



Staffordshire
Pension Fund
Local Government Pension Scheme

Climate Stewardship Plan

April 2021



Staffordshire Pension Fund Climate Stewardship Plan

Staffordshire Pension Fund ('the Fund') recognises that climate change presents a risk which could be financially material, and which must be addressed under the scope of the Fund's fiduciary duty.

Given the Fund's long-dated liabilities and the timeframe in which climate risks could materialise, a holistic approach to risk management covering all sectors and all relevant asset classes is warranted.

To mitigate the worst economic impacts of climate change, there must be a large, swift, and globally co-ordinated policy response. The issue faced by diversified investors (such as pension funds) is not limited to the oil & gas and power generation sectors, but also to the vast number of downstream sectors, whose products and services are derived from, or reliant on, fossil fuel extraction. Investors focussing exclusively on primary energy suppliers could fail to identify material climate risks in other sectors and to limit the demand.

Following the production of the Fund's Climate Risk Report, as presented to the Pensions Committee on 23 March 2021, a Climate Stewardship Plan (CSP) has been produced.

The Fund believes it is possible for companies with current high emission levels to change, reduce their emissions and thrive in a low carbon economy and that the support and stewardship of investors is key to influencing this.

The CSP focuses on the investments having most impact / of most relevance to Fund's climate risk, which improves upon the existing approach to climate-related engagement in terms of prioritisation. The companies recommended for engagement have been identified based on the following factors:

- Perceived level of climate risk, considering carbon risk metrics;
- Weight of the company in the portfolio;
- Likelihood of achieving change; and
- Ability to leverage investor partnerships.

The fund managers recommended for engagement have been identified based on the following factors:

- Perceived level of climate risk, considering carbon risk metrics and climate scenario analysis;
- Size (by AUM) of the portfolio; and
- Whether the mandate is expected to be long-term.

Although we have highlighted certain managers for specific monitoring questions, the option remains open to assess all external equity investment managers using the questions and scoring system in the "Addressing climate risks and opportunities in the investment process" guidebook, published by the Institutional Investors Group on Climate Change (IIGCC). Progress updates are recommended to be reported to the Pensions Panel each quarter as part of the Responsible Investment report and a

new CSP will be presented annually to the Pensions Committee, along with the Climate Strategy, the first version of which is currently being produced.

Table 1. Companies recommended for engagement

| Company | Sector | Portfolio | Issue/Objective | Vehicle | Engagement Carried out |
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| BP | Energy | <ul style="list-style-type: none"> • LGIM UK Equities • LGIM All World Equities | <ul style="list-style-type: none"> • Delivery on Net Zero Commitment | LGIM, Standard Life, CA100+, LAPFF | LAPFF Q42021-Met with BP representatives to get more background on the company’s energy transition plan, which includes a 40% reduction of production over 10 years and goal of 50GW of renewable capacity by 2050. LGIM Q12022- engaged with BP senior executives six times in 2021 as they develop their climate transition strategy to ensure alignment with Paris goals. BP announced in Feb 22 they had strengthened climate targets, together with a net-zero by 2050 commitment. |
| China Resources Cement | Materials | <ul style="list-style-type: none"> • JP Morgan Asset Management • LGIM All World Equities | <ul style="list-style-type: none"> • Lowering of carbon footprint • Better, more up to date GHG disclosure | LGIM, JPMorgan, LAPFF | JP Morgan-April 2021 - discussion on high carbon emitting stocks held. JP Morgan no longer hold China Resources Cement, which was the stock with the biggest carbon footprint in their portfolio. |
| Electricity Generating Public Company | Utilities | <ul style="list-style-type: none"> • JP Morgan Asset Management • LGIM All World Equities | <ul style="list-style-type: none"> • Delivery of robust GHG emissions reduction target(s) | LGIM, JPMorgan, LAPFF | JP Morgan-July 2021 – Further discussions held with JP Morgan on high carbon emitting stocks. JP Morgan no longer hold Electricity Generating Public Company. |
| Glencore | Materials | <ul style="list-style-type: none"> • LGPS Central GEAMMF: Harris | <ul style="list-style-type: none"> • Paris-aligned business model including scope 3 emissions | LGIM, Standard Life, LGPS | Standard Life- Q12021- Glencore is conscious that their exposure to thermal |

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| | | <ul style="list-style-type: none"> • LGIM UK Equities • LGIM All World Equities | <ul style="list-style-type: none"> • Lobbying and trade associations | Central via CA 100+, LAPFF | <p>coal is unattractive to many investors. The exposure is running down naturally, but investor attitudes may encourage a more active response in due course.</p> <p>Harris Q42021-Met with new Glencore Chair to discuss governance, culture, and strategy, in addition to the reduction of 'tail' assets within the portfolio.</p> <p>Harris February 2022 - At the annual LGPS Central GEAMMF Manager-day Harris were questioned on their position in Glencore. Harris was content with Glencore's transition plans and planned reduction in thermal coal exposure in the longer run. Harris also pointed out that in the longer run, Glencore will be a key player in providing the materials for the low carbon transition (i.e., Cobalt)</p> <p>Q12022- Harris met Glencore's CEO and discussed Fossil fuel exposure . Glencore have not significantly increased coal production in light of pressures from rising coal prices, which would have put them in danger of moving off track with their net zero targets.</p> |
| Lafargeholcim | Materials | <ul style="list-style-type: none"> • LGIM All World Equity • LGPS Central GEAMMF: Harris | <ul style="list-style-type: none"> • Paris-aligned carbon target • Continued reduction in clinker-cement ratio | LGIM, LGPS Central via CA 100+, LAPFF | |

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| NextEra Energy | Utilities | <ul style="list-style-type: none"> • LGIM All World Equity • LGPS Central GEAMMF: Schroders • LGPS Central GEAMMF: Union | <ul style="list-style-type: none"> • Improved carbon risk management quality (measured by TPI score) • Better, more up to date, GHG disclosure • Lobbying and trade associations | LGIM, LGPS Central via CA100, LAPFF | LAPFF Q32021- sent correspondence to NextEra Energy regarding Climate change and reported a substantial improvement from them. |
| Rio Tinto | Materials | <ul style="list-style-type: none"> • LGIM UK Equities • LGIM All World Equities • JP Morgan Global Equity | <ul style="list-style-type: none"> • Paris-aligned business model including scope 3 emissions • Developing methodology for assessing Paris-alignment of diversified miners • Lobbying and trade associations | LGIM, JP Morgan, Standard Life, CA100+, LAPFF | LAPFF – In Q12021 LAPFF engaged with BHP and Rio Tinto on the joint venture, Resolution Copper, to ensure that the project is being undertaken responsibly. Concerns have been raised about the type of engagement the companies have had with communities affected by the project. |
| Shell | Energy | <ul style="list-style-type: none"> • LGIM UK Equities • LGIM All World Equities | <ul style="list-style-type: none"> • Alignment of Net Carbon footprint with the Paris Agreement | LGIM, Standard life, CA100+, LAPFF | <p>LAPFF – In Q12021 LAPFF continued to engage with Shell. In addition to its own engagement, LAPFF is engaging via the CA100+ group of investors on Shell. Last year, 2020, LAPFF recommended voting for a shareholder resolution at the Shell AGM that requested specific targets for Shell’s claimed climate change ambitions.</p> <p>Schroders - February 2021 – At the annual LGPS Central GEAMMF Manager-day Schroders were questioned on their position in Shell. Schroders are content with Shell’s climate transition plans and that they are in line with Schroders own Climate Transition Action Plan. Schroders are also not including any</p> |

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| | | | | | <p>returns from fossil fuels past 2030 in their analysis of Shell.</p> <p>Q12022- Schroders met with the chairman of Shell and were encouraged that the board seemed open to accelerating the shift to more sustainable assets. Shell sees themselves as well-positioned for hydrogen, but they view green hydrogen as not yet ready for large scale investment, so are focusing on smaller scale projects. Schroders challenged this view as being too conservative.</p> <p>March 22- LAPFF as part of CA100+ met Shell CEO There was no discernible shift in either the strategy or the path to limiting global warming to 1.5°C. There now appears to be more scepticism on Shell's transition plans, from asset managers and owners that had previously been supportive of the Shell plans, which is in line with LAPFF's position.</p> |
| The Southern Company | Utilities | <ul style="list-style-type: none"> • LGIM All World Equity | <ul style="list-style-type: none"> • Integration of climate risk into the company's long-term business model • Reduction targets in line with a 2-degree scenario | LGIM, CA100+, LAPFF | |
| Vistra Corporation | Utilities | <ul style="list-style-type: none"> • JP Morgan Asset Management • LGIM All World Equities | <ul style="list-style-type: none"> • Delivery on Net Zero commitment | LGIM, JPMorgan, LAPFF | |

Table 2. Investment managers recommended for engagement

| Investment Manager | Portfolio | Issue | Engagement Carried out |
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| Standard Life Investments | UK Equity Fund | <ul style="list-style-type: none"> Stewardship activities with Anglo American and Glencore | Staffordshire Pension Fund mandate with Standard Life terminated in April 2021 |
| JP Morgan | Global Equity Fund | <ul style="list-style-type: none"> Approach to climate risk management Engagement activities with China Resources Cement, Electricity Generating Public Company, Vistra Corp and NK Lukoil | <p>April 2021 - discussion on high carbon emitting stocks held. JP Morgan no longer hold China Resources Cement, which was the stock with the biggest carbon footprint in their portfolio. Follow on conversations held in May 2021 on JP Morgan's approach to ESG generally, and how climate risk is factored into this analysis – JP Morgan plan to discuss this further with Staffordshire Pensions Panel Members when they next meet (occurred September 2021)</p> <p>July 2021 – Further discussions held with JP Morgan on their portfolio and high carbon emitting stocks. JP Morgan have now sold the top 5 carbon emitting stocks held at 31 March 2020, as identified in the LGPS Central Climate Risk Report.</p> |
| LGIM | All World Equity | <ul style="list-style-type: none"> Voting and engagement with key fossil fuel stocks | <p>October 2021- LGIM launched the fifth engagement cycle of the Climate Impact Pledge, where they analyse and directly engage with around 60 companies in 15 climate-critical sectors on their strategic approach to climate change, and to what extent they are aligning their businesses with the constraints and opportunities of a net-zero transition. November 2021 – A meeting was held with LGIM on their global low carbon passive indices. The meeting covered how the indices were constructed and the ongoing engagement and monitoring undertaken by LGIM to maintain the indices.</p> |
| LGIM | UK Equity Fund | <ul style="list-style-type: none"> Stewardship activities with Glencore, BHP, Anglo American and CRH | November 2021 – A meeting was held with LGIM on their global low carbon passive indices. The meeting covered how the indices were constructed and the ongoing engagement and monitoring undertaken by LGIM to maintain the indices. |

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| <p>LGPS Central</p> | <p>Global Equity Active Multi-Manager Fund</p> | <ul style="list-style-type: none"> • Clarity on how LGPS Central manages climate risks for the portfolio Engagement with Glencore, LafargeHolcim and NextEra Energy | <p>January 2021 – LGPS Central have created a voting watch list which includes the companies identified as high-risk in all Partner Funds, Climate Risk Reports. This is to ensure that the voting on climate related issues, reflects the risks identified in Partner Funds Climate Risk Reports.</p> <p>October 2021 – After discussions between LGPS Central and Partner Funds, carbon metrics will now be included in all performance reports going forwards where feasible (i.e. equity reports).</p> <p>Harris Q42021-Met with new Glencore Chair to discuss governance, culture, and strategy, in addition to the reduction of ‘tail’ assets within the portfolio.</p> |
| <p>Longview Partners</p> | <p>Global Equity Fund</p> | <ul style="list-style-type: none"> • Clarity on Longview's climate change beliefs and tools used to monitor climate risk | <p>Longview produce a quarterly Carbon report detailing carbon Risk rating, Carbon intensity, Fossil fuels and stranded assets of its portfolio compared with its benchmark.</p> <p>April 2021 – discussions with Longview held regarding their approach to climate change. Despite low carbon footprint of portfolio, Longview aiming to participate more prominently in climate change debate. Longview also confirmed they are looking to sign up to a well know industry pressure group on climate change.</p> <p>July 2021 – Longview confirmed they have joined the IIGCC in June 2021. Also During quarter 2 2021 Longview engaged with Glass Lewis, the proxy voting advisor, on the topic of “Say on Climate” (which calls for greater disclosure of carbon emissions and transition plans by companies and requests an annual advisory vote on the plans and progress), which is broadly in line with IIGCC thinking. Longview encouraged Glass Lewis to incorporate the principles of “Say on Climate” into their voting advice to clients.</p> <p>September 2021- Longview have been approved as signatory to the new 2020 UK Stewardship code and become co-signatory to the “2021 Global Investor Statement to Governments on the</p> |

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| | | | <p>Climate Crisis". The statement calls on governments to raise their climate ambition and implement meaningful policies to tackle climate change</p> <p>Q12022- Longview has undertaken an audit of portfolio company climate commitments to ascertain the current position. From this initial audit exercise, Longview has identified and prioritised companies to engage with on this matter; to either more clarity or push for firmer commitments for action.</p> |
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