

Lancashire County Pension Fund Stewardship Code Compliance Statement

Introduction

Lancashire County Pension Fund (LCPF) is a defined benefit pension scheme administered by Lancashire County Council on behalf of members of the Local Government Pension Scheme (LGPS) within the geographical area of Lancashire.

The Fund recognises that effective stewardship arrangements protect the financial interests of scheme beneficiaries and contribute to enhancing the value of the Fund's investments. LCPF takes its fiduciary responsibilities very seriously, realising the importance of monitoring investee companies and using ownership rights to encourage responsible corporate behaviour which builds value over the long term.

LCPF is committed to responsible investment and to responsible asset ownership. Our approach is to ensure material Environmental, Social and Governance factors are routinely incorporated into investment analysis and decision-making and our ownership influence is used proactively. Through shareholder voting and through wider engagement activities we seek to work in collaboration with other investors.

The Fund's stewardship actions are implemented as an integral part of the investment management services LCPF receives from the Local Pensions Partnership (LPP). LPP is a not-for-profit pension services organisation which is a collaboration between LCPF and the London Pensions Fund Authority in which both organisations are founding shareholders. LCPF's entire investment portfolio is under management by Local Pensions Partnership Investments Ltd (LPP I), a subsidiary of LPP and an FCA authorised investment manager.

Principle 1

Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

LCPF has described its approach to discharging stewardship responsibilities within an Investment Strategy Statement (ISS) which is publicly available from the Fund's website [here](#).

Our ISS places stewardship arrangements within the broader context of investment governance and investment implementation and explains the demarcation of responsibilities between LCPF as an LGPS pension fund responsible for setting investment strategy and putting appropriate stewardship arrangements in place, and LPP as the Fund's provider of pension services whose procedures and practices fulfil the investment strategy and implement the approach to stewardship and responsible investment.

LCPF discharges its stewardship responsibilities as an asset owner by putting appropriate arrangements in place for ensuring that procedures for the selection, monitoring and management of assets invested in by the Fund are aligned with the UK Stewardship Code. Ensuring suitable arrangements are in place includes

specifying standards within contractual documents and monitoring performance against these on an ongoing basis.

The Fund's stewardship requirements have been formally set out within an Advisory and Management Agreement (AMA) with LPP I which includes the requirement to comply with the principles of both the UK Stewardship Code and the UN-backed Principles of Responsible Investment. LCPF requires LPP I to apply these standards to all asset classes as an integral part of its management of the Fund's portfolio and to ensure that any agents appointed to work on behalf of the Fund are also encouraged and supported to comply.

LPP I's execution of the Fund's stewardship requirements is in line with a Responsible Investment Policy which is available from the company's website [here](#). The policy sets out the beliefs, standards, procedures and activities which underpin LPP I's fulfilment of fiduciary responsibilities on behalf of client pension funds.

LCPF discloses the details of its stewardship arrangements and activities by reporting against the Principles of Responsible Investment assessment framework. A copy of the Fund's Transparency Report will be publicly available from the [PRI website](#) at the conclusion of the annual reporting and assessment process.

Principle 2

Institutional investors should have an effective policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The Fund has a clear and effective policy on the management of conflicts of interest which requires actual and potential conflicts to be identified, managed and disclosed.

The arrangements in place reflect the responsibilities of participants with strategic and operational roles on behalf of the Fund including;

- Pension Fund Committee Members (Elected County Councillors);
- Officers of Lancashire County Council;
- External advisors to LCPF;
- LPP and other external delivery partners
- Lancashire Local Pension Board

The approach is to anticipate the conflicts of interests which may arise from these roles and from the wider relationships and personal interests of the individuals involved.

Under Lancashire County Council's constitution (available from the authority's website) both elected members and County Council officers are subject to written Codes of Conduct which include expectations and procedures for managing any conflicts of interest associated with their roles. Potential conflicts of interest are managed in accordance with the County Council's Code of Conduct for Elected Members and its Code of Conduct for Employees.

The approach is to ensure Members (and the officers and advisors supporting them) have a clear understanding of what a potential conflict of interest is, how such conflicts may arise, and what they must do to ensure that no actual conflict (or the appearance of one) is allowed to materialise in practice.

All members of the Pension Fund Committee are required to submit a formal record of their interests on an annual basis. At the commencement of each Pension Fund Committee meeting Committee members and officers are required to make a declaration of any relevant interests they hold which relate to forthcoming items of business. Where an interest exists in any upcoming item an independent assessment is made of the materiality of the interest and the appropriateness of excluding the person from participation in discussion and consequent decision making. Details of all declarations made and the action taken in response are formally recorded within the minutes of the relevant meeting.

The Lancashire Local Pension Board (LLPB) assists Lancashire County Council in its role as Scheme Manager and is made up of 9 members comprising an independent Chair, 4 scheme member representatives and 4 employer representatives. The LLPB has its own Code of Conduct and Conflict of Interests Policy for Members, Officers and Advisors which is publicly available from the Pension Fund website [here](#) (see Annex 'A' to the Terms of Reference).

Specific arrangements exist for the management of conflicts of interest by LPP I as the Fund's provider of investment management services. LPP I is an FCA authorised entity with a Conflicts of Interest Policy which establishes the parameters of good governance in the management of conflicts. The Policy applies to all staff and identifies the types of conflicts and potential conflicts which may arise and the approach to managing these through robust governance arrangements which include the segregation of functions, conflict management controls and an annual Disclosure of Interests Protocol. A copy of the LPP I Conflicts of Interest Policy is available from LPP on request.

Principle 3

Institutional investors should monitor their investee companies.

Encouraging strong corporate governance by investee companies is a core part of responsible investment practice. LCPF has made a commitment to using its influence as an institutional investor to encourage sustainable business practices and decision-making which is aligned with the long term best interests of shareholders. These commitments are reflected within the stewardship arrangements LCPF has agreed with LPP I.

The day-to-day monitoring of investee companies is best undertaken by Investment Managers with detailed knowledge of the enterprises within their portfolios and an understanding of the business risks and opportunities they face. The assets under management by LPP I are monitored by members of the in-house Investment Team or by external asset managers appointed and overseen by LPP I. Company monitoring provides continuing insight on financial performance and underlying business and market characteristics but also identifies issues related to broader

corporate responsibility and to Environmental, Social and Governance matters as part of the ongoing evaluation of company risk and sustainability.

Monitoring activity typically incorporates information from a range of sources including company reporting, news media, real time market metrics, and the insight of research and ratings providers. Wider insights from NGOs, trade unions, regulators and other representative groups are also referenced as appropriate. External managers appointed by LPP I are encouraged to share any material company insights with LPP I as part of regular monitoring calls.

Insight gained from company monitoring informs LPP I's use of the Fund's ownership rights as an institutional investor. The main focus of engagement activity is shareholder voting and participation in wider investor collaborations, though influence is also exerted through representation on company boards and limited partner advisory panels. Engagement is time consuming and resource intensive and achieving the critical mass needed to have impact requires effective partnership and collaboration. On LCPF's behalf, LPP I seeks opportunities to work with other responsible investors as part of wider initiatives which concentrate collective stewardship resources and seek to achieve greater reach and influence than is possible acting alone.

LCPF is a member of the Local Authority Pension Fund Forum and the Pensions and Lifetime Savings Association and supports both organisations in their campaigns and initiatives on behalf of investors. Examples of the themes the Fund has engaged on as part of wider collaborations include:

- Climate change risk, sustainability and the global transition to low carbon;
- Executive remuneration;
- Transparency and effective disclosure within corporate reporting;
- Diversity and independent representation on company boards.

The LCPF Pension Fund Committee receives quarterly reports on Responsible Investment issues from LPP I which describe activity against the Fund's responsible investment objectives. Responsible Investment reports routinely include records of shareholder voting and offer insight and commentary on investor initiatives and engagements underway.

Principle 4

Institutional investors should establish clear guidelines on when and how they will escalate their stewardship.

Shareholder voting and collaborative company engagement are the principal ways in which stewardship is escalated on the Fund's behalf. LCPF's preferred approach is to engage with investee companies in order to raise matters of material concern directly with them. Shareholder voting offers a direct and regular opportunity for dialogue with investee companies and is used to signal investor concerns and to encourage the alignment of company and shareholder interests.

Shareholder voting is both a right and a responsibility of ownership. To ensure a consistent and informed approach the oversight of shareholder voting has been delegated to LPP I. Voting is managed centrally by LPP I rather than being at the discretion of individual investment managers. However, as part of their stewardship of the Fund's assets individual managers are expected to monitor and engage with investee companies to escalate material matters. Decision-making on the most appropriate route for addressing issues identified through ongoing monitoring of investee companies is at the discretion of each manager in accordance with their in-house policy. Managers are required to report to LPP I periodically on their engagement activities.

Investment Management Agreements between LPP I and external investment managers appointed to manage the Fund's assets include a requirement to support for the Principles of Responsible Investment and to encourage corporate governance best practice. Managers are encouraged to share insight and information and required to report on their stewardship activities as an integral part of manager monitoring undertaken by LPP I.

As part of its broader stewardship oversight, LPP I reviews how accepted standards of corporate governance best practice are being reflected across the portfolio. This can identify issues where a more thematic approach may be appropriate. Thematic engagements can involve making direct contact with individual companies on specific issues but will more often involve participation in broader investor collaborations to build an impetus for improvement in core characteristics such as board diversity and independent oversight, succession-planning, executive remuneration and shareholder rights across a range of companies. LPP I will work alongside General Partners, Limited Partners, other Asset Managers, and representative investor groups as appropriate.

On the Fund's behalf, LPP I has arrangements in place for monitoring emerging shareholder litigation and any financial interest in the companies involved. Where appropriate, the Fund will participate in shareholder litigation in order to recover losses and address wrongdoing.

Principle 5

Institutional investors should be willing to act collectively with other investors where appropriate.

LCPF welcomes opportunities to work in partnership with other investors and to participate in collective initiatives which address shared stewardship priorities. The Fund recognises that investor influence is most likely to be fruitful when collective resources are being pooled and a consistent message is being amplified by the participation of a number of like-minded investors with a significant collective stakeholding. The involvement of leading investor associations adds the further benefit of specific expertise and representative influence.

LCPF is a member of a number of organisations which provide the opportunity to align with and give support to collaborative initiatives. These include the Local Authority Pensions Fund Forum (LAPFF) the Pensions and Lifetime Savings

Association and the Principles of Responsible Investment. In addition, LCPF's interests are being represented through the wider network of investor organisations LPP I is connected with as an Asset Manager.

The Fund's principal engagement partner is LAPFF. The Forum is a membership organisation which represents the specific interests of LGPS funds as institutional investors and a number of collaborations leading to collective engagement on behalf of LGPS funds have arisen from initiatives co-ordinated by LAPFF. LCPF is also collaborating regularly with other LGPS funds via LPP I's participation in a Responsible Investment sub-group to the Cross Pool Collaboration Group which was established as part of the implementation of LGPS pooling arrangements. The sub-group brings stewardship and responsible Investment practitioners from each of the 8 pools together to discuss collective stewardship issues and the most effective approaches to common challenges.

LPP I is affiliated with a broad range of representative investor groups and seeks to work collaboratively with these and other parties (including Limited Partners, General Partners) to support initiatives which promote corporate governance best practice and protect the interests of pension funds as long term investors. LPP I's Responsible Investment Manager frances.deakin@localpensionspartnership.org.uk is the contact for all potential collaborative engagements.

Principle 6

Institutional investors should have a clear policy on voting and disclosure of voting activity.

LCPF has a clear policy on shareholder voting which is set out within the Fund's ISS. Shareholder voting is recognised to be an important route for influencing companies to adopt sustainable business practices and to develop corporate governance arrangements aligned with protecting shareholder value.

Since the Fund's listed equity investments were pooled in November 2016 LCPF has owned units within a Global Equities Pool managed by LPP I rather than shares in underlying companies. As a beneficial co-owner LCPF is not entitled to direct shareholder voting but the Fund has influenced the voting arrangements put in place by LPP I which are required to meet the stewardship standards agreed with the Fund.

LCPF receives voting alerts from LAPFF which provide additional insight on forthcoming matters due to be voted on at company meetings. LAPFF voting alerts are routinely shared with LPP I and, where appropriate, LPP I will seek to align voting with other investors as part of working collectively to increase the impetus for companies to listen, acknowledge and address issues of concern.

Shareholder voting for the Global Equities Pool is managed centrally by LPP I rather than being delegated to individual portfolio managers. This arrangement facilitates an objective approach which is consistent across the equities held by the pool. LPP I employs an external provider of proxy voting services to oversee ballot management and vote execution and to provide voting information, analysis, voting

recommendations, and the recording and reporting facilities available via an online voting platform.

Voting recommendations reflect an agreed voting policy which is actively reviewed on an annual basis and updated to reflect emerging issues and trends. The detail of forthcoming ballots is reviewed by LPP I via the online voting platform to identify upcoming issues where it may be appropriate to depart from the voting recommendation. In cases where a different vote is instructed the underpinning rationale for the support given to a shareholder resolution (or opposition to a management proposals) is recorded.

A record of voting activity is produced quarterly by LPP I and provided to the Pension Fund Committee as part of Responsible Investment reporting.

Principle 7

Institutional investors should report periodically on their stewardship and voting activities.

LCPF reports on stewardship and voting activities in a variety of ways.

The Fund describes its approach to stewardship within an Investment Strategy Statement which is publically available from the Fund website. The Pension Fund Committee reviews existing stewardship policies and arrangements on a regular basis. Details of the review process are reported within the agenda and papers of the Pension Fund Committee which are publicly available from the Lancashire County Council website.

The Fund's Annual Report provides a comprehensive review of arrangements and activities including insight into the stewardship of Fund investments. The Annual Report is publicly available from the [LCPF website](#).

The Pension Fund Committee receives quarterly reports on Responsible Investment activity from LPP I. Reports form part of the papers of the Pension Fund Committee which are publicly available from the [Lancashire County Council website](#).

LCPF has disclosed the details of its stewardship arrangements and described the activities it has undertaken as a responsible investor by reporting against the Principles of Responsible Investment (PRI) assessment framework for the first time in 2017. A copy of the Transparency Report for each signatory is made publicly available on the PRI website at the conclusion of the annual assessment phase.