



<u>Committee and Date</u>
Pensions Committee
17 March 2023
10.00am

<u>Item</u>
5
Public

CORPORATE GOVERNANCE MONITORING

**Responsible
Officer**

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1. Synopsis

- 1.1 The report is to inform members of Corporate Governance and socially responsible investment issues arising in the quarter, 1st October 2022 to 31st December 2022.

2. Recommendations

- 2.1 Members are asked to accept the position as set out in the report in respect of voting and engagement activity, Manager Voting Reports at Appendix A (A1 & A2), Columbia Threadneedle Investments (formerly BMO Global Asset Management) Responsible Engagement Overlay Activity Report at Appendix B (B1 & B2) and LAPFF engagement Report at Appendix C.
- 2.2 Members are asked to note and accept with or without comment the changes to the Climate Stewardship Plan as a result of the Climate Risk Report presented in December 2022. The revised plan is attached as Appendix D (1).

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 Risk Management is part of the Pension Fund's structured decision-making process by ensuring that investment decisions are taken by those best qualified to take them.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.3 The Fund's Corporate Governance Policy enables it to influence the environmental policies of the companies in which it invests.

3.4 There are no direct Equalities or Community consequences.

4. Financial Implications

4.1 There are no direct financial implications arising from this report.

5. Climate Change Appraisal

5.1 The Fund takes Responsible Investment very seriously; it is a key process the investment managers go through before investing where thorough due diligence is undertaken considering all risks including climate change. The investment managers vote on the Fund's behalf, Columbia Threadneedle (formerly BMO) engage with companies on the Fund's behalf and the Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and a signatory to the previous UK Stewardship Code and in the process of becoming a signatory to the new Code by May 2023.

5.2 Shropshire County Pension Fund has also received and published Climate Risk Reports and TCFD reports.

6. Background

6.1 The Shropshire County Pension Fund has been actively voting for over fifteen years at the Annual General Meetings and Extraordinary General Meetings of the companies in which it invests. Voting is carried out by individual Fund Managers on all equity portfolios.

6.2 The Fund is also addressing its social responsibility through a strategy of responsible engagement with companies. Columbia Threadneedle (formerly BMO) provides this responsible engagement overlay on the Fund's global equities portfolios.

7. Manager Voting Activity

7.1 Details of managers voting activity during the quarter relating to equity portfolios are attached (Appendix A; A1 & A2).

8. Responsible Engagement Activity

8.1 During the last quarter Columbia Threadneedle (formerly BMO) have continued to actively engage with companies on the Fund's behalf. An update on the engagement activities for the quarter is attached at Appendix B (B1 & B2) in the REO Activity report.

8.2 The LAPFF use the combined power of LGPS Members to engage with companies on behalf of the LGPS. An update on the engagement activities of the LAPFF for the quarter is attached at Appendix C.

9. Climate Stewardship Plan Update

9.1 The climate risk report presented to the Committee in December 2022 contained recommendations to update the Climate Stewardship plan to reflect the changes in the Funds Equity Portfolios.

- Three companies have been removed from the plan as they no longer form part of the Funds Equity Holdings.
- Four Companies have been added to the plan in respect of those companies with the highest carbon emissions scores in the revised portfolio.
- The ten companies selected will be prioritised by LGPS Central for engagement and monitoring.

9.2 The only other change is the addition of financed emissions into the plan. The 2022 Climate Risk Report included financed emissions, and this change acknowledges that this will form one of the key metrics moving forward. The five key metrics moving forward will be:

- portfolio carbon footprint (weighted average carbon intensity),
- exposure to fossil fuel reserves,
- weight in clean technology,
- carbon risk management (via the Transition Pathway Initiative) and
- portfolio carbon footprint (financed emissions).

9.3 The updated Climate Stewardship Plan is included as Appendix D (1).

10. DLUHC TCFD Consultation

10.1 As reported in December 2022, the Council has formally responded to this consultation alongside our pooling company LGPS Central. At the time of writing there has been no response from the DLUHC in response to the consultation which ended on the 24 November 2022. We will advise both the Committee and the Board once a response has been issued.

11. LGPS Central Responsible Investment Summit

11.1 LGPS Central hosted a virtual Responsible Investment Summit, 9 March 2023. All Partner Fund members were invited. The event had several guest speakers as well as LGPS Central officers. Topics covered at the event were; Climate Change & Human Rights, Greenwashing, Investing in China, Sustainable Investing and The Climate Transition and Net Zero in the banking sector.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Corporate Governance Monitoring report, Pensions Committee 17 January 2022

Corporate Governance Monitoring report, Pensions Committee 18 March 2022

Corporate Governance Monitoring report, Pensions Committee 24 June 2022

Corporate Governance Monitoring report, Pensions Committee 16 September 2022

Corporate Governance Monitoring report, Pensions Committee 2 December 2022

Climate Risk Report, Pensions Committee 2 December 2022

Cabinet Member

N/A

Local Member

N/A

Appendices

A. Manager Voting Activity Reports (A1-A2).

B. Columbia Threadneedle Responsible Engagement Overlay Reports (B1-B2).

C. LAPFF Quarterly Engagement Report

D. Climate Stewardship Plan