

Shropshire County Pension Fund Climate Stewardship Plan



1. Introduction

In August 2020 Shropshire County Pension Fund (“The Fund”) received an in-depth Climate Risk Report from its pooling company, LGPS Central Limited. One of the key recommendations from this report was for the Fund to develop a Climate Stewardship Plan. The Climate Stewardship Plan identifies specific investee companies and portfolio managers in which stewardship techniques can be leveraged to further understand and manage climate-related risks within the Fund. The Climate Stewardship Plan aligns with and is supportive of the Task Force on Climate-related Financial Disclosures (TCFD) and relates to the third pillar – Risk Management.

The Climate Stewardship Plan focuses specifically on climate change and complements ongoing stewardship activities on other environmental, social and governance factors.

The Climate Stewardship Plan operates alongside the wider context, that for investments outside of LGPS Central, corporate engagements are also carried out through the appointed asset managers. The Fund invest in equities through Legal and General Investment Management (LGIM) and Majedie. The Fund also engages BMO Asset Management to carry out further engagement work with invested companies globally and is a member of the Local Authority Pension Fund Forum (LAPFF). The Fund has regular oversight of and discussions with LGIM, BMO and Majedie on their stewardship activity.

2. Scope

The Fund’s Climate Risk Report included a bottom-up Carbon Risk Metrics analysis of its equity portfolios. The Carbon Risk Metrics utilised included: portfolio carbon footprint (weighted average carbon intensity), exposure to fossil fuel reserves, weight in clean technology, and carbon risk management (via the Transition Pathway Initiative). The companies recommended for engagement were identified based on the following factors:

- Perceived level of climate risk, considering carbon risk metrics
- Weight of the company in the Fund
- Ability to leverage investor partnerships

The fund managers recommended for engagement were identified based on the following factors:

- Perceived level of climate risk, considering carbon risk metrics and climate scenario analysis
- Size (by AUM) of the portfolio
- Whether the mandate is expected to be long-term

3. Climate Stewardship Plan

The Fund will monitor engagements with a focus list of nine investee companies that face a high level of climate risk and are of particular significance to the Fund's portfolio. Seven companies¹ are captured by the Climate Action 100+ (CA100+) engagement project², in which our pooling company LGPS Central is an active participant.

Whilst the pooling company, LGPS Central will report to the Fund on engagement activity, the Fund itself plays an active role in monitoring engagements and engaging with LGPS Central for further information if needed.

Officers meet with Investment Managers on a quarterly basis to challenge and hold them to account on the companies they hold within their portfolios which have been identified within the stewardship plan. Updates on engagement and voting activities are provided on a quarterly basis to Pension Committee as part of the Corporate Governance report.

In leveraging this investor initiative the Fund is able to engage and monitor progress for the focus list companies against a newly established CA100+ Net Zero benchmark Framework. All companies have been asked to set a 2050 net zero emissions ambition and to provide verifiable evidence of how that will be achieved in the short, medium and long-term. The first company assessments have been released by the IIGCC and the results are publicly available.

Company response and engagement progress will feed into voting decisions undertaken by the Fund. The Fund will engage these investee companies on all elements of the CA100+ framework but with particular emphasis on:

Company	Sector	Portfolio	Issue/ Objective
BP	Energy	<ul style="list-style-type: none">LGIM World Developed Equity PortfolioMajedie: UK Equity	<ul style="list-style-type: none">Delivery on Net Zero Commitment
Duke Energy	Energy	<ul style="list-style-type: none">LGIM World Developed Equity Portfolio	<ul style="list-style-type: none">Improved carbon risk management quality (measured by TPI Score)Better, more up to date GHG disclosureConsistent climate policies
Glencore	Materials	<ul style="list-style-type: none">LGPS Central Global Equity Active Multi Manager FundLGIM World Developed Equity Portfolio	<ul style="list-style-type: none">Paris-aligned business model including Scope 3 emissionsLobbying and trade associations
Lafargeholcim	Materials	<ul style="list-style-type: none">LGPS Central Global Equity Active Multi Manager Fund	<ul style="list-style-type: none">Paris-aligned carbon targetContinued reduction in clinker-cement ratio

¹ Ryanair and Societe Aurifere Barrick are not part of the Climate Action 100+ engagement project.

² Climate Action 100+ (CA100+) was initiated in December 2017 and is supported by more than 500 investors with 47 trillion USD in AUM. The project builds on a relatively simple but powerful logic: Engage and influence the highest emitters (80% of global industrial emissions) and you influence whole sectors, markets and the global economy with a view to assisting an orderly transition to a low-carbon economy.

NextEra Energy	Utilities	<ul style="list-style-type: none"> • LGPS Central Global Equity Active Multi Manager Fund • LGIM World Developed Equity Portfolio 	<ul style="list-style-type: none"> • Improved carbon risk management quality (measured by TPI Score) • Better, more up to date GHG disclosure • Lobbying and trade associations
Ryanair	Industrials	<ul style="list-style-type: none"> • Majedie: UK Equity 	<ul style="list-style-type: none"> • Alignment of Net Carbon Footprint with the Paris Agreement
Royal Dutch Shell	Energy	<ul style="list-style-type: none"> • LGIM World Developed Equity Portfolio • Majedie: UK Equity 	<ul style="list-style-type: none"> • Alignment of Net Carbon footprint with the Paris Agreement
Societe Aurifere Barrick	Mining	<ul style="list-style-type: none"> • Majedie: UK Equity 	<ul style="list-style-type: none"> • Public support of the Paris Agreement • Paris aligned carbon targets
The Southern Company	Utilities	<ul style="list-style-type: none"> • LGIM World Developed Equity Portfolio 	<ul style="list-style-type: none"> • Integration of climate risk into the company's long-term business model • Reduction targets in line with a 2-degree scenario

The Fund will monitor identified investment managers to ensure climate-related risk is fully integrated into their investment processes. The Fund will engage its managers on the following issues:

Asset Class	Topic
Equities	<ul style="list-style-type: none"> • Stewardship activities with companies identified in the Climate Risk Report • The influence of climate factors on sector positioning
Fixed Income	<ul style="list-style-type: none"> • Approach to assessing climate risk in the absence of reported GHG emissions data • Engagement with the most intensive carbon issuers • Extent of investment in green bonds
Real Assets	<ul style="list-style-type: none"> • Physical risk resilience • GRESB participation

4. Timeline

The Climate Stewardship Plan sets stewardship objectives over several years, and the Fund will report on progress annually through its public facing Climate Risk Report. The first progress update is expected in Q4 2021. During the annual refresh of the Carbon Risk Metrics analysis, the focus list of investee companies and Fund Managers will be reviewed and amended if required.