Staffordshire
Pension Fund
Local Government Pension Scheme

# Climate Stewardship Plan

# 2023/24

## Staffordshire Pension Fund Climate Stewardship Plan 2023/24

Staffordshire Pension Fund ('the Fund') recognises that climate change presents a risk which could be financially material, and which must be addressed under the scope of the Fund's fiduciary duty.

Given the Fund's long-dated liabilities and the timeframe in which climate risks could materialise, a holistic approach to risk management covering all sectors and all relevant asset classes is warranted.

To mitigate the worst economic impacts of climate change, there must be a large, swift, and globally co-ordinated policy response. The issue faced by diversified investors (such as pension funds) is not limited to the oil & gas and power generation sectors, but also to the vast number of downstream sectors, whose products and services are derived from, or reliant on, fossil fuel extraction. Investors focussing exclusively on primary energy suppliers could fail to identify material climate risks in other sectors and to limit the demand.

The Fund believes it is possible for companies with current high emission levels to change, reduce their emissions and thrive in a low carbon economy and that the support and stewardship of investors is key to influencing this.

Following production of the Fund's first Climate Risk Report, as presented to the Pensions Committee on 23 March 2021, a Climate Stewardship Plan (CSP) for 2021/22 was created. Receipt of the most recent Climate Risk Report has enabled an updated CSP to be produced for 2023/24. This reflects changes in the Fund's portfolio and underlying company investments and was approved by the Pensions Committee at its meeting on 31 March 2023.

The 2023/24 CSP again focuses on the investments having the most impact or of the most relevance to the Fund's climate risk, which improves upon the existing approach to climate-related engagement in terms of prioritisation. The **companies** recommended for engagement have been identified based on the following factors:

- Perceived level of climate risk, considering carbon risk metrics;
- Weight of the company in the portfolio;
- Likelihood of achieving change; and
- Ability to leverage investor partnerships.

Updates on progress and engagement, in line with the priorities identified in the CSP will be presented to the Pensions Panel each quarter, as part of a Responsible Investment and Engagement report. An updated CSP will be presented to the Pensions Committee annually, alongside updates to the Fund's Climate Change Strategy, which was introduced in 2022.

| Company (Sector) | Portfolio | % of CA100+ Net Zero Benchmark* Indicators Met | TPI Score | Objectives | Vehicle | Next Steps | Engagement carried out 2023/24 |
|---|---|---|---|---|---|---|---|
| **BP** (Energy) | • LGIM<br>• LGPS Central<br>• JP Morgan | 30% | 4* | • Achievement of the high-level objectives of the CA100+ initiative<br>• To duly account for climate risks in financial reporting | LGIM, CA100+, LAPFF, JP Morgan, EOS | • Improved green house gas (GHG) intensity emissions reduction trajectory on products sold, as -12-20% by 2030 doesn't appear Paris aligned<br>• Publish absolute emissions projections for downstream business<br>• Lower oil price used in the capex test (engagers believe $60/bbl is too high) | Q1 23/24 JMP. On BP paring back its climate goals without shareholder consultation, BP said they might hold another vote in the future, but they want to focus on executing the strategy. However, acknowledged the risk of rising investor discontent with the action. Given half of its operational emissions reductions this year through divestments, JMP highlighted the increasing push for setting principles for responsible divestment from some groups. While admitting that the company is paying attention to the concept of responsible divestment, the Chairman added that their acquisitions have enabled them to use the assets better than others and hence drive down emissions.<br>Q3 23/24 LAPFF attended a meeting with new Chair of BP, Helge Lund, in November, where we were told that the departure of the CEO had not changed BPs climate commitments. |
| **CRH** (Materials) | • LGIM<br>• LGPS Central | 30% | 4 | • Improved disclosure around its membership and | LGIM, LGPS Central via CA100+ | • Climate-aligned accounting and audit:<br>• The company has thus far not responded to investor expectations | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | involvement in trade associations engaged in climate issues<br>• More robust reporting of Scope 1, 2 and 3 emissions<br>• Increased development of activities focusing on low-carbon cement solutions | | regarding how material climate risks are considered in its accounts, how its own climate targets have been incorporated into the assessment of assets, liabilities and profitability, or what a 1.5° pathway might mean for CRH's financial position.<br>• EOS will continue to engage on this topic. | |
| **Glencore** (Materials) | • LGPS Central<br>• LGIM | 40% | 4 | • Achievement of the high-level objectives of the CA100+ initiative including attainment of the specific indicators in the CA100+ Benchmark. | LGIM, LGPS Central via CA 100+, LAPFF | • LGPS has voted against Glencore's climate progress report at the AGM 28 April, alongside 35pprox. 23% of shareholders. Above 20% is substantial opposition, and the UK Corporate Governance Code requires the company to open dialogue with shareholders to understand their views and reasons for the opposition. | Q1 23/24 LGIM co-filed a shareholder proposal which called for Glencore to disclose how the company's thermal coal production plans and capital allocation decisions are aligned with the Paris objectives. This proposal received 29.2% support from shareholders, and the company has published its intention to continue to engage with shareholders and improve understanding on this matter. |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | • As co-lead of CA100+ engagement with Glencore, we will continue dialogue with the CEO, but also seeking dialogue with the Board Chair and Chair of Audit Committee, on:<br>• More ambitious short-term targets - A specific 2030 target, to ensure full transparency on the trajectory of decarbonisation relative to IEA/IPCC's 1.5C for coal<br>• Net zero accounting, with dialogue based around the findings of Carbon Tracker (previously shared with Glencore)<br>• Climate policy lobbying, with emphasis on Glencore actively advocating for a policy environment in key markets (including Australia) which will be conducive to the | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | green shift and supportive of the pivot that Glencore is seeking | |
| **Holcim** (Materials) | • LGIM<br>• LGPS Central | 30% | 4 | • Paris-aligned accounts in line with IIGCC's Investor Expectations<br>• Achievement of the high-level objectives of the CA100+ initiative | LGIM, LGPS Central via CA 100+, LAPFF | • To continue to push the company to set targets aligned with a 1.5C scenario.<br>• To continue asking for clear, meaningful, and actionable strategies for the company to achieve its targets.<br>• To request the company explains how its capital expenditure plans align with long-term emissions reductions. | |
| **Linde** (Materials) | • LGIM<br>• LGPS Central<br>• Impax<br>• JP Morgan | N/A | 3 | • Improve transparency on company's chemical production dis closure<br>• Take a leadership role in phasing out the most persistent chemicals and publish a timebound | LGIM, LGPS Central, Impax, JP Morgan | • EOS have highlighted that Linde have been reluctant to engage on certain topics including climate change, a target should be to place additional pressure on Linde and escalate engagement where possible.<br>• Improve transparency regarding chemical production. | Q1- 2024, during a call with Impax, they commented that they do engage Linde and that although industrial chemical gas production is carbon intensive, the use of the chemicals which they produce is more than offset by reduction in the carbon emissions of those that use their products. Impax that Linde do have a net-zero transition plan backed by SBTi targets. |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | commitment to do so | | • Improve performance to reduce scope 1 and 2 emissions to better align to the trajectory of 2035 and 2050 greenhouse gas targets.<br>• Get targets validated from the science-based targets initiative | |
| **NextEra Energy** (Utilities) | • LGIM<br>• LGPS Central<br>• Impax | 10% | 3 | • Capital allocation alignment with the Paris Agreement<br>• Commitment to clear medium- and long-term GHG reduction targ et | LGIM, LGPS Central via CA100, LAPFF | • NextEra should aim to get their targets validated by the science-based target initiatives (SBTi), and targets should be aligned to a 1.5 degrees scenario.<br>• Inclusion of scope 3 emissions in targets.<br>• Robust scenario analysis and TCFD reporting should also be considered. | Q3 23/24 Schroders (LGPS Central) engaged with Nextera Energy, one of the largest contributors to the portfolio's carbon emissions. This engagement focused on decarbonising and minimising emissions. |
| **Rio Tinto** (Materials) | • LGIM<br>• LGPS Central<br>• JP Morgan | 20% | 4 | • Achievement of the high-level objectives of the CA100+ initiative | LGIM, CA100+, LAPFF, JP Morgan | Engagement will focus on encouraging the company to:<br>• Set robust, time-bound scope 3 emissions reductions target<br>• Exit any industry associations with | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | climate lobbying practices that are misaligned with the Paris Agreement<br>• Provide a definition of the extent that the company will rely on carbon capture and storage within its decarbonisation strategy | |
| **Royal Dutch Shell** (Energy) | • LGIM<br>• LGPS Central<br>• JP Morgan | 50% | 4 | • To set and publish targets that are aligned with the goal of the Paris Agreement<br>• To fully reflect its net-zero ambition in its operational plans and budgets<br>• To set a transparent strategy for achieving net-zero emissions by 2050 | LGIM, CA100+, LAPFF, JP Morgan | • Intensity emissions reduction targets must be complimented by absolute emissions reduction targets, across all scopes.<br>• Aligning CAPEX with their NZ ambition.<br>• Demand-side: investors will work with sectors on the demand side, alongside Shell's engagement with its customers, to influence a 1.5°C aligned transition. | Q1 23/24 JMP met with Shell and discussed the company's progress around decarbonisation and their planned divestment in Nigeria. Shell gave an update on the ongoing court case related to the 2019 oil spill, which led to a pause in the divestment process for Shell from onshore activities in Nigeria. Spill incidents are still overwhelmingly caused by theft and sabotage (88% of spills). To counter this a number of cages to protect key points where pipes are connected have been increased. SBTI methodology for the sector (something Shell had previously been part of the working group on), would provide credibility to the company's intensity-based approach. The SBTI has still not finalised the methodology. JMP also spoke about progress towards the 30% reduction in absolute Scope 1 and 2 emissions towards 50% by 2030. Shell explained that the majority of this has been achieved through midstream divestments (~70% of the 30%) but acknowledged the lack of real-world emissions |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | | reductions achieved through divestments and spoke to the due diligence that went into sales decisions, including the carbon credentials of potential buyers.<br>Q2 23/24 LAPFF has met with the chair of Shell with some meeting of minds on some issues. Comments from the new leadership at the Shell Annual General meeting, that Shell does not have enough visibility on some putative sources of future revenue and growth to attach numbers to, does accord with LAPFF's critique in LAPFF's voting alerts since 2020.<br>Q3 23/24 JPM spoke to Shell on their Energy Transition Strategy which will be refreshed in 2024. They explained that they did not feel that the previous changes announced had a longer term impact on their strategy as the company maintains its commitment to $10-15 billion low carbon capex between 2023-2025 although they did acknowledge that the company will likely need to change their Net Carbon Intensity target. |
| **The Southern Company** (Utilities) | • LGIM<br>• LGPS Central | 20% | 3 | • Achievement of the high-level objectives of the CA100+ initiative including attainment of the specific indicators in the CA100+ | LGIM, CA100+, LAPFF | • Improved CA100+ NZB Score<br>• For the company to set a short term GHG reduction target<br>• For the company to decarbonise its capital expenditures | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | Benchmark Framework. | | | |
| **RWE** (Utilities) | • LGIM<br>• LGPS Central<br>• JP Morgan | 40% | 3 | • Achievement of the high-level objectives of the CA100+ initiative<br>• Improve the ambition of short term and medium-term targets to be 1.5 degree aligned | LGIM, CA100+, EOS, JP Morgan | Engagement will focus on encouraging the company to:<br>• More ambitious short and medium terms targets, such that they are 1.5-degree pathway aligned.<br>• Improvement of climate scenario analysis included in the TCFD report. | |

## CLIMATE ACTION 100+ (CA100+)*

The CA100+ Net Zero benchmark is designed to assess the performance of the world's 166 largest corporate greenhouse gas emitters against ten key indicators. These indicators are all measures of success for business alignment with a net zero emissions future and with the goals of the Paris Agreement.

The ten indicators are:

1. Net Zero GHG Emissions by 2050 (or sooner) ambition
2. Long-term (2036-2050) GHG reduction target(s)
3. Medium-term (2026-2035) GHG reduction target(s)
4. Short-term (up to 2025) GHG reduction target(s)
5. Decarbonisation Strategy (Target Delivery)
6. Capital Alignment
7. Climate Policy Engagement
8. Climate Governance
9. Just Transition
10. TCFD Disclosure

The first assessments for each CA100+ company against the ten indicators were published on 22 March 2021 and refreshed on 30 March 2022. These assessments offer comparative assessments of individual focus company performance against the goals of the initiative. The most recent company assessments took place during October 2022. Climate Action 100+ has been consulting on a set of proposals to enhance the Net Zero Company Benchmark for the initiative's next phase, which is set to begin in 2023.

## TRANSITION PATHWAY INITIATIVE**

The Transition Pathway Initiative (TPI) framework evaluates companies based on their climate risk management quality and their carbon performance. The former includes an assessment of policies, strategy, risk management and targets. There are six management quality levels a company can be assigned to:

- Level 0 – Unaware of (or not Acknowledging) Climate Change as a Business Issue
- Level 1 – Acknowledging Climate Change as a Business Issue
- Level 2 – Building Capacity
- Level 3 – Integrated into Operational Decision-making
- Level 4 – Strategic Assessment
- Level 4* – Satisfies all management quality criteria

Companies expected future emissions intensity pathways – labelled carbon performance – is assessed against international targets and national pledges made as part of the 2015 Paris Agreement. Alignment is tested on different timeframes, including 2030 and 2050.

There are eight carbon performance trajectories:

- No or unsuitable disclosure
- Not aligned
- International pledges
- National pledges
- Paris pledges
- 2 Degrees
- Below 2 Degrees
- 1.5 Degree

## Contact Us

In writing or in person

Treasury and Pension Fund
Staffordshire County Council
1 Staffordshire Place
Tipping Street Stafford
ST16 2DH.

Email us treasury.pensionfund@staffordshire.gov.uk

Telephone us on 01785 276300

You can also visit our website at:
www.staffspf.org.uk