

PENSIONS PANEL – 8 JUNE 2022

Report of the Director for Corporate Services

**RESPONSIBLE INVESTMENT & ENGAGEMENT (RI&E) REPORT
QUARTER 1 2022**

Recommendations of the Chairman

1. That the Pensions Panel note:
 - (a) the content of the Responsible Investment (RI) report, including the final 2021/22 Climate Stewardship Plan (Appendix 1);
 - (b) the 2022/23 Climate Stewardship Plan (Appendix 2);
 - (c) the Local Authority Pension Fund Forum (LAPFF) Quarterly Engagement Report (Appendix 3); and
 - (d) the LGPSC Annual Stewardship Report 2021 and Quarterly Stewardship Update (Appendices 4 and 5).

Introduction & Background

2. The United Nations Principles of Responsible Investing (UNPRI) define RI as 'an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns'.



Environmental

- Resource utilisation
- Sustainability
- Pollution
- Carbon emissions



Social

- Community
- Human Rights
- Employees
- Customers
- Suppliers



Governance

- Stakeholder alignment
- Ownership structure
- Regulatory controls
- Board accountability
- Transparency

3. The Pensions Panel recognises its role in promoting RI and endorses the UNPRI, whilst the Fund's equity managers are encouraged to sign up to them to ensure they incorporate ESG issues into their investment process. Currently all the Fund's equity managers are signatories to the UNPRI,

including those within the LGPS Central Active External Global Equity Multi Manager sub-fund.

4. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require the Pension Fund to have an Investment Strategy Statement (ISS) which must refer to the way in which the authority takes RI into account in the selection, non-selection, retention and realisation of investments. The latest version of the ISS includes investment beliefs, specific to RI. The latest version of the ISS is available on the Pension Fund's website www.staffspf.org.uk.
5. In 2020, the Financial Reporting Council launched an updated UK Stewardship Code. The Code took effect from 1 January 2020 and aims to improve stewardship practices by setting a substantially higher standard than before. Under the 2016 Regulations, the Fund was accepted as a Tier 1 signatory of the UK Stewardship Code in 2017 and reaffirmed in 2018. Existing signatories to the Code are required to submit a Stewardship Report that meets the FRC's new reporting expectations. Further information will be brought to the Panel in 2022 on the work the Fund does, to meet the criteria of the enhanced UK Stewardship Code.
6. The Fund's 2018 Statement of Compliance with the UK Stewardship Code, as well as individual investment manager's RI policies and the UNPRI, are available on the Staffordshire Pension Fund website. www.staffspf.org.uk.
7. The Fund regularly receives ESG reports from its investment managers, and these are publicly available on the investment managers websites. More recently, it is pleasing to note that these have begun to include reports from investment managers who invest in private markets, such as Partners' Group (Private Equity) Corporate Sustainability Report and Gresham House's (Residential Property) Sustainable Investment Report.

Climate Change Strategy (CCS)

8. In February 2022, the Pensions Committee approved the Fund's first Climate Change Strategy (CCS) which sets out the Fund's approach to managing the risks and opportunities presented by climate change, with the aim of achieving a net-zero carbon investment portfolio by 2050. To guide and monitor the Fund's decarbonisation roadmap, a series of 2030 targets have been included in the CCS. The CCS is available on the Fund's website www.staffspf.org.uk.

Climate Stewardship Plan (CSP) and Engagement

9. Following the production of the Climate Risk report by LGPS Central Ltd, which was presented to the Pensions Committee in March 2021, Fund Officers produced a 2021/22 Climate Stewardship Plan (CSP). The CSP has been a working document for 2021/22, and the final version detailing the engagement carried out in 2021/22 is attached as Appendix 1. The amount of engagement that has taken place over the year should be commended and whilst there is always more that could be done, time and resource continue to be limiting factors.

10. A new CSP for 2022/23 was approved by the Pensions Committee, alongside the Fund's CCS, in February 2022 and this is attached at Appendix 2. Engagement activity for 2022/23 will be reported against the 2022/23 CSP as part of future RI&E reports to the Panel.
11. As the Fund appoints external investment managers, engagement with individual companies is delegated to these managers and the investment managers of pooled funds, in which the Fund also invests (e.g., LGPS Central Funds) and jointly as part of LAPFF. Information on manager engagement and voting is requested routinely, as part of the quarterly reporting the Fund receives from each of the managers. In Q12022 managers' engagement topics included:
 - Meeting with a Pharmaceutical company to discuss board diversity and inclusivity in the workplace.
 - Meeting with a Telecommunications company to discuss carbon neutrality and targets for reducing Scope 1 and 2 emissions.
 - Writing to Oil companies on emissions reporting and emissions reduction plans.
 - Engaging with policy makers worldwide on Sustainable Green Finance and ESG policies.
 - Engagement with Banks on decarbonisation targets for financing of high emission-sectors.

LAPFF Quarterly report

12. LAPFF's Q1 2022 Engagement Report is attached for information at Appendix 3. Staffordshire joined LAPFF in March 2013, to reaffirm its commitment to RI&E matters. As always, Pensions Panel Members are encouraged to read the report as it highlights the good work LAPFF does in engaging with organisations on behalf of its members. Examples of engagement from the last quarter included:
 - LAPFF continued to ask several companies to undertake human rights impact assessments on their operations in the Occupied Palestinian Territories (OPT). LAPFF met with two companies this quarter, Motorola, alongside representatives for LGPS Central, and Bezeq. Bezeq is the first company LAPFF has met on this topic that operates under Israeli state law, and they provided an overview of their operations and the areas in which they operate. LAPFF will continue to engage with companies who operate in the OPT – many of whom do not appear to have sufficient human rights due diligence processes in place, or even a human rights policy. LAPFF will need to carefully consider their voting recommendations, given that the OPT is a conflict zone, which requires enhanced human rights due diligence.
 - LAPFF have recently produced a paper on mining and human rights. This details the engagement they have undertaken, and which they will continue to

do, working with mining companies and communities effected by their operations. These including those impacted by the Samarco tailings Dam collapse in Brazil and the destruction of the Juukan Gorge in Australia. Link to the full report: [LAPFF-Mining-and-Human-Rights-Report.pdf \(lapffforum.org\)](https://lapffforum.org/LAPFF-Mining-and-Human-Rights-Report.pdf)

LGPS Central Ltd Quarterly Stewardship Report Q1 2022

13. The LGPS Central Ltd Annual Stewardship Report for 2021 is attached as Appendix 4. This report was produced instead of the usual Quarterly Stewardship Report in Q42021 and is a wider document which will also be used as evidence to support the Company's Statement of Compliance with the UK Stewardship Code.
14. The LGPS Central Ltd Quarterly Stewardship Report Q12022 is attached as Appendix 5. Again, Pensions Panel Members are encouraged to read these reports as they highlight the good work LGPS Central and its appointed voting and engagement partners do, in engaging with organisations on behalf of its eight Partner Funds.

Quarterly voting summary

15. The Fund receives quarterly updates from its investment managers on details of votes cast on corporate resolutions. The following table summarises the voting activity of the Fund's investment managers in Q1 2022.

Investment Manager Voting Activity Q1 2022

	Total resolutions	Vote with management	Votes against management	Abstain
Impax	93	86	7	0
JP Morgan	247	235	11	1
Longview	51	49	2	0
Legal & General	67,550	55,151	11,678	721
LGPS Central – Global Equity Fund	359	320	0	39
LGPS Central- Global Multifactor Fund	2,295	1,956	282	57

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Equalities implications: Whilst there are no direct equalities implications arising from this report, equality is considered as part of the Pension Fund's wider engagement with companies.

Legal implications: There are no direct legal implications arising from this report.

Resource and Value for money implications: The resource and value for money implications are included in the body of the report. Specific consideration should be given to any effect on investment returns.

Risk implications: There is a risk that any screening of investments may result in the Pension Fund not maximising investment returns.

Climate Change implications: The Pension Fund has a Climate Change Strategy in place and produces an annual Climate Stewardship Plan which details its engagement on Climate Change matters.

Health Impact Assessment Screening: There are no direct implications arising from this report.