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 again 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	• LGIM UK Equities • LGIM All World Equities • LGPS Central Global Multi Factor Fund • JP Morgan Global Equity	• 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	Q3 22/23 JPM met with BP regarding an oil field in Iraq, which has been linked with increased rates of leukaemia. Whilst BP does not own or operate the oil field, it does provide technical services. BP commented that they are sharing best practices with this site and feel they can best influence through the oil company forum in Iraq.
Glencore	Materials	• LGPS Central GEAMMF: Harris • LGIM UK Equities • LGIM All World Equities • LGPS Central Global Multi Factor Fund	• 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	Q3 22/23 LAPFF met with Glencore to talk about LAPFF's work in Brazil, to discuss concerns community members in Peru have raised about Glencore's activities in that country, and to discuss various bribery and corruption allegations against the company. Glencore's approach to climate was also discussed. The company has now entered settlements in numerous countries in relation to various bribery and corruption allegations. It is hoped that these settlements will place internal control requirements on

					Glencore to prevent the occurrence of future problems in this area.
Holcim	Materials	• LGIM All World Equity • LGPS Central Global Multi Factor Fund • LGPS Central GEAMMF: Harris	• 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	Q1 22/23 EOS, alongside 4.76% of shareholders, votes against the climate report at Holcim's AGM as a result of misalignment between the company's short-and-medium-term targets and a 1.5C scenario.
NextEra Energy	Utilities	• LGIM All World Equity • LGPS Central GEAMMF: Schroders • LGPS Central GEAMMF: Union	• Methane emissions reduction aligned with the Paris Agreement • 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	LGIM, LGPS Central via CA100, LAPFF	Q1 22/23 - LGPSC 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. 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. Q2 22/23 - LGPSC as part of CA100+ held a meeting with the Company Secretary of NEE and are seeking to further discuss the gaps in NEE's Real Zero Plan with the Lead Independent Director of the board.

Rio Tinto	Materials	• LGIM UK Equities • LGIM All World Equities • LGPS Central Global Multi Factor Fund	• Achievement of the high-level objectives of the CA100+ initiative including attainment of the specific indicators in the CA100+ Benchmark Framework.	LGIM, CA100+, LAPFF	Q1 22/23 LGIM vote against Rio Tinto's Climate Plan. LGIM recognised the considerable progress the company has made in strengthening its operational emissions reduction targets by 2030, together with the commitment for substantial capital allocation. However, LGIM remained concerned with the absence of quantifiable scope 3 targets as they are such a material component of the company's overall emissions profile. LGPSC also voted against the Plan due to the lack of scope 3 emissions reduction targets. Q3 22/23 LAPFF attended an ESG briefing for investors to discuss the company's new 'Communities and Social Performance (CSP) Commitments Disclosure Final Report'. LAPFF asked if the company has also committed to independent environmental and social impact assessments (ESIA's), LAPFF is concerned that the company does not have a consistent or coherent approach to ESIAs. Acknowledging the expense and resources involved in this type of assessment, LAPFF would like to work with a range of mining companies to determine how

					it could be feasibly done much more widely.
Royal Dutch Shell	Energy	• LGIM UK Equities • LGIM All World Equities • LGPS Central Global Multi Factor Fund • LGPS Central GEAMMF: • JP Morgan Global Equity	• 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	Q2 22/23 JPM met with Shell at their annual ESG update meeting to inform voting on two climate related resolutions at the AGM. Shell's Decarbonisation strategy includes reductions in absolute emissions by 50% by 2030 and 50% of all Shell's total expenditure is to be on low and zero carbon products by 2025. Shell has also achieved its target to reduce net carbon intensity of the energy products sold by 2-3% by the end of 2021. At the 2022 AGM in May 2022, Shell provided shareholders with a progress update 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 welcome 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.
The Southern Company	Utilities	• LGIM All World Equity • LGPS Central Global Multi Factor Fund	• 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	• LGIM All World Equity • LGPS Central Global Multi Factor Fund • LGPS Central GEAMMF: Schroders • LGPS Central GEAMMF: Union • Impax	• Paris-aligned accounts in line with IIGCC's Investor Expectations • Reduction in the company's carbon footprint	LGIM, LGPS Central	Q2 22/23 - Meeting with Impax. Impax have high conviction in this stock and believe that the gasses Linde produce reduce emissions in other processes and improve the water recycling purification process. Linde also have science-based emissions targets and are an industry leader in having these. Q3 22/23 EOS wrote to the CEO as one of 47 signatories, representing $8 trillion assets under management for advice regarding the company's chemical production and disclosure

					practices. The letter requested the company increase transparency on the type and volume of hazardous substances the company produces particularly in non-US and EU markets where disclosure requirements are not as stringent. The letter also urges the company to take a proactive leadership role in phasing out the most persistent chemicals and publish a time-bound commitment to do so. EOS were pleased with the company's explanation of its strong product stewardship policies and that it is regularly audited by the American Chemistry Council.
CRH	Materials	• LGIM UK Equities • LGIM All World Equities • LGPS Central Global Multi Factor Fund • LGPS Central GEAMMF: Union	• 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+	Q3 22/23 In conjunction with Sarasin, LAPFF co-signed correspondence to the audit committee chair of CRH, setting out investor expectations on 1.5°C aligned accounting and audit disclosures. There has been evidence of progress; correspondence with the company recognised inherent uncertainties in the transition to net zero, and the response was welcomed with a meeting offered to discuss the requests made.

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

Investment Manager	Portfolio	Issue	Engagement carried out 2022/23
JP Morgan	Global Equity Fund	• Continue to monitor JP Morgan's climate risk management • Question JP Morgan about their engagement activity with Royal Dutch Shell, BP and NK Lukoi	Q2 22/23 JPM 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. Q2 22/23 - Meeting with JPM, where they were questioned on their climate risk management regarding high carbon emitting stocks. JPM responded that they regularly discuss and review their approach to climate risk and take opportunities to reduce exposure where possible. They also regularly engage with underlying companies on this matter. In Q3 22/23 JPM met with BP regarding an oil field in Iraq, which has been linked with increased rates of leukaemia, whilst BP does not own or operate the oil field, it does provide technical services. BP commented that they are sharing best practices with this site and feel they can best influence through the oil company forum in Iraq.
Legal & General Investment Managers (LGIM)	All World Equity	• Continue to monitor engagement progress with NextEra via the Climate Stewardship Plan.	Q1 22/23 LGIM vote against Rio Tinto's Climate Plan. LGIM recognised the considerable progress the company has made in strengthening its operational

		• Monitor LGIM's engagement with AGL, Coal India, BP, ExxonMobil, NTPC and Gazprom. • Continue to monitor the TPI carbon performance of the portfolio	emissions reduction targets by 2030, together with the commitment for substantial capital allocation. However, LGIM remained concerned with the absence of quantifiable scope 3 targets as they are such a material component of the company's overall emissions profile.
Legal & General Investment Managers (LGIM)	UK Equity Fund	• Continue to include Shell, Rio Tinto and BP in the Climate Stewardship Plan • Monitor LGIM's engagement with CRH, BHP, Anglo American and Evraz	Q3 22/23 LGIM voted for two shareholder proposals (against management) at the BHP AGM. The proposals were to proactively advocate for Australian policy settings that are consistent with the Paris Agreement's objective of limiting global warming to 1.5°C, and that the notes to the company's audited financial statements should include a climate sensitivity analysis, which includes a scenario aligned with limiting global warming to 1.5°C. These resolutions received 12.7% and 18.7% support, respectively, from shareholders. LGIM continue to engage with BHP and, more broadly, to support proposals that are aligned with LGIM's net zero aims and beliefs
LGPS Central Limited	Global Multi Factor Fund	• 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 • Continue to monitor TPI data within the portfolio	
LGPS Central Limited	Global Equity Active Multi-Manager Fund (GEAMMF)	• Monitor LGPS Central's approach to managing climate risk in the portfolio. In particular, on Harris Associates' overweight position in thermal coal reserves.	Q1 22/23 - LGPSC 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

		• 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	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.
Longview Partners	Global Equity Fund	• 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. Q1 22/23 - Longview enquired with Grainger about their plans to commit to 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 Paris agreement. Q2 22/23 - Longview held calls with HCA and L3Harris to discuss their climate commitments. Q2 22/23 -in a meeting with Longview, their approach to management of climate risk was discussed. They commented that as with all ESG factors, it is included in their investment process as a factor which could impact returns materially. Longview also carry out targeted engagement with companies on climate risk.
Impax Asset Management	Global Sustainable Equities	• Enquire after the extent of stewardship activity with Linde	Q2 22/23 - Meeting with Impax. Impax have high conviction in Linde and believe that the gasses the company produce reduce emissions in other processes and improve the water recycling purification process. Linde also have science-based

			emissions targets and are an industry leader in having these.
LGPS Central Limited	Global Active Investment Grade Corporate Bond Multi	• 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 • 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	

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 Limired, 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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