

PENSIONS PANEL – 6 DECEMBER 2022

Report of the Deputy Chief Executive & Director for Corporate Services

RESPONSIBLE INVESTMENT & ENGAGEMENT (RI&E) REPORT QUARTER 2 2022/23

Recommendations of the Chairman

1. That the Pensions Panel note:
 - (a) the content of the Responsible Investment and Engagement (RI&E) Report, including the Climate Stewardship Plan for 2022/23 (Appendix 1);
 - (b) the Local Authority Pension Fund Forum (LAPFF) Quarterly Engagement Report (Appendix 2); and
 - (c) the LGPS Central Quarterly Stewardship Update (Appendix 3).

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 now required to submit a Stewardship Report that meets the FRC's new reporting expectations. A draft Stewardship Report will be presented to the Panel, and Pensions Committee for approval, during 2023 on the work the Fund does to demonstrate how it meets 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 RI&E reports from its investment managers, and these are publicly available on the investment managers own 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 Corporate Sustainability Report (Private Equity) and Gresham House Sustainable Investment Report (Residential Property).

Climate Change Strategy

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 and Engagement

9. Following the production of the Fund's latest Climate Risk Report by LGPS Central Ltd, which was presented to the Pensions Committee in March 2022, an updated Climate Stewardship Plan (CSP) has been developed for 2022/23. The CSP for 2022/23 is a working document which will be updated for engagement activity carried out throughout 2022/23 and progress will be reported to the Panel quarterly. The latest CSP is attached at Appendix 1.
10. 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 Q2 2022/23 managers' engagement topics included:

- discussing ESG profile and corporate governance with a technology company;
- meeting with a clean energy company to discuss human capital management and employee engagement, including succession planning and pressure on its leaders;
- meeting with a car manufacturer to discuss climate change, board composition and capital allocation; and
- meeting with a healthcare company to discuss its climate plans (they responded that they hope to have science based interim targets within a few years, rather than a 2050 net-zero pledge).

LAPFF Quarterly report

11. LAPFF's Quarterly Engagement Report for Q2 2022/23 is attached for information at Appendix 2. 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:

- meeting with Ford to discuss its approach to human rights and responsible mineral sourcing in its electric vehicles;
- joining a collaborative call, organised by ShareAction, with Marks & Spencer representatives, to discuss the company's approach to pay as direct staff are paid above Real Living Wage, which is not matched for third-party contractors;
- volunteering to lead on upcoming company engagements with CCLA's 'Find It, Fix it, Prevent It' campaign, which seeks out companies to identify issues on modern slavery in their supply chains more proactively; and
- LAPFF Chair, Cllr Doug McMurdo spent three weeks in Brazil this quarter investigating the situation of communities affected by tailings dams in Conceição do Mato Dentro, Mariana, and Brumadinho. This trip was part of LAPFF's broader work on mining and human rights.

LGPS Central Ltd Quarterly Stewardship Report Q2 2022/23

12. The LGPS Central Ltd Quarterly Stewardship Report Q2 2022/23 is attached as Appendix 3. Again, Pensions Panel Members are encouraged to read this report which highlights the good work of LGPS Central, and its appointed voting and engagement partners, in engaging with organisations on behalf of its eight Partner Funds.

Quarterly voting summary

13. 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 Q2 2022/23.

Investment Manager Voting Activity Q2 2022/23

	Total resolutions	Vote with management	Votes against management	Abstain
Impax	19	18	1	0
JP Morgan	163	151	12	0
Longview	0	0	0	0
Legal & General	8,540	6,934	1,558	48
LGPS Central – Global Equity Fund	238	202	36	0
LGPS Central- Global Multi-Factor Fund	1,554	1,281	259	14

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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.