The Committee requires that all asset managers report on stewardship and ESG matters on a regular basis and be responsive to any queries. The Fund monitors the asset manager's stewardship activities, including their involvement in collaborative engagement activities, such as supporting the Transition Pathway Initiative, and Climate Action 100+.

The monitoring of appointed managers by Border to Coast includes assessing stewardship and ESG integration into the investment process and on-going management of the investments held in accordance with the approved policies. The Fund then monitors Border to Coast to ensure that it is fully integrated through quarterly reporting, quarterly meetings, and the annual report. In addition, partner funds are heavily involved in the development of new funds, having sight of the appointment process for managers and the due diligence undertaken.

Outcome:

Border to Coast's work during the year included improving their process of ESG integration and investment stewardship alongside training for the Border to Coast Board, the Joint Committee and Partner Fund pension committees and officers on a range of RI and stewardship-related topics. More detail can be found in their [RI and Stewardship Report](#) for 2022/23.

Below are some examples of the outcomes from manager engagement with the companies, showing how incorporating ESG factors into investment decisions and on-going monitoring can achieve positive benefits for the Fund and therefore its clients and beneficiaries:

**Border to Coast – Engagement Theme: water and water management.
Engagement with water utility companies (Sterling investment grade credit fund)**

Outcome:

- **Reason for engagement:** The UK water utility sector faces significant financial and reputational risk with regular negative media coverage of sewage pollution into rivers and seas, and water and sewerage companies receiving a record amount in fines for pollution incidents in 2021. Ofwat has the power to issue fines up to 10% of a company's turnover and order companies to return to compliance, and the Government has announced plans to allow the Environment Agency to impose sanctions more often without lengthy court cases.

In January 2023, Border to Coast joined a collaborative engagement initiative led by Royal London Asset Management (RLAM) with the water utility sector in the UK.

- **Objectives:** The aim is to improve practice, define best practice and encourage a faster pace of change in companies persistently lagging. Specific areas of focus include water pollution, climate change mitigation and adaptation including nature-based solutions, biodiversity, circular economy, antimicrobial resistance, governance and industry collaboration.
- **Scope and process:** Border to Coast is leading the collaborative engagement with Yorkshire Water, and the first exploratory meeting took place in March 2023. They will also support engagement with all 10 of the other water utility companies covered by the engagement programme. All eleven water utility companies are held by Border to Coast in the Sterling investment grade credit fund.
- **Outcome:** The engagement is in its early stages.

Border to Coast – Engagement Theme: diversity of thought. Engagement with Accenture plc (global equity alpha fund)

- **Reason for engagement:** Accenture is a professional services company, providing strategy and consulting services globally. Discussions were held to assess Accenture's progress on both gender equality and diversity more broadly.
- **Objectives:** The scope of the meeting was driven by the integration of diversity and inclusion goals into its new growth model that was announced to investors in April 2022.
- **Scope and process:** During the meeting, the Company outlined the steps it is taking to help meet its stated goal of achieving gender parity. Specifically, promotions are expected to play a key role in furthering the careers of women within the Company.
- **Outcome:** In 2022, over 1,000 managing directors were promoted, with female employees constituting 37% of those and 29% of the Company's managing directors are now women, approaching its goal to grow the percentage of female managing directors to 30% by 2025.

The Company is also aiming to boost diversity more generally through its apprenticeship program, which provides alternative access into entry-level roles that traditionally required a four-year degree. Accenture appears to be taking steps to increase diversity across both its workforce and leadership in both the short and long-term, however engagement will continue with the Company on

Outcome:

developments and publication of interim progress.

Morgan Stanley Private Markets - Pre-investment engagement with companies.

In selecting investment opportunities for our portfolio, they consider ESG policies, whether these can be developed or further policies implemented to ensure sustainable growth, and measure scope 1 to 3 carbon emission to identify opportunities for decarbonisation.

PRINCIPLE 8: Signatories monitor and hold to account managers and/or service providers

Activities:

The Fund monitors its investment managers and service providers, to hold them to account in the following ways:

- Asset managers provide monthly and quarterly performance reports which are received and reviewed by fund officers. Review here includes compliance with investment management agreements.
- Quarterly investment performance is reported to the Pensions Committee, highlighting any concerns. Where a manager's performance raises concern more frequent information is shared with the Committee.
- Annual presentations to the Pensions Committee and a three-year review period from all asset managers managing significant allocations in the fund, including an update of stewardship activities undertaken.
- Quarterly stewardship activity is reported to the Committee for review and challenge. The report covers all aspects of stewardship activity for our largest managers. Including:
 - Voting reports, case studies and details of where investment managers have voted against company recommendations;
 - Engagement activities and outcomes; and
 - ESG ratings and carbon metric reporting and investment case studies have been added to the report. This allows the Committee to understand the performance of investments from this perspective in addition to the traditional returns monitoring.

The report also updates the Committee on work undertaken by LAPFF on our behalf. Industry, regulatory and sector developments in stewardship and responsible investment are also reported.

- Investment Consultant and Investment Advisor are monitored regularly against an agreed set of objectives.
- Border to Coast provide an advisory service to monitor the engagement and voting activity of LGIM, as one of the Fund's investment managers.

In addition to the above, as a partner fund within Border to Coast, further work is undertaken on our behalf in monitoring service providers to the pool. This includes:

- Provision of responsible investment and engagement support across all pooled investments (for example review of carbon content within portfolios).
- Analysis of voting records on a monthly basis and reporting of any variances to agreed policies by a third-party voting advisor.

Outcomes:

The Committee have effectively considered and challenged all aspects of manager performance during the year. Focusing particularly on stewardship activity, the Committee have considered the cost-of-living crisis and the impact that might have on company net zero targets (March 2022), and how the US anti-ESG movement might affect company decision-making and if this could spread to the UK and Europe (January 2023). Throughout the year investment managers have been scrutinised on how ESG factors are built into investment decision-making.

During 2022/23 the Fund appointed a new Investment Consultant. A working group was established including members from the Pensions Committee and senior officers from the Fund. The working group considered important characteristics and work for the new appointee, contributed to tender documentation, and then assessed tender responses. In addition to the traditional advice provided, the Fund has enhanced requirements to help the Committee challenge investment manager on all aspects of performance and assist in developing RI, climate, and net zero plans.

The advisory agreement with LGIM was completed in 2021/22, with the first annual report received as of 31 March 2022. Border to Coast provided reassurance to the Committee that they were content with the quality of the processes and activity undertaken.

PRINCIPLE 9: Signatories engage with issuers to maintain or enhance the value of assets

Activity:

All investment management activity is delegated to external investment managers. The Fund's RI policy sets out its expectations of managers, as shown below:

- Assess their portfolios in relation to climate change risk where practicable.
- Incorporate climate considerations into the investment decision making process.
- Engage with companies in relation to business sustainability and disclosure of climate risk in line with the Financial Stability Board's Task Force on Climate related Financial Disclosures (TCFD) recommendations.
- Encourage companies to adapt their business strategy in alignment with a low carbon economy.
- Support climate related resolutions at company meetings where they reflect our RI policy.
- Encourage companies to publish targets and report on steps taken to reduce greenhouse gas emissions.
- Use the Transition Pathway Initiative (TPI) toolkit to assess companies and inform company engagement and voting.

Activity:

- Vote against company Chairs in high emitting sectors where the climate change policy does not meet minimum standards, and/or rated Level 0 or 1 by the TPI, where there is no evidence of a positive direction of travel.
- Co-file shareholder resolutions at company AGMs on climate risk disclosure after due diligence, that are deemed to be institutional quality shareholder resolutions consistent with our RI policies.
- Monitor and review their fund managers in relation to climate change approach and policies.
- Participate in collective initiatives collaborating with other investors including other pools and groups such as LAPFF.
- Engage with policy makers with regard to climate change through membership of the Institutional Investor Group on Climate Change (IIGCC).
- Report on the actions undertaken with regards to climate change on an annual basis.

Engagement activities are a regular feature of the monitoring of the Fund's investment managers by the Fund's officers, and by the Committee through the quarterly RI Update report.

Outcome:

Examples of stewardship activities that have been published and reported to the Committee:

- During the year, LAPFF undertook engagements with companies covering: climate change, human rights, governance, employment standards, environmental risk, audit practices and finance and accounting. The outcomes of these engagements are reported to the Committee on a quarterly basis.

In July 2022 and March 2023 progress on the engagement with **Chipotle** was reported:

- **Reason for Engagement and Objectives:** To encourage the company to undertake a full value chain water risk assessment.
- **Scope and Progress:** LAPFF has been engaging with Chipotle on the company's approach to water stewardship for three years. After a period of heightened engagement, including a LAPFF member filing a resolution on this matter ahead of the Chipotle's 2022 AGM, and following discussions between LAPFF and the company, an agreement was reached that would see the resolution withdrawn from the ballot. The withdrawal was conditional upon formal commitments being made relating to the company's water stewardship programme.
- **Outcome:** LAPFF held a follow-up call with Chipotle to measure progress against LAPFF's initial asks. In response to the resolution, the company has

Outcome:

completed a materiality assessment covering ingredients, its supply-chain, and restaurants.

Given the company now has a better understanding of the water related risks facing the business, the next phase of the stewardship plan is to develop context-based targets that relate specifically to areas of the operations under high water stress. LAPFF will continue to work with the company to develop these goals.

In July 2022 progress was reported on the engagements with mining companies on all aspects of ESG, including engagement with **Freeport McMoran**:

- **Reason for Engagement and Objectives:** LAPFF was keen to meet with Freeport McMoran to better understand their approach to engaging with affected communities.
- **Scope and Progress:** As LAPFF had not met with the company before, the meeting was introductory to a large extent. However, LAPFF was pleased that within the first 15 minutes of the conversation, the topic of free, prior and informed consent was raised in the context of how important relationships with Indigenous communities are. Given LAPFF's mining and human rights report and the fact that Freeport has faced recent accusations of problems in community relations at its Emma B operations in New Mexico, it was helpful to hear the company's approach to community engagement. There was also a discussion about corporate governance in light of a number of recent board changes.
- **Outcome:** LAPFF is keen to engage further with Freeport McMoran on its approach to community engagement and to build an engagement relationship, similar to those it has established with other major mining companies.
- Border to Coast publish quarterly stewardship reports and an annual responsible investment and stewardship report setting out the engagement activities they, and Robeco as their engagement and voting partner have undertaken on our behalf.
 - **Engagement with an educational material provider (Multi-Asset Credit)**

Reason for Engagement: The Company provides educational materials throughout Europe. During a recent review, a social risk was identified due to the Company's outsourcing of printing and folio-binding activities to the Far East.

Objective, Scope and Process: Senior management were engaged with to encourage improved disclosure of the Company's supply chain and to obtain details on how they monitor and audit their operations to ensure compliance with local labour rules. Initially, management was unable to provide examples of previous measures taken to protect labour rights. However, they subsequently committed to a full supply chain review and to disclosing findings and any policy improvements to lenders.

Outcome:

Outcomes: Following the engagement, Border to Coast feel comfortable to continuing to invest in the Company because of management's willingness to review and improve internal processes.

Ongoing dialogue will continue with management to ensure that progress is made towards these objectives.

- **Engagement with Enel Spa (Sterling Investment Grade Credit Fund)**

Reason for Engagement: Enel is an Italian multinational manufacturer and distributor of electricity and gas, and its predominant shareholder is the government of Italy. The Company is amongst the highest emitters across our fixed income assets.

Objective, Scope and Process: Engagement has been carried out under the CA100+ initiative for several years and, recently, significant improvements have been seen in the Company's emissions reduction targets, transition plan, and climate policy advocacy.

Outcomes: Key actions taken include the Company obtaining external verification by the Science-Based Targets Initiative (SBTi) on its emissions reduction targets alignment with a 1.5°C scenario, committing to phase out thermal power generation (coal and natural gas) and exit gas sales to customers, and aligning its capital investments with its net zero targets. Enel has also disclosed its first industry association review to ensure that its climate policy engagement (direct and indirect via industry associations) is consistent with the goals of the Paris Agreement. This progress has been recognised by the CA100+ initiative's Net Zero Benchmark disclosure assessment by becoming the first and only company assessed to fully meet the Disclosure Framework criteria in 2022.

Legal and General Investment Management Future World Fund: the quarterly fund stewardship report also includes high level details of the stewardship activity they undertaken and links to their quarterly firm wide ESG Impact Report and ESG metrics for the Future World Fund. Information includes statistics on votes cast against management and companies engaged with.

During the year, within our **private markets** portfolio, the investment manager has worked to encourage a supply chain company to develop their supply chain and risk management software, mapping their carbon emissions and improving the visibility of their emissions. The company has improved their understanding of financial, sustainability and reputational risk, and have been able to generate cost savings through lower fuel costs, faster arrival time, and reduced carbon emissions per shipment. It is expected that this will generate significant avoided emissions in the future.

PRINCIPLE 10: Signatories, where necessary, participate in collaborative engagement to influence issuers

Activity:

As explained above and in the Fund's RI policy, all investment management activity is delegated to external investment managers. As part of this delegation the Fund's investment managers are able to decide if collaboration with other investors will benefit the engagement activities they carry out of the Fund's behalf.

Furthermore, through Lincolnshire's membership of the Border to Coast pool, the eleven partner funds have collectively pooled around £60bn of assets. Border to Coast is collaborating on RI activities through a unified RI policy and Corporate Governance and Voting guidelines which set the framework for the investment managers and enable them to utilise the combined weight of capital of the Border to Coast partner funds, to positively engage with the companies they invest with. Beyond the partner funds, Border to Coast collaborates with other investor groups to increase their influence.

In addition, the Fund's membership of LAPFF, representing around £350bn in assets under management, provides an effective means of collaboration. LAPFF itself is open to discussing any other forms of collective action with other investors and groups, expanding their reach.

Outcome:

The Fund monitors its investment managers' engagement activities through regular reports and discussions and welcomes instances where it sees its investment managers working with other investors.

Collaborative engagement activities at **Border to Coast** during the last year have included:

- Quarterly Responsible Investment workshops with partner funds which work collaboratively to consider RI issues and coordinate responses to maximise the impact of the Partner Funds. At these workshops current RI issues and engagements are discussed and proposed responses to consultations and initiatives shared. There are opportunities to share resources to maximise the impact of partner funds and Border to Coast through a collaborative approach to our shared interests.
- Border to Coast, on behalf of the partner funds, is partnered with a number of organisations including: LAPFF, on a range of issues; Climate Action 100+, the 30% Club which promotes board and senior management diversity; the Workforce Disclosure Initiative; the LGPS Scheme Advisory Board Code of Transparency; the Institutional Investor Group on Climate Change; and the Investor Mining and Tailings Safety Initiative.
- **Global Investor statement on the climate crisis:** In September 2022, Border to Coast, along with 530 other investors, signed the 2022 Global Investor Statement to Governments on the Climate Crisis. The statement urges governments to implement policies consistent with a just transition limiting global temperature rise

Outcome:

to 1.5°C, proposing policies such as medium and long-term climate strategies, transitioning energy away from fossil fuels, ending deforestation, bolstering climate finance and strengthening disclosures.

- **Modern Slavery:** In January 2023, Border to Coast joined the 'Votes Against Slavery' initiative led by Rathbones and co-ordinated through the PRI Collaboration Platform. This collaborative engagement aims for radical improvement in supply chain transparency through s54. Failure to comply results in votes against the annual report and accounts. There were 38 companies from the FTSE 350 identified as non-compliant and requiring engagement ahead of AGM season which, if not responsive would lead to collective votes against their annual report and accounts. Of these companies, Border to Coast invested in 12. Following engagement, eight of the 12 companies owned by Border to Coast have acted to become compliant with s54.

Collaborative engagement activities undertaken by **LAPFF** have included:

- During the first quarter of 2022/23 LAPFF joined other investors in writing to the SEC referencing its upcoming Climate Disclosure Rulemaking. Co-ordinated by the US 'As You Sow' organisation, correspondence underscored the importance of requiring verified Scope 1 through 3 value chain carbon emissions-reporting with an emphasis on Scope 3 verified reporting.
- LAPFF, alongside other lead investors, working with the Investor Initiative for Responsible Care organised by UNI Global, have contacted Real Estate Investment Trusts (REITs) working within the nursing home sector. The letter highlighted the EU Care Strategy and aimed to further the work of the coalition. The coalition includes 130 institutional investors with \$3.8 trillion in assets. It aims to improve employment and care standards to protect shareholder value.

By investing with **LGIM** in their Future World Fund, our investments there are subject to the extensive stewardship and active owner initiatives they operate at a firm level. They collaborate with other stakeholders and policy makers.

PRINCIPLE 11: Signatories, where necessary, escalate stewardship activities to influence issuers

Activity:

The Fund sets out in its RI Policy how it expects its investment managers to take the appropriate action when operating on its behalf engaging in stewardship activities, this includes actions to escalate their approach when appropriate.

Outcome:

The Fund monitors its investment managers' engagement activities through regular reports and discussions and expects its investment managers to take the appropriate action when operating on its behalf engaging in stewardship activities, this includes actions to escalate their approach when appropriate.

The Fund has clear escalation expectations of its managers, should engagement not lead to the desired result. This is set out in its RI policy, which is aligned to that of Border to Coast. The Funds policy on escalation is:

The Fund (LPF) believes that engagement and constructive dialogue with companies is more effective than excluding companies from the investment universe. However, if engagement does not lead to the desired result, escalation may be necessary. LPF expects its appointed investment managers to monitor engagement activities and where progress is not made within a reasonable timeframe, then to escalate the process. This could be addressed in a number of ways: by conducting collaborative engagement with other institutional shareholders; registering concern by voting on related agenda items at shareholder meetings; attending a shareholder meeting in person and filing/co-filing a shareholder resolution. Where the investment case has been fundamentally weakened, LPF expects its appointed investment managers to sell the company's shares.

LAPFF undertakes initiatives and issues voting alerts to members to escalate issues where they believe the engagement previous undertaken has not sufficiently advanced company actions. During 2022/23 this has included:

- The launched of two major initiatives to escalate engagement. The first was relating to climate change and second human rights. The climate change initiative was an extension of its work on 'Say on Climate'. Voting alerts were issued by LAPFF to ensure companies set meaningful corporate climate strategies and initiatives. The human rights initiative was a visit by the LAPFF Chairman to communities affected by the Mariana and Brumadinho tailings dam collapses in Minas Gerais, Brazil.
The success of the 'Say on Climate' initiative will be assessed for its role in encouraging companies to take climate measures in line with the Paris Agreement, and the trip to Brazil will be assessed for its role in speeding up reparations for affected communities.
- Issuing voting alerts for major technology companies. Amazon, Meta Platforms, and Alphabet all faced a slew of shareholder resolutions in 2022. These technology firms were selected for LAPFF voting alerts to highlight particular ESG concerns. The topics of the resolutions covered a range of issues, including lobbying, climate, and board accountability. However, an overwhelming number of resolutions covered human rights, including labour rights.

Border to Coast believe that: should engagement not lead to the desired result or where there is a lack of responsiveness or progress by the company, it may be necessary to escalate. This may be addressed by conducting collaborative engagement with other institutional shareholders, registering concern by voting on related agenda items at shareholder meetings, attending a shareholder meeting in person and filing/co-filing a shareholder resolution. If the investment case has been fundamentally weakened, the decision may be taken to reduce or sell the company's shares.

Outcome:

During 2022/23 examples of action taken include:

- Collaborative engagement with others: Border to Coast joined a collaborative engagement lead by RLAM with the UK water utility industry (further details on this activity are set out at principle 7).
- Voting activity: Border to Coast voted against the re-election of the Chair of the nomination committee at Costco Wholesale Corporation (the operator of a chain of cash and carry membership warehouses globally). In line with the stance on improving diversity in leadership positions, the expectation in developed markets without relevant legal requirements is for Boards to be composed of at least 33% female directors, this is not the case for Costco. The re-election of the Chair of the nomination committee saw a vote against management of over 18%, highlighting an increasing investor focus on gender diversity amongst senior leadership. Where practical to do so, Border to Coast also aim to contact companies to explain why they voted against management and their minimum expectations.

LGIM operate a number of escalation options. Setting out expectations and then voting on these, as well as making public pre-declarations of voting intentions and publishing the rationale for votes cast against management. They have also found using shareholder resolutions can be an effective escalation tool. LGIM also operates an exclusion list of companies who do not meet their requirements for: involvement in the manufacture and production of controversial weapons, perennial violations of the United Nations Global Compact (UNCG), an initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies and involvement in mining and extraction of thermal coal, thermal-coal-power generation and oil sands.

PRINCIPLE 12: Signatories actively exercise their rights and responsibilities

Activity:

Exercising rights and responsibilities is fundamental to improving investment outcomes. Rights exist primarily through shareholdings but can be derived through other means. When making an investment, the associated rights and responsibilities are clearly understood by the Fund and its investment managers from the outset.

As an indirect asset owner, the Fund requires external managers to make best use of these rights so that its responsibilities are fulfilled to the greatest effect. As mentioned in previous principles, external managers are required to report on how they have actively exercised their rights and responsibilities.

The Border to Coast voting policy is reviewed each year considering developing corporate governance standards and evolving best practice. This review is led by Border to Coast with the eleven partner funds being heavily involved. The policy is also reviewed by Robeco, using the International Corporate Governance Network Global Principles, the UK Stewardship Code, and the UN Principles for Responsible Investment

Activity:

as benchmarks. The Investment Association Shareholder Priorities for 2022 have also been used in the review process.

As the Fund has aligned its policy to that of Border to Coast, the approaches are identical.

The Fund's [Corporate Governance and Voting Guidelines](#) sets out how it expects managers to approach supporting or opposing company management, depending upon the circumstances. This also sets out the expectations that the Fund has of its managers:

The Fund requires all appointed investment managers to vote on its behalf, in line with best practice guidelines. As both a shareholder and a client of Border to Coast, the Fund continues to monitor their voting policy and guidelines to ensure that they are aligned with the Fund's principles and reflect current best practice. Border to Coast has been appointed by LPF to oversee the voting undertaken by the Fund's appointed passive equity manager, to identify any areas unaligned and report back to the Fund. Managers are required to report their voting and engagement activity on a quarterly basis.

Voting records where votes are cast against management, and additional wider voting activity provided by Border to Coast on the Fund's investments, is included in the quarterly RI Update Report to the Committee.

The managers of the Fund's equity holdings are Border to Coast and LGIM, and the Fund seeks assurance from them on the process of managing the voting rights for shares held. Border to Coast has a dedicated Responsible Investment team which sits within the Investment Team and acts as a centre of expertise and helps manage and coordinate our activities. This team is supported by Robeco, the voting and engagement provider and other strategic partners. This team is responsible for ensuring that all voting rights are actively managed across the equity investments. LGIM believes voting is a fundamental tool used by investors to signal support for, or concern with, management actions to promote good corporate governance in the marketplace. The Investment Stewardship team exercises LGIM's voting rights globally, holding directors and companies to account.

The Fund's alternatives mandate, managed by Morgan Stanley, also includes a small amount of listed assets. During the 2022 proxy voting season MSIM global stewardship team voted on our behalf for these assets.

The Fund's active fixed income investments are managed by Border to Coast through its externally managed vehicles. Voting decisions relating to bondholder meetings has been outsourced to the relevant external managers as this is an investment decision.

Where investments are made directly by the Fund, officers seek to gain a place on the advisory committee to oversee and influence investment and stewardship decisions.

Outcome:

A number of changes were made to the Corporate Governance and Voting policy as a result of the review in 2022. They include:

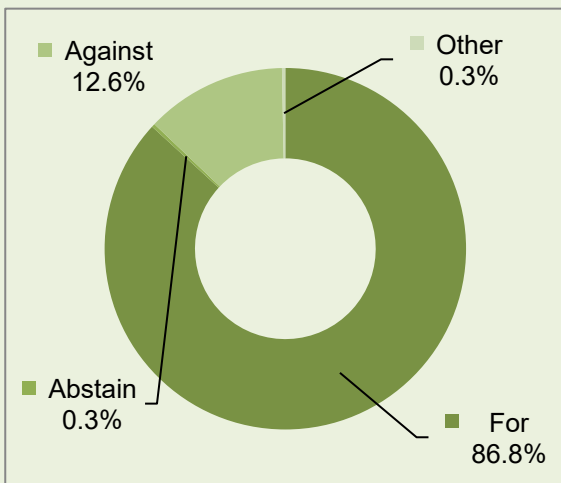
- a new section on human rights and amendments to the climate change section to strengthen support for net zero commitments;
- revised guidelines for when Border to Coast will vote against Board Chairs based on the companies Transition Pathway Initiative (TPI) assessment; and
- new guidelines for climate-related voting intentions for the banking sector.

Details of all the changes are available in the December 2022 [meeting papers](#) of the Committee.

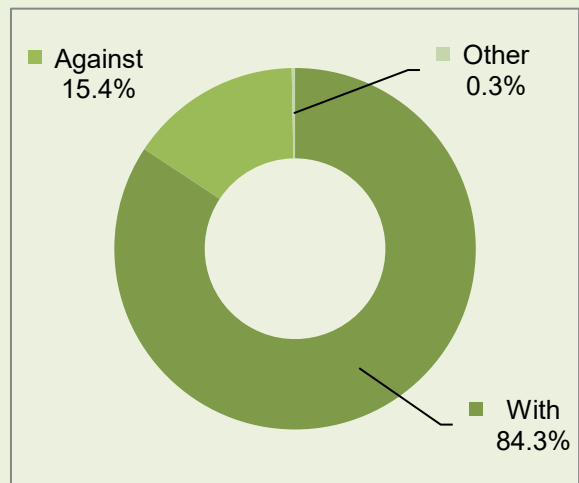
Examples of some manager's voting records for 2022/23 are shown below:

Votes cast for Border to Coast's Global Equity Alpha Fund (201 meetings)

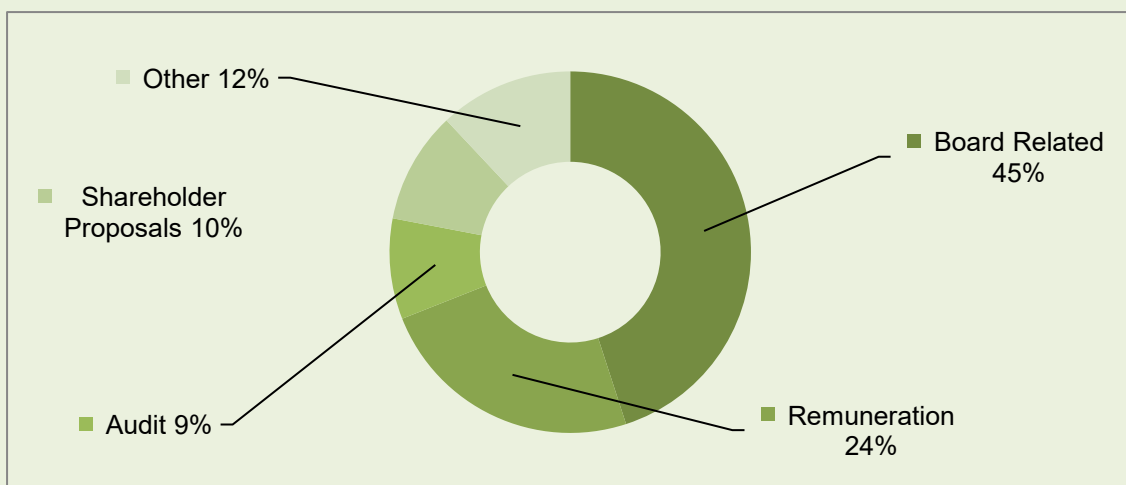
Votes Cast:



With or Against Management:



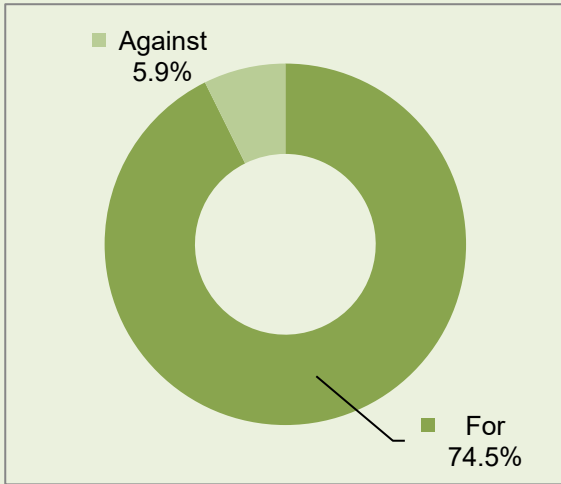
Votes Against by category:



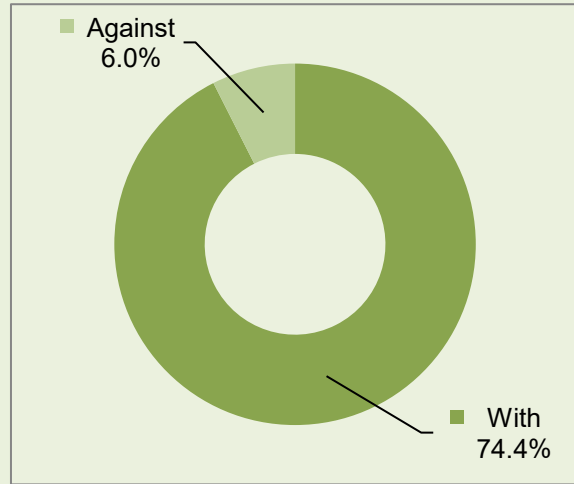
Outcome:

Votes cast for Border to Coast's UK Listed Equity Fund (125 meetings)

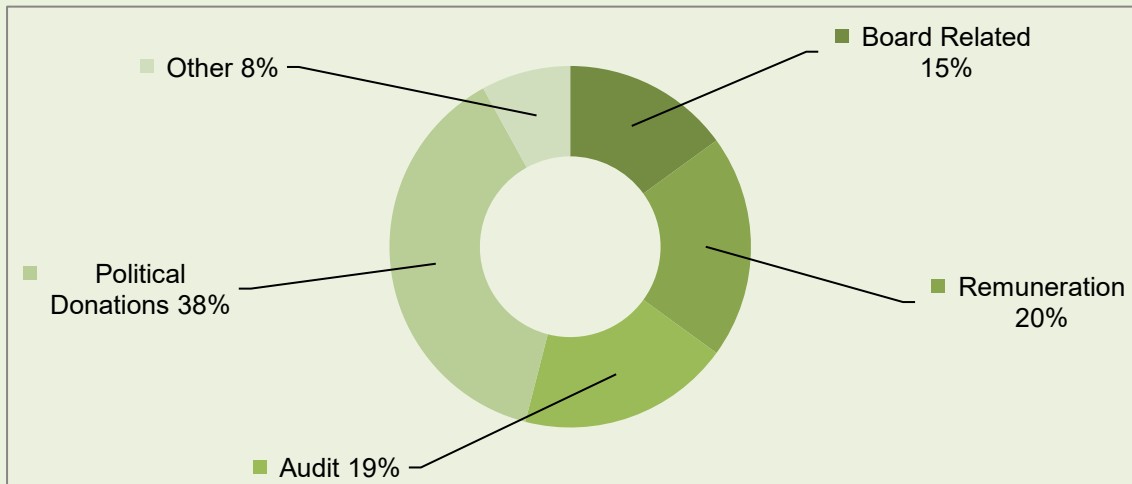
Votes Cast:



With or Against Management:



Votes Against by category:



For the Morgan Stanley Alternatives mandate 47 meetings were voted at, covering 455 proposals.

The Head of Pensions is a member of the advisory committee for two residential property funds that the Fund invested in, and these meet on a quarterly basis.

Appendix A – Action Plan

Principle 1:

Purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for employers and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Action:	Target date
Consideration of any stewardship implications in the Investment Strategy Review.	December 2023
Consider new approaches to engaging with employers and members to ensure their views are understood by the Fund. Employer and employee engagement should be wide reaching but should balance use of the resources available. The Fund will continue to use existing forums and resources including the Annual Employers Meeting and Member Newsletters.	March 2024

Principle 2:

Signatories' governance, resources and incentives support stewardship.

Action:	Target date
Continue quarterly reports and enhance where opportunities arise.	On-going
Provide more training to the Committee to better understand current issues and to clarify the Fund's strategy – e.g. net zero, work on reviewing the Investment Strategy.	On-going
Appointment to the new career grade post to provide additional dedicated resource for investment and stewardship monitoring. The post holder will develop skills and experience once appointed to the role.	January 2024

Principle 3:

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Action	Target date
Annual review of policy.	March 2024
Provide any new members with training on conflicts as part of their induction training.	As required

Principle 4:

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Action:	Target date
Continue working with Border to Coast and LAPFF.	On-going
To identify any opportunities for further collaborative work with other organisations, where appropriate and proportionate for the Fund.	On-going
The Fund will further develop its risk assessment of the impact of Climate Change on its investments and plans to undertake an assessment with its investment managers of the impact of Climate Change on its investments.	On-going
Respond to the DLUCH consultation on climate reporting and any other investment related consultations.	On-going

Principle 5:

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Action:	Target date
Continue to consider expansion of Stewardship reporting to include significant private market managers.	March 2024
To include stewardship within the overall external governance review of the Fund.	Awaiting Good Governance Review Outcome

Principle 6:

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them

Action:	Target date
Continue to include information on stewardship in the Member Newsletter and request direct feedback.	October 2023
Explore with the administrator how we might engage with scheme members on Investment and Stewardship matters for feedback and input.	March 2024
Develop a Stewardship page on the LPF website - providing key information to any interested parties.	March 2024

Action:	Target date
Explore with employers (via the Annual Employers Meeting) how we could engage further with them on investment and Stewardship matters.	March 2024
Employer meeting will provide an update on stewardship.	February 2024

Principle 7:

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Action:	Target date:
The Fund will continue to work with Investment Managers to make improvements in asset classes that are less developed in this area, for example: Morgan Stanley on Alternatives.	On-going

Principle 8:

Signatories monitor and hold to account managers and/or service providers.

Action:	Target date:
Increase information required from other managers (non-Border to Coast) to provide enhanced monitoring.	On-going

Principle 9:

Signatories engage with issuers to maintain or enhance the value of assets.

Action:	Target date:
Expand the quarterly RI Update report to include more examples of engagement to provide more information to the Committee, to assist them to challenge activity undertaken on our behalf.	On-going
Work with Border to Coast and Morgan Stanley, the Fund's main alternatives manager, to expand the coverage of engagement across other asset classes.	On-going

Principle 10:

Signatories, where necessary, participate in collaborative engagement to influence issuers.

Action:	Target date:
Continue to work closely with Border to Coast and LAPFF to ensure that any collaboration is effective.	On-going

Principle 11:

Signatories, where necessary, escalate stewardship activities to influence issuers.

Action:	Target date:
Where LAPFF issue voting alerts - share with managers and follow up to understand how they are voting on these issues and challenge where voted differently.	On-going
Continue to challenge managers and request reporting of escalations, to ensure that they are fulfilling their responsibilities.	On-going

Principle 12:

Signatories actively exercise their rights and responsibilities.

Action:	Target date:
Continue to work with Border to Coast and other managers to understand how and where they are able to actively influence investment and stewardship decisions, particularly outside of the equity space, on our behalf.	On-going