

**PENSIONS PANEL – 4 JUNE 2024**

**Report of the Director of Finance**

**RESPONSIBLE INVESTMENT & ENGAGEMENT (RI&E) REPORT  
QUARTER 1 2024**

**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).
  - (c) the LGPS Central Annual Stewardship Report 2023 (link provided below) and Quarterly Stewardship Update (Appendix 3).

**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](http://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 currently attained. The report is available on the Pension Fund's Website [www.staffspf.org.uk](http://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](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 Q1 2024 managers' engagement topics included:
- Engaging with Legal & General (L&G) on modern slavery. CCLA's UK Modern Slavery Benchmark had placed the company into Tier 4 ("barely achieving compliance"). The discussion with the company covered internal processes including governance of modern slavery and human rights related risks, scope of assessments, supplier due diligence, the company's responsible investment approach, engagement, as well as the benchmark's methodology. L&G acknowledged the concern and outlined its governance, oversight, and processes to manage modern slavery risks. The company has recently introduced KPIs that focus on training, supplier due diligence, and the introduction of audits in their real asset business.
  - LGIM were very pleased that, in their meeting with, APA, Australia's largest energy infrastructure business, APA confirmed that they will include a Scope 3 goal in the 2025 refresh of their Climate Transition Plan, and they outlined their proposed Scope 3 reduction pathway. The company noted that feedback from the 20% of investors, including LGIM, who voted against their proposed Climate Transition Plan in 2022, had solidified their decision to commit to a Scope 3 target.
  - Meeting with a UK based supermarket chain to evaluate the credibility of their plastic efforts and assess why they have not committed to a plastic reduction target, which is out of step with many peers. The supermarket shared that since 2019 they have already removed all unnecessary surplus plastic (like the plastic rings for bulk buy) but cautioned that further ways forward may now result in significant trade-offs in considering emissions, food waste and reduced recyclability. In their view, the scale of change given the cost of conversion and limited commercial opportunities requires policy action to level the playing field for companies. Unlike peers, the company explained that this is why they did not wish to disclose a headline plastic reduction target which they felt they may not meet without policy action. In the managers view, they felt that the supermarket was thoughtful in their approach to minimizing packaging, credible in seeking to avoid a commitment to targets they feel are not actionable and working with industry and trade groups to drive regulatory change and innovation.

### **LAPFF Quarterly report**

11. LAPFF's Quarterly Engagement Report for Q1 2024 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:

- Engagement with UK banks HSBC and Barclays, over climate change and lending to fossil fuel companies. Both banks have made progress this year, with HSBC publishing its latest transition report in January and Barclays publishing an updated Climate Change Statement in February 2024 which covered, in particular, its lending to the fossil fuel industry together with its updated transition plan. Barclays has faced criticism, including from LAPFF, for its ongoing lending to the fossil fuel industry and its lack of meaningful policies in this area. This has resulted in calls for consumer boycotts, as well as a shareholder resolution organised by ShareAction. In response to this external pressure, including multiple engagements by LAPFF, the company issued and updated its Climate Change Statement, which goes some way to addressing these concerns.
- LAPFF met with the Chief Financial Officer at United Utilities to discuss the company's plans for reducing overflows. These plans include investment strategies for improving environmental performance (regulated by the Environment Agency) such as storm overflow reductions. The meeting discussed adaptive planning, supply chain capacity, consultation, and support for the plans from their customers, and financial assistance for lower income households. The meeting also discussed gearing levels and implications for United Utilities.
- During the quarter, LAPFF engaged with luxury goods companies: Richemont SA, Kering SA, and Louis Vuitton Moët Hennessy. Prior to these meetings, it was recognised that LAPFF's requests would need to be varied due to the differing levels of disclosure and transparency regarding human rights programmes, risk management, and supply chain due diligence among the companies. These discussions allowed LAPFF to present an investor's perspective on why enhanced disclosures are critical, demonstrating a company's commitment to mitigating legal and reputational risks associated with human rights issues.

## **LGPS Central Quarterly Stewardship Report Q1 2024**

12. The LGPS Central Ltd Annual Stewardship Report for 2023 is available at [www.lgpscentral.co.uk/responsible-investment](http://www.lgpscentral.co.uk/responsible-investment). This report was produced instead of the usual Quarterly Stewardship Report for Q4 2023 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 Q1 2024 is attached as Appendix 3. Pensions Panel Members are again encouraged to read this report, as it highlights 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.

14. LGPS Central have 4 engagement priority themes which have been developed in conjunction with Partner Funds, these are 'Climate Change', 'Natural Capital', 'Human Rights' and 'Sensitive/Topical Activities'. The Fund believes these are appropriate areas for engagement focus. Highlights of engagements in these areas are:
- **Climate Change** - Through CA100+ LGPSC met with BHP regarding the closure of the Mt Arthur thermal coal mine which was due to close in 2045 but will now close in 2030. There are roughly 2,200 employees at risk of job loss. Although BHP have committed to the responsible closure of the mine in 2030, reassurances were sought from the company about how they intended to meet this commitment. The company confirmed that they had assigned costs to re-training and redeployment. However, the company has not disclosed these costs outside of the usual rehabilitation costs. BHP confirmed that consultations have taken place with employees to consider appropriate levels of re-training and re-deployment. The company admitted that they saw the point on public disclosures. LGPS Central plan on re-engaging with the company on the further disclosures regarding their approach to the Just Transition.
  - **Sensitive/Topical activities** – LGPSC wrote a letter to Arcelor Mittal following a methane explosion in a coal mine located in Kazakhstan in 2023 which resulted in 46 fatalities. LGPS Central outlined several concerns including; (1) Limited availability of published data relating to learnings from Arcelor Mittal's past incidents. LGPS Central proposed targeted efforts aimed at enhancing safety protocols and mitigating potential risks, (2) lack of adequate emergency response plans and post incident medical care protocols. Additional info on this would be welcomed, (3) lack of effective implementation of the H&S policy within the operations in Kazakhstan, (4) decrease of incentives relating to the H&S component in the company's executive pay package. LGPS Central are trying to schedule a call with the company to further discuss their concerns and they await the company's response.

### Quarterly voting summary

15. 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 2024.

## Investment Manager Voting Activity Q1 2024

	Total resolutions	Vote with management	Votes against management or abstain
Impax	109	103	6
JP Morgan	225	215	10
Longview	36	36	0
Legal & General	17,399	13,151	4,248
LGPS Central – Global Equity Fund	354	320	34
LGPS Central – Global Sustainable Equity Targeted Fund	28	23	5
LGPS Central- Global Climate Multi-Factor Fund	1509	1328	181
LGPS Central- Global Low Carbon Multi-Factor Fund	2319	2006	313
<b>Total</b>	<b>21,979</b>	<b>17,182</b>	<b>4,797</b>

### Director of Finance

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**Contact:** Melanie Stokes, Assistant Director for Treasury & Pensions  
Helen Wilson, Senior Investment Accountant

**Telephone No.:** (01785) 276330 / 895411

**Equalities Implications:** There are no direct equalities implications.

**Legal Implications:** There are no direct legal implications.

**Resources and Value for Money Implications:** There are no direct resources and value for money implications.

**Risk Implications:** Responsible Investment and Engagement aims to reduce the Fund's investment risk.

**Climate Change Implications:** Engagement on Climate change is discussed within the report.

**Health Impact Assessment screening** – There are no health impact assessment implications arising from this report.