

PENSIONS PANEL – 5 SEPTEMBER 2023

Report of the Director of Finance

**RESPONSIBLE INVESTMENT & ENGAGEMENT (RI&E) REPORT
QUARTER 1 2023/24**

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 (Appendix 1);
 - (b) the Local Authority Pension Fund Forum (LAPFF) Quarterly Engagement Report (Appendix 2).

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 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 and the LGPS Central Global Sustainable Equity Active Fund – Targeted.
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. A draft 2022 Annual Stewardship Report was approved by the Pensions Committee on 31 March 2023 and following submission to the FRC, is awaiting approval. The draft report is available on the Pension Fund's Website www.staffspf.org.uk.
6. 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

7. In March 2023, the Pensions Committee approved the Fund's updated 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

8. Following the production of the Fund's latest Climate Risk Report by LGPS Central Ltd, in March 2023, an updated Climate Stewardship Plan (CSP) was developed. The CSP is a working document which is updated for engagement activity carried out throughout the year and progress is reported to the Panel quarterly. The latest CSP is attached at Appendix 1.
9. 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 Q1 2023/24 managers' engagement topics included:
 - Engagement with a health and nutrition materials company about corporate governance and remuneration policies.

- Meeting with an energy company to discuss health and safety and processes around divestment being used to reduce emissions and ensuring this is responsible divestment.
- Through collaboration with peers, putting pressure on governments around the world to introduce legislation for compulsory microfibre filters on new washing machines.
- Engaging with a food service distributor on executive compensation and emissions reductions, noting their moves to try and electrify their distribution fleet.

LAPFF Quarterly report

10. LAPFF's Quarterly Engagement Report for Q1 2023/24 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 HSBC to discuss human rights in Hong Kong and the potential to split its operations in the UK from that business.
- Meeting with Shell Chair to discuss the challenges of decarbonisation and new climate transition plans.
- Co-leading a CA 100+ engagement with National Grid on its energy transition plans.

LGPS Central Quarterly Stewardship Report Q1 2023/24

11. The LGPS Central Ltd Quarterly Stewardship Reports are available on their website www.lgpscentral.co.uk/responsible-investment/. Pensions Panel Members are again encouraged to read these reports, as they highlight the good work LGPS Central Ltd and its appointed stewardship provider, EOS at Federated Hermes (EOS), do in engaging with organisations on behalf of its eight Partner Funds. Examples of engagement from the last quarter included:

- Meeting with the Royal Bank of Canada (RBC) to discuss ethical implementation of Artificial Intelligence (AI) across the business. RBC have acknowledged investor concerns on the topic and appointed board members with expertise on AI.
- Meeting with Anglo American PLC to discuss water catchment management. Anglo American outlined that water usage has decreased by 26% relative to 2015, mainly due to increase in water reuse and recycling.

- Meeting with Marathon Oil Corp on Responsible Tax. EOS requested the company publish a responsible taxation policy in line with the Global Reporting Initiative (GRI) Tax Standard and disclose itemised payments to governments at the national, state, and local levels, which the company has suggested it will now do.

Quarterly voting summary

12. 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 2023/24.

Investment Manager Voting Activity Q1 2023/24

	Total resolutions	Vote with management	Votes against management	Abstain
Impax	443	406	37	0
JP Morgan	2,217	2,126	89	2
Longview	345	308	37	0
Legal & General	95,948	72,466	23,075	407
LGPS Central – Global Equity Fund	2,947	2,471	475	1
LGPS Central- Global Multi-Factor Fund	13,698	11,432	2,264	2
Total	111,598	89,209	25,977	412

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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.