

PENSIONS PANEL – 5 MARCH 2024

Report of the Director of Finance

RESPONSIBLE INVESTMENT & ENGAGEMENT (RI&E) REPORT QUARTER 4 2023

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); and
 - (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. 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

6. 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.
7. 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 (and can use the graphic within the report footer). This is a real 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

8. 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

9. 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.

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 Q4 2023 managers' engagement topics included:
- Engagement with a Chinese technology firm around its AI policies including Privacy and Security, and around investor and director dialogue.
 - Meeting with a US Retailer to discuss Modern Slavery risks and practices in its own operations and within its supply chain.
 - Engagement with Volkswagen on human rights in relation to its operations in China. An independent Audit, conducted by a well-respected body was carried out in Dec 2023, leading to MSCI removing its red flag against the company.

LAPFF Quarterly report

11. LAPFF's Quarterly Engagement Report for Q4 2023 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 met with the chief sustainability officer at national grid to discuss the backlog of new connections, which is holding back many new power generation projects. National Grid commented a recent change in regulations has enabled the backlog to start to be cleared.
 - LAPFF met with representatives from the FTSE100 housebuilder Persimmon. In the meeting LAPFF had an open discussion about target setting which covered issues around embodied carbon. The meeting covered transition planning and plans, including the "hard to abate sectors" such as cement, smaller supplier, offsetting and Net Zero homes trails. LAPFF will be following the development of housebuilders' transition plans and delivering on the targets that they have set.
 - During LAPFF's meeting with Nestlé, the Forum gained insights into the strategies and initiatives involved in implementing regenerative agriculture. Discussions looked at how this would be incorporated into their broader climate strategy and covered biodiversity more widely. While the long-term efficacy of these actions is yet to be measured, the conversations indicated a strong commitment from Nestlé, although further evaluation will be required in the future to gauge the impacts of strategies.

LGPS Central Quarterly Stewardship Report Q4 2023

12. Members are asked to note that there is no Quarterly Stewardship Report from LGPS Central Limited this quarter. LGPS Central's Stewardship activities

for the quarter ending December 2023 will be covered within their Annual UK Stewardship Code Statement of Compliance, which is submitted annually in April, and will be reported to the June 2024 Pensions Panel. Some examples of engagement carried out over the quarter by LGPS Central or on behalf of the Fund are included below, for information.

- EOS, LGPS Central’s stewardship partner, engaged with a food manufacturer around sustainability metrics used in its remuneration. The company responded by splitting the ESG metric under the long-term incentive plan into three areas with equal weighting (Health, Nature and Social), with each area having a direct link to the company's strategy (e.g. the current health metric relates to the percentage volume sold of products intended for children which contain less than 10g of sugar). This sustainability metric has now been fully implemented by the company.
- One of the Global Active Equity fund’s underlying managers engaged with a soft drinks manufacturer about the company’s high exposure to single use plastics, an area which may attract greater criticism as reporting on nature-based disclosures receives greater attention. The manager has pledged to continue to engage with the soft drinks manufacturer in an effort to influence the behaviour of the company.
- LGPS Central engaged with an underlying manager in the Corporate Bond fund around its exposure to water utility companies, as water utility companies were recently connected with class action lawsuits due to allegations of misleading regulators. The manager demonstrated a strong understanding of the issue and explained that the portfolio is exposed to high quality companies which are at lower risk of penalties they would be unable to manage.

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 Q4 2024.

Investment Manager Voting Activity Q4 2024

	Total resolutions	Vote with management	Votes against management or abstain
Impax	39	32	7
JP Morgan	105	102	3
Longview	77	66	11
Legal & General	12,913	9,381	3,532
LGPS Central – Global Equity Fund	142	116	26

LGPS Central – Global Sustainable Equity Targeted Fund	26	22	4
LGPS Central- Global Climate Multi-Factor Fund	1,350	1,141	209
LGPS Central- Global Low Carbon Multi-Factor Fund	862	742	120
Total	15,514	11,602	3,912

Rob Salmon
Director of Finance

Contact: Melanie Stokes, Assistant Director for Treasury & Pensions
Helen Wilson, Senior Investment Accountant
Telephone No.: (01785) 276330 / 895411