



Staffordshire
Pension Fund
Local Government Pension Scheme

Climate Stewardship Plan

2022/23



Staffordshire Pension Fund Climate Stewardship Plan 2022/23

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.

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.

Following production of the Fund's first Climate Risk Report, as presented to the Pensions Committee on 23 March 2021, a Climate Stewardship Plan (CSP) for 2021/22 was created. Receipt of the Fund's second Climate Risk Report has enabled an updated CSP to be produced for 2022/23. This reflects changes in the Fund's portfolio and underlying company investments and was approved by the Pensions Committee at its meeting on 11 February 2022.

The 2022/23 CSP focuses on the investments having the most impact, or of the most relevance, to the 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 **investment managers** recommended for engagement were identified based on the following factors:

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

Although certain companies and investment managers have been highlighted for specific reasons and engagement within the CSP, 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).

Updates on progress and engagement, in line with the priorities identified in the CSP will be presented to the Pensions Panel each quarter, as part of a Responsible Investment and Engagement report. An updated CSP will be presented to the Pensions Committee annually, alongside updates to the Fund's Climate Change Strategy, which was introduced in 2022.

The main differences in the CSP, to the companies recommended for engagement, in 2022/23 are:

- the removal of China Resources Cement, Electricity Generating Public Company and Vistra Corporation; and
- the addition of CRH and Linde.

Between March 2020 and September 2021, following initial Officer engagement, one of the Fund's global equity managers, JP Morgan Asset Management exited positions in China Resources Cement, Electricity Generating Public Company and Vistra Corporation, which had been added to the Fund's CSP 2021/22 due to their high carbon intensities.

As a result of the updated carbon metrics analysis contained in the Fund's most recent Climate Risk Report, it was recommended that CRH and Linde were added to the CSP in 2022/23.

Due to the termination of contracts and subsequent appointment and investment with a global sustainable equity manager, Standard Life Investments have been removed from the CSP and replaced by Impax Asset Management, in the list of investment managers recommended for engagement.

Table 1. Companies recommended for engagement in 2022/23

Company	Sector	Portfolio	Issue/Objective	Vehicle	Engagement carried out 2022/23
BP	Energy	<ul style="list-style-type: none"> • LGIM UK Equities • LGIM All World Equities • LGPS Central Global Multi Factor Fund • JP Morgan Global Equity 	<ul style="list-style-type: none"> • Achievement of the high-level objectives of the CA100+ initiative including attainment of the specific indicators in the CA100+ Benchmark Framework. • To duly account for climate risks in financial reporting. 	LGIM, CA100+, LAPFF, JP Morgan	
Glencore	Materials	<ul style="list-style-type: none"> • LGPS Central GEAMMF: Harris • LGIM UK Equities • LGIM All World Equities • LGPS Central Global Multi Factor Fund 	<ul style="list-style-type: none"> • Achievement of the high-level objectives of the CA100+ initiative including attainment of the specific indicators in the CA100+ Benchmark Framework. 	LGIM, LGPS Central via CA 100+, LAPFF	
Holcim	Materials	<ul style="list-style-type: none"> • LGIM All World Equity • LGPS Central Global Multi Factor Fund • LGPS Central GEAMMF: Harris 	<ul style="list-style-type: none"> • Paris-aligned accounts in line with IIGCC’s Investor Expectations • Achievement of the high-level objectives of the CA100+ initiative 	LGIM, LGPS Central via CA 100+, LAPFF	
NextEra Energy	Utilities	<ul style="list-style-type: none"> • LGIM All World Equity • LGPS Central GEAMMF: Schroders 	<ul style="list-style-type: none"> • Methane emissions reduction aligned with the Paris Agreement 	LGIM, LGPS Central via CA100, LAPFF	LGPS as part of the CA100+ has called for NextEra to set net zero target consistent with 1.5C pathway. In June NextEra released its “Real

		<ul style="list-style-type: none"> • LGPS Central GEAMMF: Union 	<ul style="list-style-type: none"> • Capital allocation alignment with the Paris Agreement • Attainment of Indicator 7 “Climate Policy Engagement” in the CA100+ benchmark • Net Zero GHG emissions by 2050 (or sooner) ambition 		Zero” plan which calls for significant investments to eliminate all Scope 1 and Scope 2 carbon emissions across NextEra Energy’s operations by no later than 2045. LGPSC welcomes the company’s increased ambition but recognises that more work needs to be done for the company to be fully aligned with Paris goals.
Rio Tinto	Materials	<ul style="list-style-type: none"> • LGIM UK Equities • LGIM All World Equities • LGPS Central Global Multi Factor Fund 	<ul style="list-style-type: none"> • Achievement of the high-level objectives of the CA100+ initiative including attainment of the specific indicators in the CA100+ Benchmark Framework. 	LGIM, CA100+, LAPFF	
Royal Dutch Shell	Energy	<ul style="list-style-type: none"> • LGIM UK Equities • LGIM All World Equities • LGPS Central Global Multi Factor Fund • LGPS Central GEAMMF: • JP Morgan Global Equity 	<ul style="list-style-type: none"> • To set and publish targets that are aligned with the goal of the Paris agreement • To fully reflect its net-zero ambition in its operational plans and budgets • To set a transparent strategy on achieving net zero emissions by 2050, including valid assumptions for short-, medium- and long-term targets 	LGIM, CA100+, LAPFF	<p>Q1 22 JPMorgan met with Shell at their annual ESG update meeting to inform voting on 2 climate related resolutions at the AGM. Shell’s decarbonization strategy includes a reduction in absolute emissions of 50% by 2030 and 50% of all total expenditure to be on low and zero carbon products by 2025. Shell has achieved its target to reduce net carbon intensity of the energy products sold by 2-3% by the end of 2021.</p> <p>At the 2022 AGM, Shell provided shareholders with a progress update</p>

					<p>on the energy transition plan which was met by 20.1% opposition among shareholders including LGPSC. With this level of opposition (above 20%), Shell is required to engage and consult shareholders on their concerns. LGPSC welcomed steps taken by Shell, including a commitment to deploy 45-50% of its capex on low and zero carbon projects between 2025 and 2030, which is an improvement from its 24% target in 2021. Furthermore, Shell has set an ambition to reduce oil production by 10- 20% by 2030, which will reduce its Scope 3 emissions. However, this does not align with the 28% reduction in oil production forecast by the International Energy Agency's Net Zero Scenario (NZE) as a requirement to meet a 1.5C target.</p>
The Southern Company	Utilities	<ul style="list-style-type: none"> • LGIM All World Equity • LGPS Central Global Multi Factor Fund 	<ul style="list-style-type: none"> • Achievement of the high-level objectives of the CA100+ initiative including attainment of the specific indicators in the CA100+ Benchmark Framework. 	LGIM, CA100+, LAPFF	
Linde	Materials	<ul style="list-style-type: none"> • LGIM All World Equity • LGPS Central Global Multi Factor Fund 	<ul style="list-style-type: none"> • Paris-aligned accounts in line with IIGCC's Investor Expectations 	LGIM, LGPS Central	

		<ul style="list-style-type: none"> • LGPS Central GEAMMF: Schroders • LGPS Central GEAMMF: Union • Impax 	<ul style="list-style-type: none"> • Reduction in the company's carbon footprint 		
CRH	Materials	<ul style="list-style-type: none"> • LGIM UK Equities • LGIM All World Equities • LGPS Central Global Multi Factor Fund • LGPS Central GEAMMF: Union 	<ul style="list-style-type: none"> • Paris-aligned accounts in line with IIGCC's Investor Expectations • Achievement of the high-level objectives of the CA100+ initiative 	LGIM, LGPS Central via CA100+	Union - February 2021 – At the annual LGPS Central GEAMMF Manager-day Union were questioned on the Paris alignment of CRH's business model. Union believe CRH are best in class for the production of cement and aggregates with the lowest emissions possible. They also believe their carbon reduction targets are plausible based on current technology but past 2030 new technologies will need to be used to reduce emissions further.

Table 2. Investment managers recommended for engagement in 2022/23

Investment Manager	Portfolio	Issue	Engagement carried out 2022/23
JP Morgan	Global Equity Fund	<ul style="list-style-type: none"> • Continue to monitor JP Morgan’s climate risk management • Question JP Morgan about their engagement activity with Royal Dutch Shell, BP and NK Lukoi 	Q1 22 JPMorgan met with Shell at their annual ESG update meeting to inform voting on 2 climate related resolutions at the AGM. Decarbonization strategy includes reduction in absolute emissions by 50% by 2030 and 50% of all total expenditure to be on low and zero carbon products by 2025. Shell has achieved its target to reduce net carbon intensity of the energy products sold by 2-3% by the end of 2021.
Legal & General Investment Managers (LGIM)	All World Equity	<ul style="list-style-type: none"> • Continue to monitor engagement progress with NextEra via the Climate Stewardship Plan. • Monitor LGPS Central’s engagement with AGL, Coal India, BP, ExxonMobil, NTPC and Gazprom. • Continue to monitor the TPI carbon performance of the portfolio 	
Legal & General Investment Managers (LGIM)	UK Equity Fund	<ul style="list-style-type: none"> • Continue to include Shell, Rio Tinto and BP in the Climate Stewardship Plan • Monitor LGIM’s engagement with CRH, BHP, Anglo American and Evraz 	
LGPS Central Limited	Global Multi Factor Fund	<ul style="list-style-type: none"> • Continue to monitor LGPS Central’s approach to climate risk management • Review LGIM’s stewardship activities with Duke Energy, China Resources Power and The Southern Company 	

		<ul style="list-style-type: none"> Continue to monitor TPI data within the portfolio 	
LGPS Central Limited	Global Equity Active Multi-Manager Fund (GEAMMF)	<ul style="list-style-type: none"> Monitor LGPS Central’s approach to managing climate risk in the portfolio. In particular, on Harris Associates’ overweight position in thermal coal reserves. Monitor LGPS Central’s engagement with Harris Associates in particular relating to their engagement with Berkshire Hathaway Continue to include NextEra Energy and Lafarge Holcim in the Climate Stewardship Plan 	LGPS as part of the CA100+ has called for NextEra to set net zero target consistent with 1.5C pathway. In June NextEra released its “Real Zero” plan which calls for significant investments to eliminate all Scope 1 and Scope 2 carbon emissions across NextEra Energy’s operations by no later than 2045. LGPS welcomes the company’s increased ambition but recognises that more work needs to be done for the company to be fully aligned with Paris goals.
Longview Partners	Global Equity Fund	<ul style="list-style-type: none"> Continue to monitor Longview Partners’ approach to management of climate risk Question Longview Partners’ apparent underweight to clean tech stocks in the portfolio 	A portfolio wide climate commitment audit was carried out in 2021. In May 2022 Longview enquired with Grainger about their plans to commit to a net-zero target. Grainger are currently working with suppliers to analyse Scope 3 emissions. They commented that it was difficult to make commitments beyond 2030 without identifying and potentially influencing Scope 3 emissions. They have currently set 2030 targets which are aligned with the Paris agreement.
Impax Asset Management	Global Sustainable Equities	<ul style="list-style-type: none"> Enquire after the extent of stewardship activity with Linde 	
LGPS Central Limited	Global Active Investment Grade Corporate Bond Multi	<ul style="list-style-type: none"> Monitor LGPS Central’s approach to managing climate risk within their portfolio, particularly where there is an absence of reported GHG emissions data Ask LGPS Central to monitor Neuberger’s engagement with WEC Energy, SSE, Centrica, ExxonMobil and Diamondback Energy 	

		<ul style="list-style-type: none">• Ask LGPS Central to monitor Fidelity's engagement with SSE• Ask after the extent of investment in green bonds and the circumstances in which the managers would consider buying green bonds	
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CLIMATE ACTION 100+ (CA100+)

CA100+ is an investor-led initiative set up to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. The engagement initiative currently encompasses 167 companies that are estimated to collectively emit more than 80% of industrial GHG emissions globally. Investor participants, including LGPSC Central Limited, have committed to engage these high emitters to:

- Implement a strong governance framework which clearly articulates the board's accountability and oversight of climate change risk;
- Take action to reduce GHG emissions across the value chain, consistent with the Paris Agreement's goal of limiting global average temperature increase to below two degrees Celsius above pre-industrial levels, aiming for 1.5 degrees. Notably, this implies the need to move towards net-zero emissions by 2050 or sooner; and
- Provide enhanced corporate disclosure in line with the final recommendations of the Task Force on Climate related Financial Disclosures (TCFD) and sector-specific Global Investor Coalition on Climate Change (GIC) Investor Expectations on Climate Change guidelines (when applicable), to enable investors to assess the robustness of companies' business plans against a range of climate scenarios, including well below two degrees and improve investment decision making.

In September 2020, CA100+ introduced a Benchmark Framework which identifies ten key indicators of success for business alignment with a net-zero emissions future and goals of the Paris Agreement. Assessments for each CA100+ company against the ten indicators were published on 22 March 2021 and offers comparative assessments of individual focus company performance against the three high-level commitment goals.

The ten indicators included in the CA100+ are:

1. Net-zero GHG emissions by 2050 (or sooner) ambition
2. Long-term (2036-2050) GHG reduction target(s)
3. Medium-term (2026-2035) GHG reduction target(s)
4. Short-term (up to 2025) GHG reduction target(s)
5. Decarbonisation strategy
6. Capital allocation alignment
7. Climate policy engagement
8. Climate governance
9. Just Transition
10. TCFD Disclosure

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