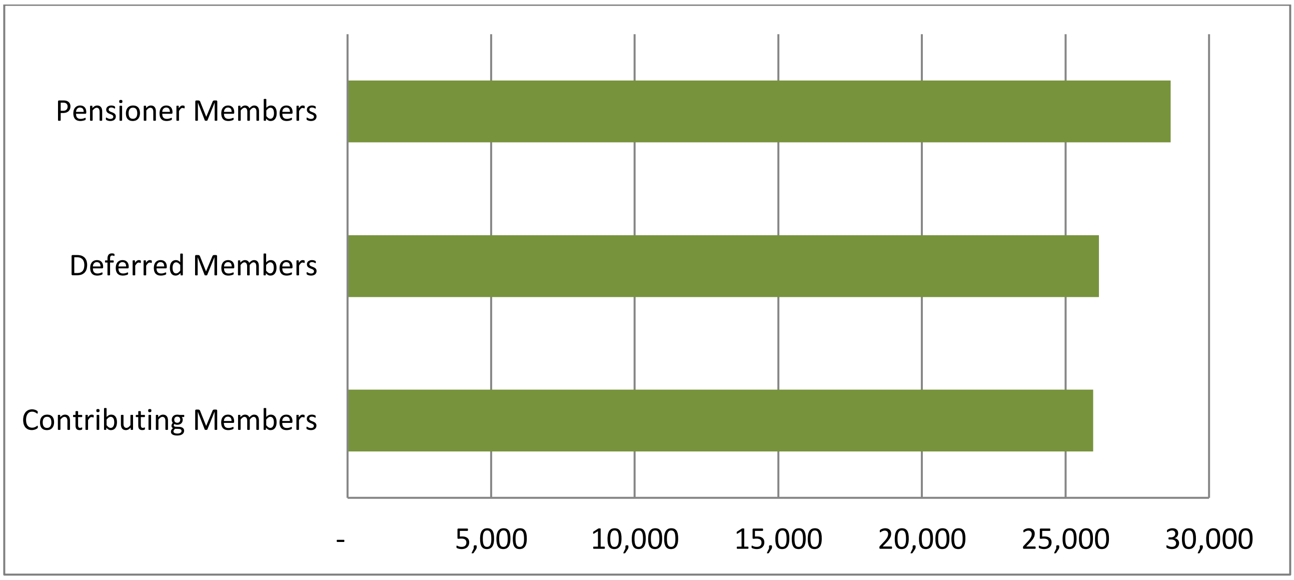
Stewardship Code 2023/24

"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."

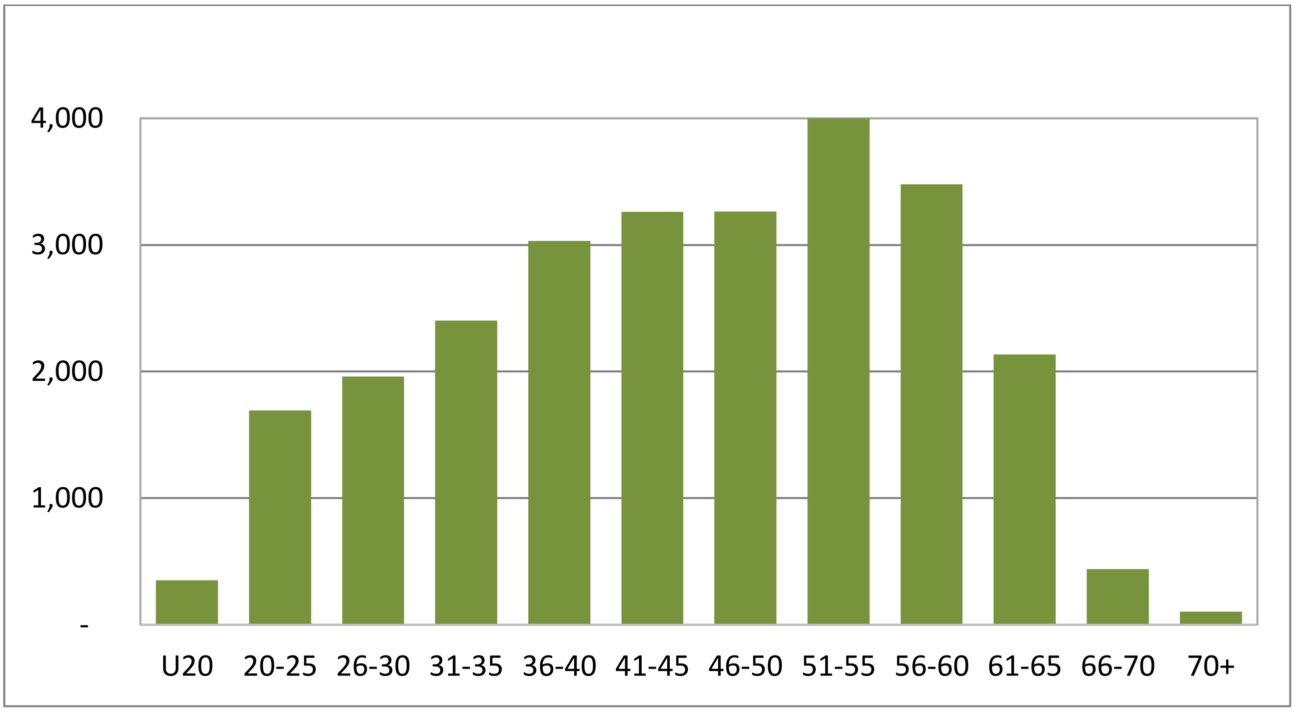
Background and Context

Fund Facts (as at 31 March 2024)

Total Membership: 80,792



Active Member Age Profile

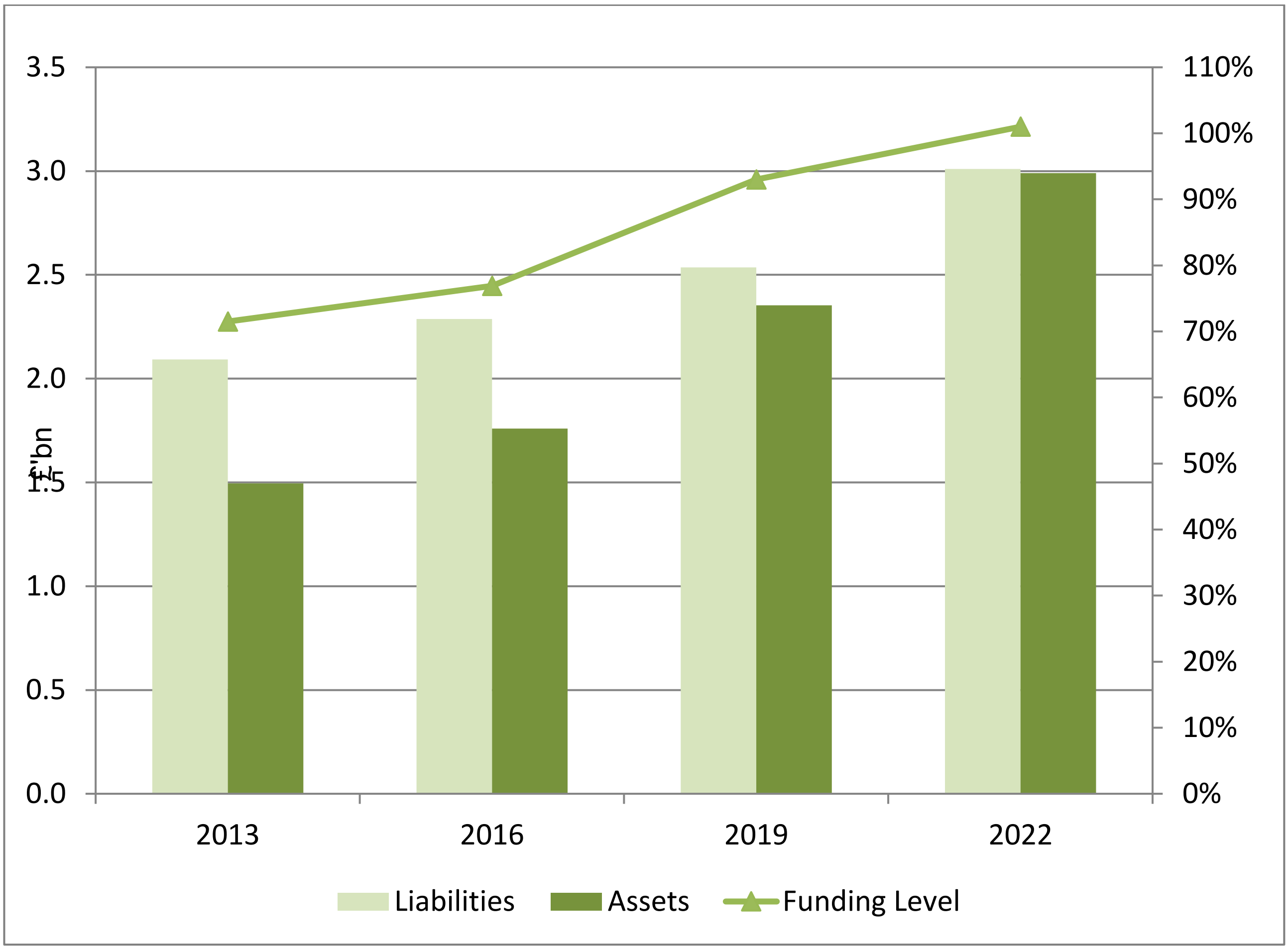


Employers: 262

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

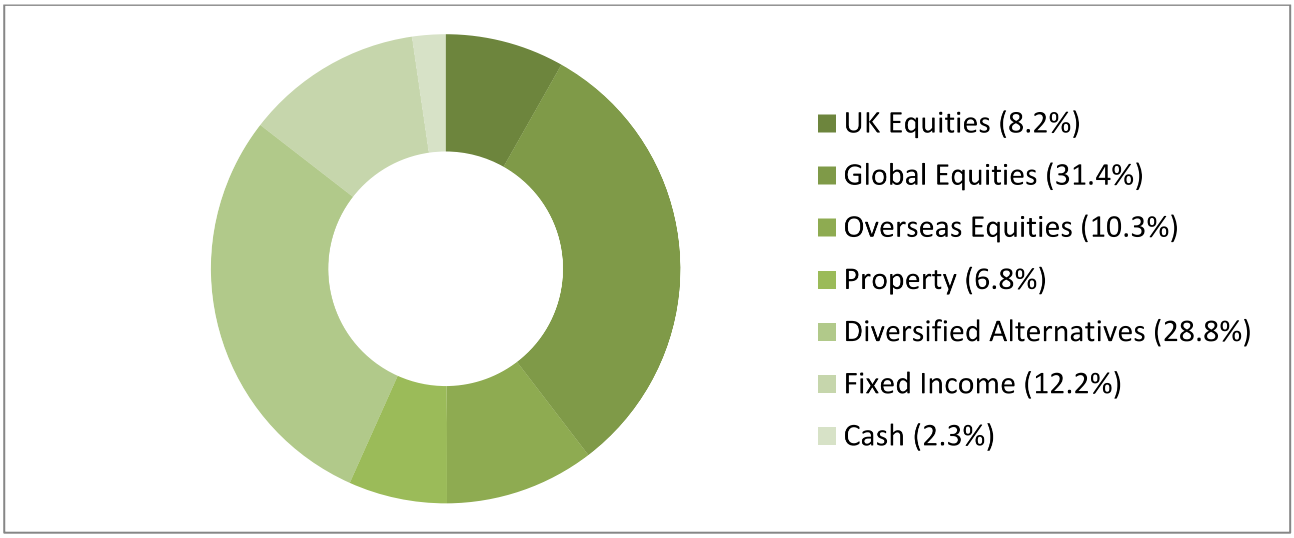
Employer Type	Number
Academies	181
Community Admission Bodies	3
Councils and Police	10
Further Education Bodies	4
Internal Drainage Boards	9
Resolution Bodies	1
Small Scheduled Bodies	29
Transferee Admission Bodies	25

Funding Position

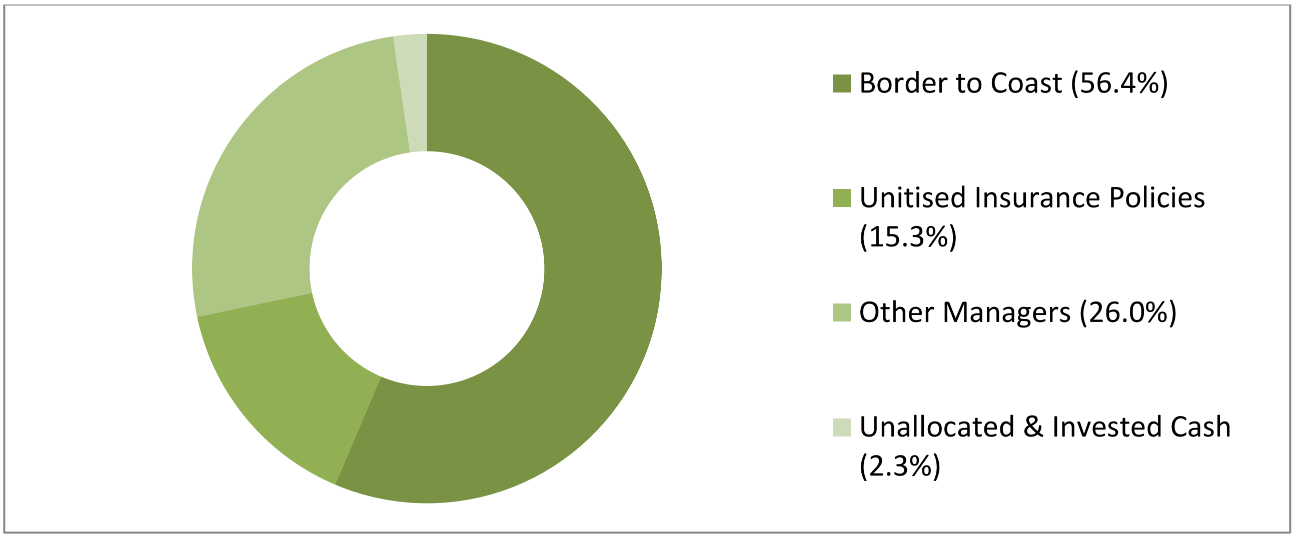


Invested Assets: £3.4bn

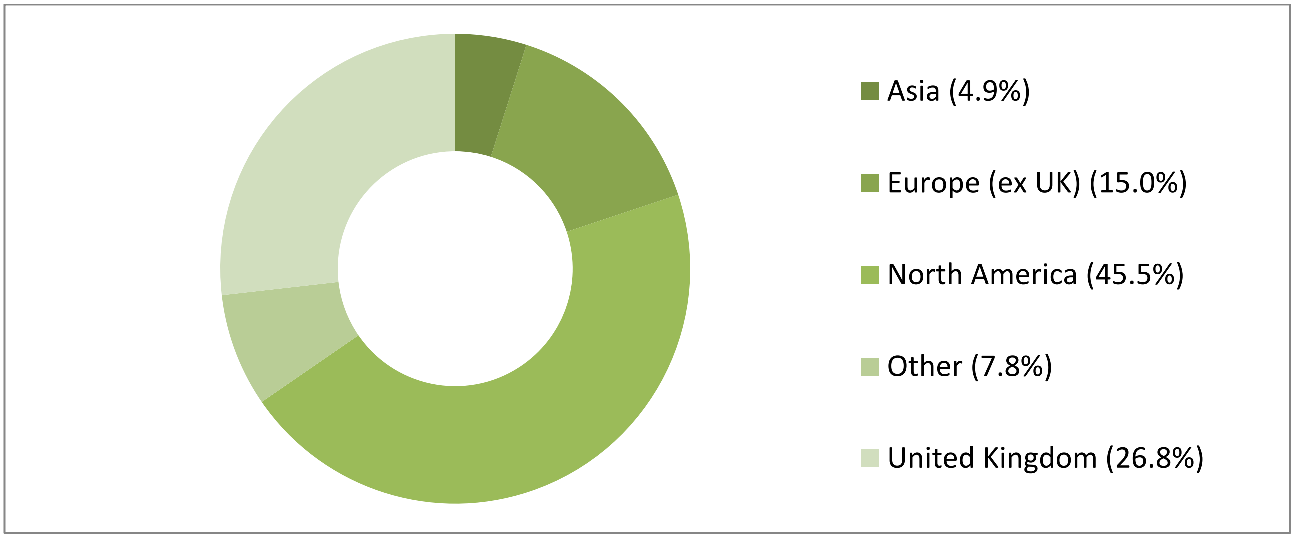
By Asset Class:



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.

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	1
Small Scheduled Body Representative	1
Academies Sector Representative	1
Scheme Member Representative	1
Total:	**12**

Committee meetings are split across two areas – Investment and Stewardship, and Administration and Governance. Each area has four quarterly meetings, making a total of eight Pension Committee meetings each year. These meetings allow for oversight and challenge across all areas of the Fund, as well as providing opportunities for developing skills and knowledge at each meeting. Additional meetings may be convened where required.

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	
	Hymans Robertson
	Vacant (Paul Watson appointed August 2024)
	Border to Coast Pension Partnership (Border to Coast) Legal and General Investment Management Morgan Stanley Investment Management
	Local Authority Pension Fund Forum (LAPFF)

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

Name and title			
Jo Kempton Head of Lincolnshire Pension Fund	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. Jo has covered every aspect of Fund Management including internal portfolio management, fund accounting, and governance.	IMC	25
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. Claire is a qualified accountant and has completed stage one of the IMC qualification.	CPFA (studying IMC)	6
Joshua Drotleff Principal Accounting, Investment and Governance Officer	Josh has worked in the pensions team since 2019. From January 2024 he has been promoted to his current role. Josh has the IMC qualification and is studying to become a member of CIPFA.	IMC (studying CIPFA)	<1

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 ten 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. As at 31 March 2024, the Fund had transitioned assets into six Border to Coast sub-funds including equities, fixed income and property sub-funds. This represented 56.4% of the Fund assets as at 31 March 2024. As Border to Coast will, over time, 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 provide oversight 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, or their nominated Pension Committee representative. On a day-to-day basis, Fund Officers and Border to Coast work together to develop policies, sub-funds, and provide regular feedback to Pensions Committees. 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 80,800 members who will or do receive benefits from the scheme. The Fund also has 262 active employers contributing to the scheme at 31 March 2024.

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 scheme 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, 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

Following the review of time and resources undertaken during 2022/23, a new structure for Pension Committee meetings was introduced. Meetings are now split across two areas – Investment and Stewardship, and Administration and Governance. Each area has four quarterly meetings, making a total of eight meetings each year. This has enhanced the Committees oversight and challenge across all areas of the Fund. The new structure has also increased the time available for committee members to meet and scrutinise the performance of the Fund's investment managers, and provides additional opportunities to develop skills and knowledge, with training forming an element of every committee meeting. The Fund has also recruited an additional team member. This has increased resilience within the team and will enhance our work on investments, stewardship, accounting, and employer support.

During the year, the Pensions Committee finalised a review of the investment strategy statement including setting new strategic asset allocations. Significant progress has been made implementing these changes, whilst acknowledging that increasing allocations to property and private markets will take time to be fully implemented. The Committee also began a series of training sessions to better understand climate risk across all aspects of the Fund's work, with the ultimate goal of net zero monitoring and target setting, and preparing its first annual Climate Report (based on the Taskforce on Climate Related Financial Disclosures requirements).

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

- The Committee has received quarterly stewardship reports covering our equity and fixed income holdings. The report has been enhanced to include a quarterly update from our private markets manager on the activity they have undertaken each quarter;

- Workshops with Border to Coast on Responsible Investment (RI) policies, activity monitoring and climate reporting frameworks;
- Work has been undertaken with a number of our property managers to better understand and challenge how they consider, implement, and report on RI matters; 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 at least 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 2023, in preparation for the year ended 31 March 2024, 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. The Committee also includes members from Fund employers and an employee representative to provide balance to decision-making. Induction training is mandatory for all new members of the Pensions Committee to ensure that beliefs and culture are understood and embedded.

Activity:
Fund officers and the Pension Board monitor the responses to the members satisfaction surveys carried out by the administration provider and compliant made by scheme members. These are reported to the Board 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.

During the year six new members joined the Pensions Committee, and one-to-one training was delivered by the Head of Pensions before their first Committee meetings. The training covers all aspects of managing the pension fund, including their fiduciary duty responsibilities.

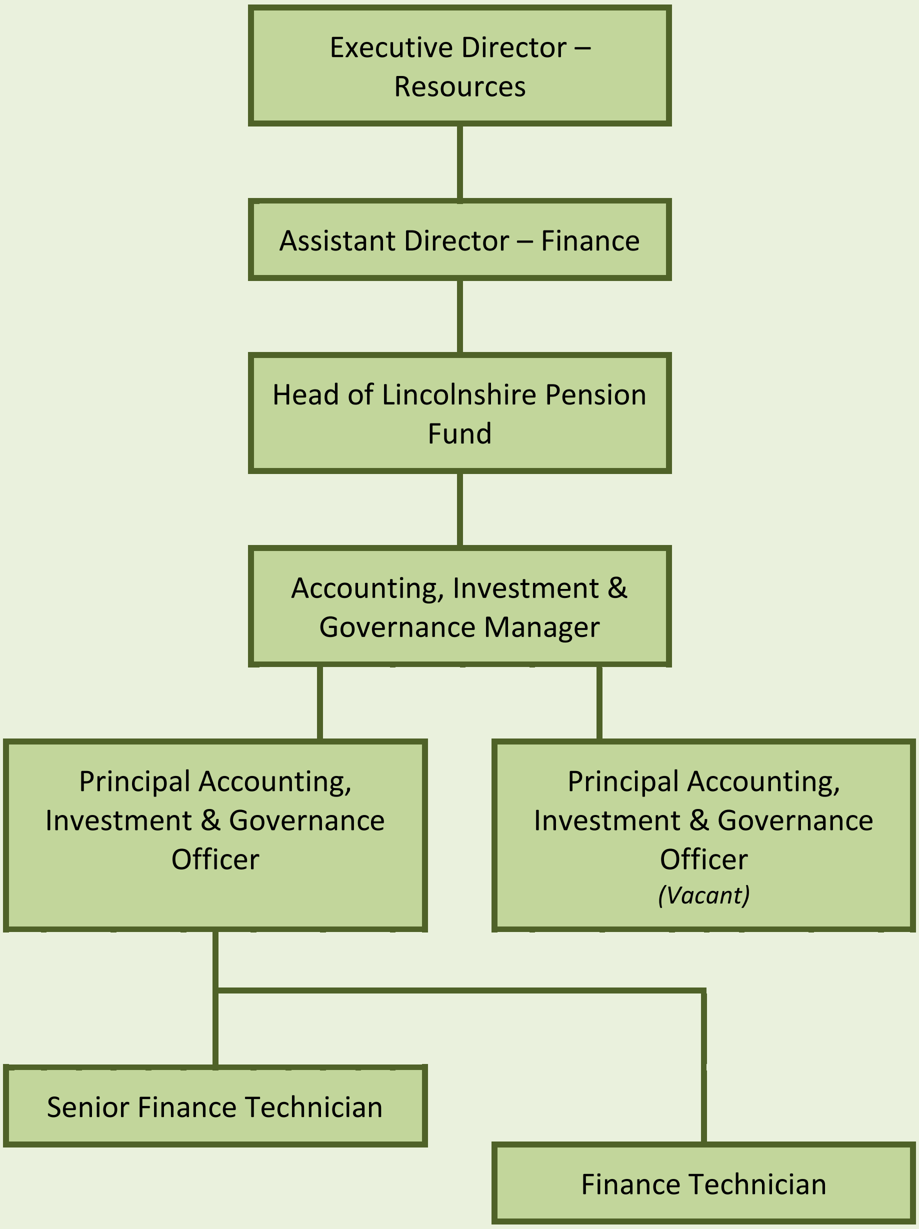
The Pensions administration service reports show that generally scheme members are happy with the service received and the Fund receives only a small number of complaints from scheme members. Details are reported to the Pensions Board quarterly.

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, eight meetings are held annually which provide various reports to enable them to have oversight and challenge across all areas of the Fund. Four meetings a year are dedicated to investments and stewardship.

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



The Head of Lincolnshire Pension Fund 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 two new posts were established to enable more time to be spent on monitoring managers and their stewardship activities, in addition to providing other support in the team. These are established as career grade posts to allow the Fund to train and develop new talent, where it has been unable to find this in the market. Recruitment to these posts was undertaken during 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 Border to Coast – Responsible Investment;
- 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 exceeding £350bn) and seven LGPS pooling companies. LAPFF acts for its members on engagement with companies, collaborating with others to increase the voice of shareholders, providing voting alerts, 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 environment. By respecting these differences, colleagues, customers, communities, and other stakeholders can feel valued.*

Within the Pensions team, there are currently three 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

Activity
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 2023. 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, Legal and General Investment Management (LGIM), and Morgan Stanley Investment Management (MSIM) on stewardship matters. In addition to this the report covers voting information and provides a quarterly ESG and carbon report for the Funds three equity investments and the sterling investment grade credit fund, managed by Border to Coast. The governance approach to support stewardship by using external professionals and the group weight of either Border to Coast company and partners, or LAPFF, ensures that maximum impact is achieved through the engagement and research undertaken. 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 than doing so alone. The Committee meeting structure was changed in 2023 to allow more time for the Committee to discuss, amongst other things, stewardship issues and actions. Under the new arrangements there are four meetings looking at investments, responsible investment, and stewardship, and four meetings for administration and governance. Each meeting will include an element of training. Recruitment to the two new career grade posts was undertaken during 2023, and one of the two posts was successfully filled. The new post holder started their role in January 2024 and will support investment, stewardship, accounting and employer activity for the Fund.

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.

During the year six new members joined the Pensions Committee, one-to-one training was delivered by the Head of Lincolnshire Pension Fund before their first Committee meetings. The training covers all aspects of managing the pension fund, including their fiduciary duty responsibilities.

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 2023/24 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 a review of its investment strategy, alongside the 2022 triennial valuation. Work on the investment strategy has included general training on asset classes and the associated risks and opportunities, followed by more detailed training on credit, equity, and property asset classes. This was completed in 2023 with the new investment strategy being finalised in September 2023. Significant progress has been made implementing the agreed changes, while acknowledging that increasing allocations to property and private markets will take time to be fully implemented.

To address systemic risks and market-opportunities LAPFF has undertaken the following activity during 2023/24:

- LAPFF have engaged with policy makers on the need for a fair and just transition. To this end, LAPFF hosted fringe meetings at political party conferences. The meetings sought to set out LAPFF's position and make the case for policy that supported investors and companies to deliver a just transition.
- LAPFF submitted a response to the Financial Conduct Authority's (FCA) consultation on relaxing the Listing Regime. In addition, LAPFF set up a Capital Markets working Group, and Parliament will be a point of focus for this group.

Border to Coast believes that addressing systemic risk requires collaborative efforts that go beyond the investor community, so they engage with policymakers and regulators, both independently and in collaboration with other investors, to amplify their influence in this area. Their focus has been on helping to create the conditions for strong long-term returns. During 2023/24 that has included collaborating on responses to the FCA's consultation on reform to the UK's listing regime.

Banking Crisis March 2023

The collapse of US firm Silicon Valley Bank (SVB) on 10 March 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.

Activity:
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 the banking sector overall. This activity continued into the 2023/24 financial year.

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 and Border to Coast continue to make and support recommendations for improving company reporting to highlight market wide risks. They achieve this through engagement with policy makers, providing responses to sector-wide initiatives and through their ongoing engagement with companies. <u>Banking Crisis March 2023</u> Communication with managers was increased to fully understand the impact on the Fund and any potential wider impacts on the market. Manager's exposure to Silicon Valley Bank, Signature Bank and Credit Suisse was established and questions were asked of them to ensure they were responding appropriately as the situation evolved.

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 are reviewed annually. These are reviewed and approved by the Committee in December in advance of the start of the voting season. They are 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.

Activity:

- The Risk Management Policy and Risk Register are approved annually (at the Pensions Committee meeting in October) 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, LGIM and MSIM, including engagement and voting activity, along with ESG and carbon metrics information. This is presented quarterly to the Pensions Committee for discussion.

During 2023/24 the Fund engaged with its property managers to better understand how they are building sustainability and ESG considerations into the construction and positioning of their portfolios.

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 Border to Coast 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 2023/24 the Fund reviewed and updated its risk register and training policy. The risk register considers all aspects of the Funds work, including: governance, investments, funding, operational, and people risks, and captures the risks which are considered to be a genuine threat to the Fund and explains how they are being actively managed. The training policy and plan sets out the minimum level of training for members of the Committee and new areas where training is required to keep members up to date with new developments.

The Fund has reviewed the Stewardship Code Statements from its key asset managers; Border to Coast, LGIM, and MSIM, 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.

Following requests to the Fund’s property managers to better understand how they are building sustainability and ESG considerations into the construction and positioning of their portfolios, it was pleasing to note that the development of strategy documents and the collection and monitoring of data appears to have significantly improved since the Fund last engaged with managers on these matters.

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 sector specific employer meetings;
- 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;
- 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.

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.

During 2023/24 the Fund reviewed how it engages with employers to ensure that communication channels remain appropriate for both the Fund and the employers. Up to 2023/24 a general employer meeting was held each February, however, due to falling attendance numbers this is no longer felt to be the most appropriate way to communicate with Fund employers. Following a survey of employers, individual employer group meetings were identified as the most suitable way forward. These meetings started in March 2024.

The Autumn 2023 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

Activity:
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, or on any other matters about the pension fund, so please contact us at LGPSpensions@lincolnshire.gov.uk with any comments you may have.* This was considered to be the most economical way of reaching out to just under 80,800 scheme members.

Outcome:
The sector specific employer meetings were launched in March 2024. Each meeting includes an update on Stewardship and Responsible Investment, providing employers with information on the activity undertaken by the Fund and an opportunity to question, challenge, and input into the direction and activities undertaken by the Fund. The request set out within the Autumn 2023 newsletter for views from scheme members received no responses, despite it being sent to all 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. 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. 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. The Pensions Committee in January 2024 was attended by a member of the public, a further meeting was arranged for them to meet the Chairman of the Pensions Committee and Head of Lincolnshire Pension Fund to discuss responsible investment, particularly around climate change. The member of the public had the opportunity to raise their concerns, and to hear from the Fund how responsible investment and investment decision-making is managed.

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 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

Responsible investment is fully integrated into the investment process with ESG-related issues incorporated into investment decisions and monitoring across portfolios and asset classes. Border to Coast believe that ESG factors tend to be longer term in nature and can create both risks and opportunities. As a long-term investor they consider material ESG factors when analysing potential investments. The factors considered are those which could cause financial and reputational risk, ultimately resulting in a reduction in shareholder value. More detail can be found in their Responsible Investment and Stewardship Report for 2023/24.

Border to Coast consider this within their internally managed Funds and in the selection and monitoring of externally appointed managers.

Border to Coast – ESG integration into investment decision-making – United Tractors Tbk

- **Reason for consideration and objectives:** The investment in United Tractors Tbk was reviewed because of the challenging outlook for its core businesses in view of material environmental risks.
- **Scope and process:** United Tractors Tbk, listed in Indonesia, has approximately 25% of the company's revenues derived from mine contracting services to several major open-cast coal mines in Indonesia. A further 30% of revenues relate to the sale and servicing of heavy machinery, much of which is utilised in its mining operations. The business was a profitable and cash generative one, however global efforts to reduce investment in coal generation have weighed on global thermal coal prices as well as investment in additional mine capacity. United Tractors' mine contracting business could therefore be considered to have become ex-growth, which was not an appealing characteristic. Placing this concern alongside the company's direct and indirect contribution to portfolio emissions, the investment case was further weakened.
- **Outcomes:** The company had made progress regarding ESG commitments, but the nature of its business is exposure to an energy source that is in decline. To address this Border to Coast decided to divest from this company. The capital raised from the sale was invested into other businesses in Indonesia and across emerging markets with more attractive and sustainable long-term growth prospects.

Border to Coast – Engaging with external managers to encourage improvements in ESG reporting

- **Reason for consideration and objectives:** Border to Coast work closely with external managers to ensure the integration of RI into their businesses and investment processes.
- **Scope and process:** During the year Border to Coast have worked closely with an external manager, providing clear feedback on areas where improvements could be made. Generally appointed external managers are receptive to this feedback.
- **Outcomes:** As a result of a dialogue with one of the Multi Asset Credit Fund managers, there was a material improvement in the manager's ability to demonstrate the integration of ESG factors into its investment process – from fundamental analysis to investment decision-making – as it pertained to financial materiality. Leveraging the manager's size, as a key player in capital markets, it has a formalised framework to escalation, with detailed and centralised engagement tracking against milestones and

Outcome:
objectives. This materially improved the manger's ability to articulate holistic integration within the organisation. **Morgan Stanley Private Markets** 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 emissions to identify opportunities for decarbonisation. During 2023/24 the portfolio's investments in renewable energy achieved significant milestones in the build-out of additional installed capacity. The portfolio is invested in a solar power generation developer and operator fund that is developing and constructing solar and battery projects that are supporting the decarbonization of the global power grid. The company completed the construction of 2.2 GWh of solar and 1.4 GWh of co-located storage, with projects totalling another 1 GWh expected to be completed in 2024. The portfolio also invested in a wastewater treatment, water reuse, and energy recovery-as-a-service company as a co-investment. The company supports customers in reducing water use and generating green energy, with approximately 2 bn gallons of water treated by the company's technology to date.

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, including, investment case studies. This allows the Committee to understand the performance of investments from this perspective in addition to the traditional returns monitoring.

Activities:

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. Throughout the year investment managers have been scrutinised on how ESG factors are built into investment decision-making and monitoring.

During 2023/24 the Committee's Independent Investment Advisor retired. As the incumbent had held the position for over ten years Fund officers and the Committee developed revised objectives and role requirements to ensure the newly appointed Independent Investment Advisor meets the current and future needs of the Committee. This new role was advertised in the first half of 2024. The successful candidate attended their first committee meeting in September 2024.

Border to Coast undertook a strategic review of the responsible investment arrangements in place at LGIM for 2023 and published their second oversight report. This was reported to Committee in December 2023. 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. This covered: Policies, Resourcing and Governance; Investment Process and Research; Stewardship and Collaboration; and Climate Change. Overall, the report concluded that LGIM continue to be a leader in active ownership.

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.
- 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 issues ranging from environmental risk and climate change, to human rights and supply chain management. The outcomes of these engagements are reported to the Committee on a quarterly basis.
  ○ In 2023/24 progress on the engagement with **Financial Institutions** (including banks and insurance companies) was reported:
  Reason for consideration and objectives: To assess individual company's approach to climate change, including integrating climate considerations into corporate strategy and operations, with a particular focus on biodiversity and natural resources.
  Scope and Progress: To achieve this LAPFF has written to 13 global insurers to engage on their approaches to decarbonisation and natural resources. Following these initial letters LAPFF met with AIA, AXA, Legal & General, Lloyds Banking Group, and Ping An to discuss their progress on assessing its impact on climate change and integrating climate considerations into corporate strategy and operations. LAPFF also asked these insurers how they are addressing natural resources within their climate strategies.
  Outcome: Whilst there has been some progress in insurers' understanding of the need to assess their impacts on climate change in order to understand their climate related business risks, in LAPFF's view there has not been enough progress on this front. LAPFF would like to see greater consideration given to the role the insurance products can play in mitigating climate change through setting societal expectations of risk. LAPFF will continue to work with these companies to encourage this progress.
  ○ In December 2023 an update was provided on work undertaken on 'Say on Climate' alongside climate and transition plans with companies in high-emitting sectors:
  Reason for Engagement and Objectives: LAPFF believe it is important for high-emitting sectors, who are considered to face heightened climate risks, accelerate the action required to meet the Paris goals.
  Scope and Progress: During the quarter LAPFF organised a letter to 35 companies in this area. 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.
  Outcome: LAPFF is tracking the responses to these letters and will continue to engage with companies about holding a climate transition plan vote.

Outcome:

- **Border to Coast** publish quarterly stewardship reports and an annual responsible investment and stewardship report setting out the engagement activities they, their external managers, and Robeco as their engagement and voting partner, have undertaken on our behalf.
    - **Engagement with Heidelberg Materials (Global Equity Alpha Fund)**

      Reason for Engagement and Objectives: Heidelberg Materials is a German building materials company and has high carbon emissions due to its activities in the hard-to-abate cement sector.

      Scope and Progress: Robeco, as Border to Coast's engagement partner, engaged with the company both individually and as a supporting investor under the CA100+ initiative. The company has showcased not only good awareness of climate-related risks, but also a proactive approach to addressing them. Over the course of the engagement, the company's emissions reduction targets were validated by the SBTi against a 1.5°C pathway, and the company presented a detailed decarbonisation strategy to meet its medium- and long-term targets.

      Outcome: In July 2023, the company announced plans to open its first fully decarbonised cement plant in Germany. It also included climate change performance elements in its executive remuneration and appointed a sustainability officer to the Executive Board.
    - **Engagement with a telecommunications company (Multi Asset Credit Fund)**

      Reason for Engagement and Objectives: A telecommunications company was engaged on its workforce management, among other topics following its merger with a sector peer.

      Scope and Progress: The engagement sought improved disclosure on diversity, equity, and inclusion (DEI). In engagement with the company, progress was acknowledged, areas for improvement identified, and potential risks discussed. Recommendations were made to increase transparency in several areas related to post-merger restructuring processes and DEI disclosure. The company was also asked to link ESG metrics to executive compensation and to include its approach to workforce management in its upcoming ESG report.

      Outcome: The company agreed to consider enhancing DEI disclosure and went on to implement all recommendations in this area, including a comprehensive breakdown of workforce diversity.
- **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.

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 can 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 £52bn 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:

- **Work with Partner Funds:**
  - 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 led a series of workshops for partner funds on Taskforce on Climate-Related Financial Disclosures. These workshops have enhanced partner funds understanding in this area and supported to Fund to begin reporting in this area.
- **Collaboration Initiatives:**
  - 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

Outcome:
Institutional Investor Group on Climate Change; and the Investor Mining and Tailings Safety Initiative. • **Investor collaboration:** Border to Coast believe collaborating with other like-minded investors and organisations maximises their influence. It gives them a stronger voice, and therefore greater impact. o **Workforce inclusion and voice** Border to Coast supported the Workforce Directors Investor Guidance and accompanying statement along with seven other investors. The guidance was developed by Railpen with input from Border to Coast and other industry participants. It highlights the importance of companies effectively engaging and listening to the voice of the workforce in the context of a growing body of evidence showing that a fulfilled, engaged, and motivated workforce is fundamental to long-term sustainable financial performance. There are four key reasons why companies should consider appointing a workforce director: improved decision-making, improved employee morale, increased understanding of the workforce, and improved communication. The guidance acknowledges there is no single ‘right’ way and is to encourage and support companies considering their approach to this matter. Collaborative engagement activities undertaken by **LAPFF** have included: • During the second quarter of 2023/24 LAPFF has re-signed onto a FAIRR engagement focusing on working conditions at food producers, mainly in North and South America. This initiative is a collaborative investor network that raises awareness of material ESG risks and opportunities caused by intensive animal production. LAPFF also signed onto two new engagement streams, one examining antimicrobial resistance in the 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. • During the final quarter of 2023/24, LAPFF joined the Investor Alliance for Human Rights (IAHR) conflict-affected and high-risk areas (CAHRA) pilot project. The project has been initiated in part because of the escalation of conflicts globally, which reignited during this quarter. LAPFF had already been attending a number of IAHR webinars on this topic to understand better how to engage companies on CAHRA issues, so the opportunity to participate in this pilot is welcome, especially given LAPFF’s engagements with companies operating in Russia, Myanmar, and the Occupied Palestinian Territories. By investing with **LGIM** in their Future World Fund, our investments there are subject to the extensive stewardship and active owner initiates 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 2023/24 this has included:

- LAPFF has ongoing long-term engagements with the mining sector. In 2023 it issued voting alerts for Rio Tinto, Anglo American, Glencore, and Vale. The aim of these voting alerts was to draw attention to both the companies and investors that there is still significant work to do on both human rights and decarbonisation in respect of creating shareholder value for investors.
- LAPFF issued voting alerts largely supporting ESG shareholder resolutions filed at technology companies over the last few years and did so again this year. These are part of an engagement escalation strategy where LAPFF issues voting alerts as an initial point of engagement with US companies, with which it deems there are ESG or financial concerns. LAPFF continues to have concerns about corporate governance and social practices at large US technology companies.

Outcome:
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, publicly pre-declaring votes against management ahead of AGMs, 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. During 2023/24 examples of action taken include: • **Engagement and escalation with Shell and BP (UK Listed Equity Fund)** Shell and BP are significant contributors to Border to Coast's financed emissions. Border to Coast have determined that both companies have set insufficient medium-term emission reduction targets. BP have also backtracked on its climate targets, which received a shareholder mandate at its 2022 AGM, and Shell have failed to meet all sub-indicators of the CA100+ Net Zero Benchmark indicator on capital allocation. Border to Coast wrote to, and held meetings with, BP and Shell in early 2023 to discuss concerns and to advise that they would be voting against the re-election of the Board Chairs in line with their climate voting policy. They also committed to voting for independent shareholder resolutions in support of a Scope 3 emissions reduction target aligned with the Paris Agreement. In April 2023, as part of engagement escalation, Border to Coast signalled their concern by joining other pension funds to publicly pre-declare our votes against management ahead of the AGMs, attracting significant press coverage. Engagement has continued with both companies with further meetings in 2023, with Shell in November, to discuss its medium-term emissions reduction target and explain our minimum expectations for progress in this area, and in December with BP to meet their Chair and discuss the company's weakened short- and medium-term emissions targets, and whether net zero transition expertise is amongst the criteria for appointing BP's new CEO. • **Engagement and escalation with Berkshire Hathaway (Overseas Developed Markets Equity Fund)** As part of Border to Coast's engagement partner Robeco's escalation strategy, they supported a shareholder proposal it co-filed at Berkshire Hathaway's 2023 AGM. The shareholder resolution focused on the governance and oversight of climate-related risks and opportunities by the Board and received the support of 18% of shareholders. The company had made some progress earlier in the year by clarifying the responsibilities of its audit committee to specifically articulate a responsibility for the management of climate-related risks and opportunities. The resolution sought to better understand how this change is being implemented by the Board. This includes how the company integrates low-carbon assumptions into its reports and accounts and the expectation that the company stress tests its financial performance against low-carbon scenarios, including a 1.5°C scenario.

Outcome:
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 was also evaluated by Robeco, considering the International Corporate Governance Network (ICGN) Global Governance Principles and the changing regulatory environment. The policies have also been reviewed against best-in-class asset managers, and asset owners considered to be RI leaders to determine how best practice has developed. In addition, the climate change policies of the other seven LGPS asset pools were also reviewed.

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.

Activity:
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 co-ordinate activities. This team is supported by Robeco, their 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 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.

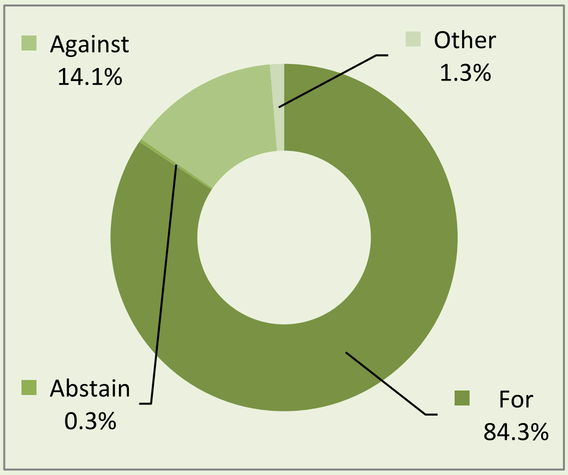
Outcome:
A number of minor changes were made to the Corporate Governance and Voting policy as a result of the review in 2023. They include: • A strengthening of the voting stance in relation to diversity representation at board level, for both gender and ethnicity. This is to reflect the FCA's listing rules and also expectations of FTSE 250 companies to be meeting the Parker Review recommendations; and • Further strengthening of the approach to climate-related voting which will now include a fifth Climate Action 100+ (CA100+) Net Zero Benchmark indicator, covering a company's decarbonisation strategy, and the addition of the Urgewald Global Coal Exit List to the industry benchmarks (CA100+, TPI), used to assess whether companies are making sufficient progress. Details of all the changes are available in the December 2023 meeting papers of the Committee.

Outcome:

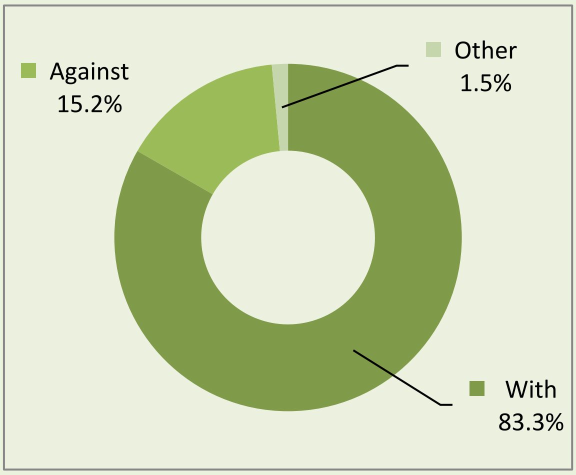
Examples of some manager's voting records for 2023/24 are shown below:

<u>Votes cast for Border to Coast's Global Equity Alpha Fund (375 meetings attended)</u>

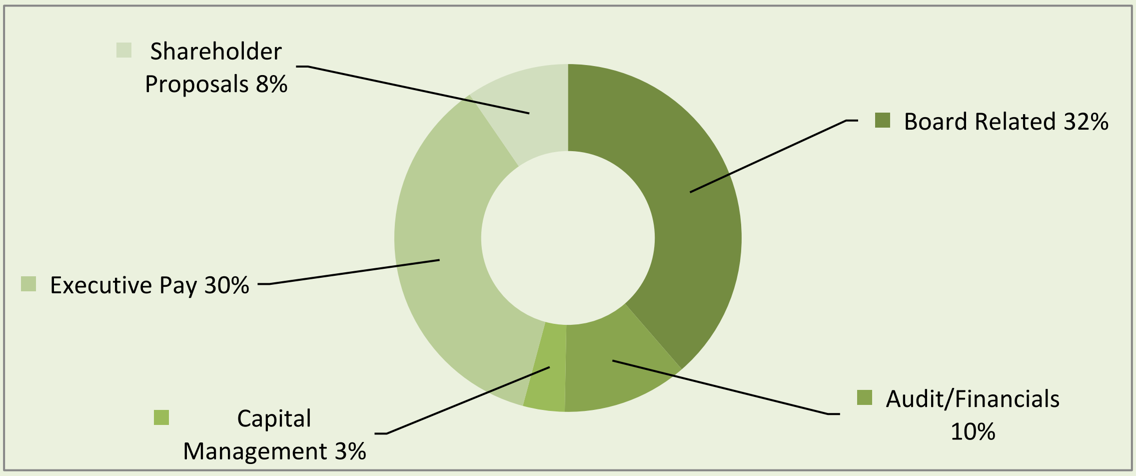
Votes Cast:



With or Against Management:



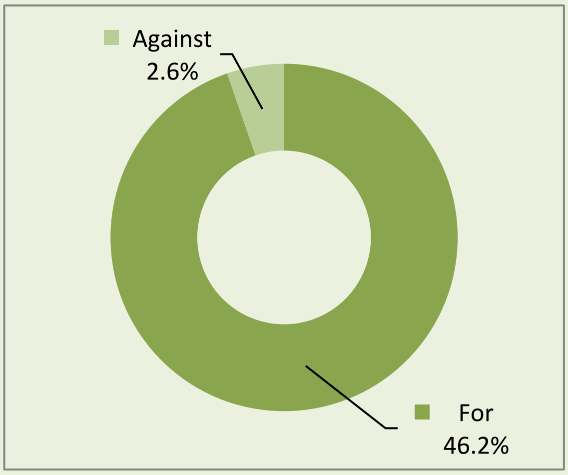
Votes Against by category:



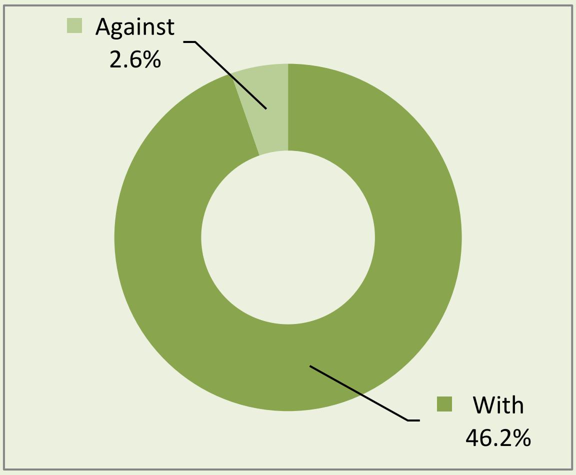
Outcome:

Votes cast for Border to Coast's UK Listed Equity Fund (116 meetings attended)

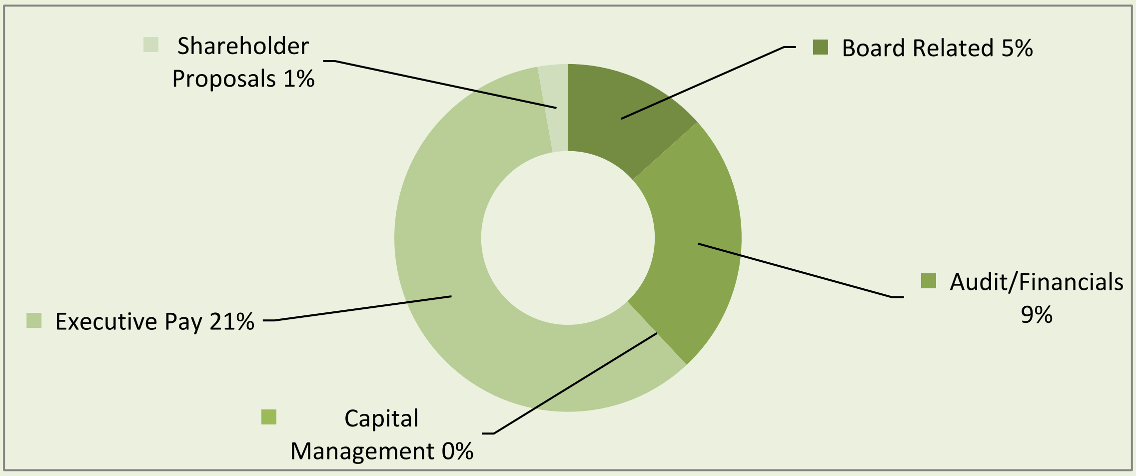
Votes Cast:



With or Against Management:



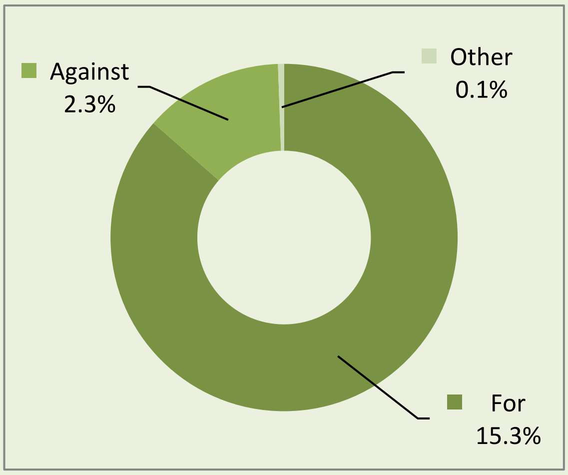
Votes Against by category:



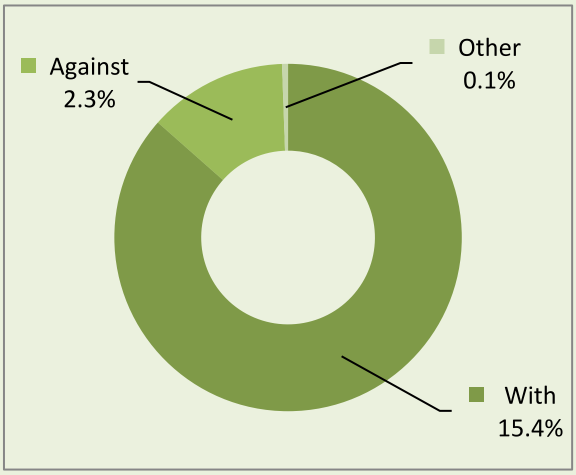
Outcome:

Votes cast for Border to Coast's Overseas Developed Markets Equity Fund (72 meetings attended)*

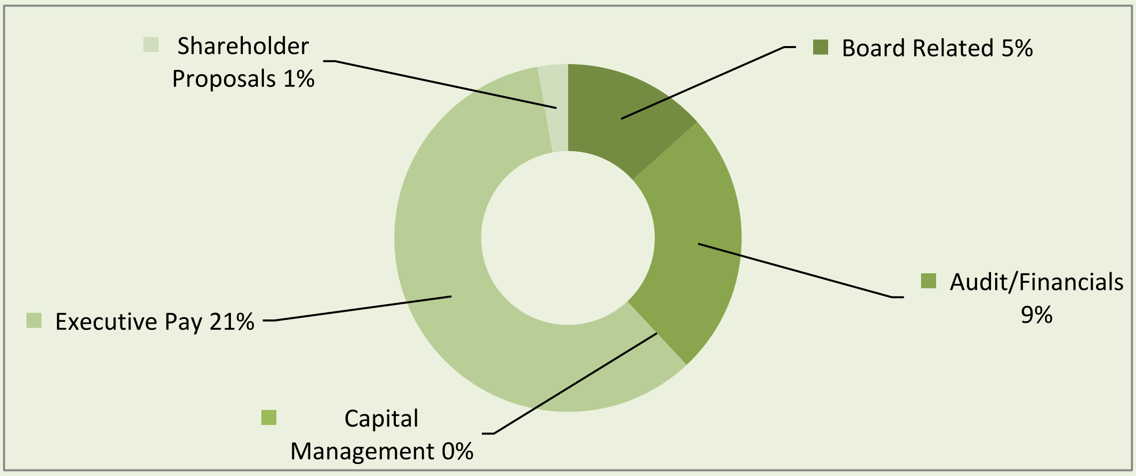
Votes Cast:



With or Against Management:



Votes Against by category:



** Note the Fund was only invested in this sub-fund from quarter four 2023.*

The Head of Lincolnshire Pension Fund 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**
Embedded new approach to communicating with employers through sector-based employer meetings.	2024/25
Consider new approaches to engaging with members to ensure their views are understood by the Fund. 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 Member Newsletters.	March 2025

Principle 2:

Signatories' governance, resources, and incentives support stewardship.

Action:	**Target date**
Continue quarterly reports and enhance where opportunities arise.	On-going
Provide a programme of targeted training to help the Committee to better understand current issues around climate reporting and the expected reporting requirements in this area.	March 2025
Develop the skills and experience of the newly appointed new career grade postholder to provide additional dedicated resource for investment and stewardship monitoring.	On-going

Principle 3:

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

Action	**Target date**
Annual review of policy.	Annually each March
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
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.	March 2025
Respond to the government 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 property and private market managers.	March 2025
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.	November 2024
Explore with the administrator how we might engage with scheme members on Investment and Stewardship matters for feedback and input.	March 2025
Explore with employers (via annual meetings) how we could engage further with them on investment and Stewardship matters.	March 2025

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 Private Markets.	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 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