

PENSIONS PANEL – 5 DECEMBER 2023

Report of the Director of Finance

RESPONSIBLE INVESTMENT & ENGAGEMENT (RI&E) REPORT QUARTER 2 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); and
 - (c) the LGPS Central Limited Quarterly Stewardship update (Appendix 3).
2. That the Pensions Panel approve the Stewardship Themes for 2024-2027, proposed by LGPS Central Limited for the LGPS Central asset pool.

Introduction & Background

3. 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

4. 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.

5. 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.
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).

UK Stewardship Code

7. The UK Stewardship code is a voluntary set of principles that sets high expectations for how investors, and those that support them, invest, and manage money on behalf of UK savers and pensioners, and how this leads to sustainable benefits for the economy, the environment and society. There are 12 principles for asset owners and asset managers. These principles cover the policies, processes, activities, and outcomes of effective stewardship. The code was significantly strengthened following a review in 2020, with more stringent criteria to be met to achieve signatory status. The principles are supported by reporting expectations which indicate the information that organisations should publicly report to become a signatory.
8. The Staffordshire Pension Fund's 2022 Stewardship Report was approved by the FRC in August 2023 and the Staffordshire Pension Fund is now officially a signatory of the UK Stewardship code. This is an achievement for the Fund and something only 25% of LGPS funds have attained. The report is available on the Pension Fund's Website www.staffspf.org.uk.



Climate Change Strategy

9. 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

10. 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.
11. 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 2023/24 managers' engagement topics included:
 - Engagement with two listed Japanese companies on board composition and diversity, management team diversity, pay gap and pay equity, and talent development and benefits.
 - Meeting with a car manufacturer on the company's decarbonisation plans and the company's awareness of responsibly sourcing battery minerals. The company has aggressive battery electric vehicle targets in place and is focusing on supply chain emissions from steel and aluminium, which will become more material as a source of emissions as the fleet is electrified. The manufacturer provided a high degree of transparency related to critical mineral sourcing.
 - Engaging with a food service company on addressing emissions in their operations and supply chain. A net zero target of 2050 has been set and a target of 50% food waste reduction by 2030 compared to 2019 baseline.

LAPFF Quarterly report

12. LAPFF's Quarterly Engagement Report for Q2 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:

- LAPFF continuing to engage with Anglo American, BHP, Glencore, Rio Tinto, and Vale on their human rights practices and has also established a new mining company engagement with Grupo Mexico. LAPFF is pleased that both the Anglo American and Vale groups in the PRI Advance initiative have recognised the importance of stakeholder engagement. There are plans for both groups to engage with relevant affected stakeholders. LAPFF met a Grupo Mexico representative for the first time during this quarter and is now seeking to speak with the Sonora community group affected by Grupo Mexico's operations.
- LAPFF met with the Chair of Severn Trent on the reputational risks from use of storm overflow drains, discharging sewage into waterways. LAPFF welcomed news that the company was ahead of its targets on reducing overflows. The discussion covered the company's longer-term plans, targets and capital investment. Severn Trent also set out how it was addressing climate change, including through capturing emissions from the sewage treatment process.
- LAPFF also with the Chair of House builder Taylor Wimpey, to discuss the company's approach to climate change. Since LAPFF last met the company, Taylor Wimpey has produced a transition plan, which has emission targets covering Scope 1-3 emissions and with a net zero by 2045 commitment.

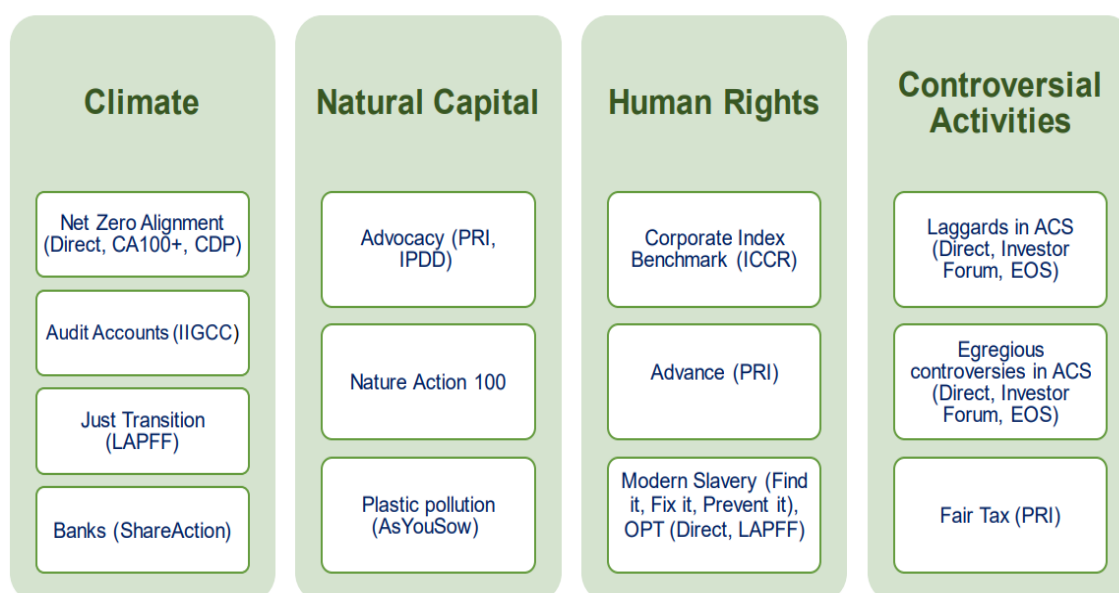
LGPS Central Quarterly Stewardship Report Q2 2023/24

13. The LGPS Central Ltd Quarterly Stewardship Update is attached at Appendix 3. 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. During the last quarter LGPS Central launched a proprietary tool for tracking engagement activities, including advocacy type engagements. The tool will track progress against engagement KPIs. Examples of engagement from the last quarter included:
 - Meeting with Société Générale, the fifth largest European provider of financing to 50 of the top oil and gas companies. LGPS Central were pleased the firm has a commitment to stop financing upstream oil and gas activities from January 2024 and refreshed its oil and gas policy with several new net zero targets.
 - Meeting with Ansell Ltd, a manufacturer of protective industrial equipment and medical gloves. They have undertaken lifecycle analysis of their product's environmental impacts. They have also partnered with a French recycling company to trial the processing of nitrile gloves into second life material for use.
 - LGPS Central via EOS raised concerns with Nestle SA regarding the absence of company advocacy for the industry to stop the marketing of unhealthy products to children under 18 years of age. The company raised its minimum age for marketing to children from 13 years to 16 years, and is strengthening its responsible marketing to children.

LGPS Central Proposed Stewardship Themes for 2024-2027

14. The Stewardship Themes of the LGPS Central pool have remained consistent over recent years, with a few changes to incorporate new or evolving themes or themes of a more pressing nature. At the request of Partner Funds, LGPS Central have undertaken a full review of the Stewardship Themes and are now proposing 4 ‘macro’ Stewardship Themes that incorporate several more detailed areas within them. The 4 Themes are more aligned to those of wider industry engagement and will therefore allow LGPS Central to work even more collaboratively with other groups of investors.
15. The 4 Stewardship Themes proposed by LGPS Central for 2024- 2027 are provided in the schematic below. The Panel is asked to consider them and, subject to any comments they may have, approve the use of the Stewardship Themes which cover both broad and topical ESG issues.

2024-2027 Proposed Stewardship Themes



Quarterly voting summary

16. 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 2023/24.

Investment Manager Voting Activity Q2 2023/24

	Total resolutions	Vote with management	Votes against management or abstain
Impax	33	30	3

JP Morgan	191	188	3
Longview	23	23	0
Legal & General	15,213	11,846	3,367
LGPS Central – Global Equity Fund	279	250	29
LGPS Central – Global Sustainable Equity Targeted Fund	25	24	1
LGPS Central- Global Climate Multi-Factor Fund	1097	939	158
LGPS Central- Global Low Carbon Multi-Factor Fund	1,586	1,313	273
Total	18,447	14,613	3,834

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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.