

**PENSIONS PANEL – 6 JUNE 2023**

**Report of the Director of Finance**

**RESPONSIBLE INVESTMENT & ENGAGEMENT (RI&E) REPORT  
QUARTER 4 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 (Appendix 1);
  - (b) the Local Authority Pension Fund Forum (LAPFF) Quarterly Engagement Report (Appendix 2).
  - (c) the LGPSC Annual Stewardship Report 2022 and Quarterly Stewardship Update (Appendices 3 and 4).

**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 and the LGPS Central Global Sustainable Equity Active Fund – Targeted.

4. The Fund has recently received 'Substantial Assurance' in a 2022/23 Responsible Investment, Climate Change and Engagement Audit from Staffordshire County Council's Internal Audit service. This recognises the hard work of Officers, Advisers and colleagues at LGPS Central Ltd for putting the Fund in a good position to deliver its Strategic Asset Allocation within the framework of its Responsible Investment beliefs and Climate Change Strategy.
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](http://www.staffspf.org.uk).
6. 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](http://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 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](http://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 2022/23 managers' engagement topics included:

- Engagement with a financial services company about workplace behaviour. Following an unconstructive response, an ESG review was carried out and the manager decided to exit the position in this company.
- Meeting with a multinational insurance company to discuss governance and stakeholder engagement on artificial intelligence and cyber security, along with conversations around gender diversity at executive levels.
- Meeting with various companies and assessing how they identify, assess, mitigate, and act on the risks or instances of modern slavery in their operations and supply chains.

### **LAPFF Quarterly report**

11. LAPFF's Quarterly Engagement Report for Q4 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 McDonald's to discuss management of environmental risks across its agricultural supply chain and request publication of its water risk assessment to identify high risk areas.
- Meeting with Volvo to discuss the transition of Heavy Good Vehicles to electric.
- Attending a round table with Nestle discussing their approach to reducing Scope 3 emissions, their focus on regenerative farming, plastics and nutrition.

### **LGPS Central Annual Stewardship Report 2022 and Quarterly Stewardship Report Q4 2022/23**

12. The LGPS Central Ltd Annual Stewardship Report for 2022 is attached as Appendix 3. This report was produced instead of the usual Quarterly Stewardship Report for Q3 2022/23 and is a wider document which will also be used as evidence to support the Company's Statement of Compliance with the UK Stewardship Code.
13. The LGPS Central Ltd Quarterly Stewardship Report Q4 2022/23 is attached as Appendix 4. Pensions Panel Members are again encouraged to read these

reports, as they highlight the good work LGPS Central Ltd and its appointed voting and engagement partners do, in engaging with organisations on behalf of its eight Partner Funds.

### Quarterly voting summary

14. 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 2022/23.

#### Investment Manager Voting Activity Q4 2022/23

	Total resolutions	Vote with management	Votes against management	Abstain
Impax	110	107	3	0
JP Morgan	327	312	11	4
Longview	39	38	1	0
Legal & General	19,540	14,911	4,409	220
LGPS Central – Global Equity Fund	383	343	37	3
LGPS Central- Global Multi-Factor Fund	2,454	2,083	308	63

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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.