



<u>Committee and Date</u>	<u>Item</u>
Pensions Committee	7
01 Dec 2023	Public
10.00am	

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 July 2023 to 30th September 2023.

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 from LGPS Central at Appendix A (A1 & A2),
 - Legal & General Investment Management (LGIM) at Appendix B,
 - Columbia Threadneedle Investments Responsible Engagement Overlay Activity Report at Appendix C and
 - LAPFF Engagement Report at Appendix D.

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 and has a Climate Change Strategy in place committing to net zero by 2050 in line with the Paris accord on climate change adopted in 2015.

5.2 Responsible investment is a key process the investment managers go through before investing and something the fund considers as part of investment opportunities. Thorough due diligence is undertaken considering all risks including climate change. The investment managers vote where applicable on the Fund's behalf, Columbia Threadneedle Investments engage with companies on the Fund's behalf and the Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which undertakes engagements on behalf of all LGPS members.

5.3 Shropshire County Pension Fund is a signatory to the UK stewardship code.

5.4 Shropshire County Pension Fund has also received and published Climate Risk Reports and TCFD reports since December 2020. The 2023 reports will be presented today by LGPS Central to Committee and will be published on our website shortly afterwards.

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 Investments 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 A1 LGPS Central Voting statistics

Appendix A2 LGPS Central Stewardship Report for Quarter including examples of engagement action.

Appendix B LGIM – Voting summary and key examples.

7.2 Both the LGPS Central and Legal and General Investment Management (LGIM) reports are generic report across all their investment activity and not specific to the funds in which the Fund is invested. Examples that relate to the Funds portfolio as at 30th September 2023 in the LGPS Report include Constellation Brands, Nike, Bank of Ireland, Suzanno, Nestle and FedEx. Examples that relate to the Funds portfolio as at 30th September 2023 in the LGIM Report include FedEx and Electronic Arts.

8. Responsible Engagement Activity

- 8.1 During the last quarter Columbia Threadneedle Investments 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 C in the REO Activity report. This report covers companies across all the Fund's equity portfolio's.
- 8.2 As requested by Committee Columbia Threadneedle Investments will present to the Committee today examples of the impacts of engagement based on examples from companies listed in the Fund's Stewardship Plan.
- 8.3 In addition to the service provided by Columbia Threadneedle Investments, the Fund is also a member of the LAPFF (Local Authority Pension Fund Forum). 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 D.
- 8.4 As with the earlier reports at Appendix A & B, the LAPFF engagement is not specific to companies in the Fund's portfolio. The LAPFF use Pension Fund share holdings at an aggregate level to determine engagement companies. Examples of some of the companies within the Shropshire portfolio on 30th September 2023 include financial institutions such as Barclays, HSBC and Standard Chartered. Mining Companies such as BHP and Glencore. Water companies such as United Utilities and Severn Trent. Car manufacturers such as Volvo and Volkswagen and specific company engagements such as Shell, Taylor Wimpey, National Grid, SSE and Unilever.

9. LGPS Central Stewardship Themes

- 9.1 LGPS Central are presently reviewing their stewardship themes. The current themes which have been in place for the last three years are:
- Climate Change
 - Plastic
 - Human Rights Risk

- Fair Tax and Tax Transparency

The proposed changes for 2024 to 2027 are:

- Climate Change
- Natural Capital
- Human Rights Risk
- Controversial Activities

9.2 The Fund is supportive of these changes and the inclusion of Natural Capital will assist in preparing the Fund for potential requirements brought in by TNFD (Taskforce on Nature-related Financial Disclosures).

9.3 Whilst plastic and tax are no longer stand-alone items, plastic pollution will continue to be monitored as part of the impact on natural capital and fair tax and tax transparency will fall under controversial activities.

9.4 In addition to revising the stewardship themes LGPS Central have devised revised measures of engagement that will assist transparency in the success and impacts of engagement.

The engagement response will be measured across 4 levels:

- Level 0 No progress has been made as a result of engagement.
- Level 1 Minimum expectations have been met.
- Level 2 Moderate progress.
- Level 3 Successful outcome.

9.5 The strategy is still being fully drafted and not all measures of success have been defined yet for all stewardship areas but as an example the following would apply to climate change:

Level 0 No progress or a failure by the company to engage.

Level 1 Companies disclosing data to facilitate carbon performance assessment.

Level 2 Progress observed in Climate Action100+ Benchmark Framework,

Companies improving on TPI (Transition Pathway Initiative) quality ladder,

Companies partly aligning with LGPS Central Net Zero Strategy.

Level 3 Complete and demonstratable alignment to LGPS Central Net Zero Strategy.

- 9.6 The revised strategy will be brought in for the period from 2024 to 2027 and we should start to see enhanced reporting from the middle of 2024.

10. Columbia Threadneedle Stewardship Themes

- 10.1 Columbia Threadneedle Investments (CTI) operate a rolling program of 10 projects across five engagement themes. The table below shows the current projects:

Theme	Project	Status
Climate Change	Coal phase out	2024
	Climate change and banks	BAU
	Physical risks of climate change	BAU
	Deforestation	2024
Environmental Stewardship	Emissions and plastic waste	2024
Human Rights	Mandatory human rights due diligence	BAU
	Mitigation of social harms in supply chains	BAU
	Responsible governance of Artificial Intelligence	2024
Public Health	Diversity in clinical trials	2024
Governance	Improving board gender diversity in Asia	2024

- 10.2 The projects with a status of 2024 will remain as priorities where the others will move to business as usual (BAU).
- 10.3 CTI are currently consulting with all stakeholders on the four new projects for 2024 with all parties allowed a single vote.
- 10.4 The Fund have requested the following projects be added for 2024:
- Sustainable Supply and Demand of Critical Minerals
 - Responsible Water Stewardship
 - Sustainable Food Systems

- Geopolitical Risks and Mining Supply Chains

10.5 The outcome of the consultation will be advised to Committee in March 2024.

11. DLUHC TCFD Consultation

11.1 As reported in December 2022, the Fund 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. The latest update on the Government website is that DLUHC are still analysing feedback received. It is expected that the policy will come into place in 2024 and the Fund in consultation with LGPS Central continues to produce reports based on the expected outcomes. The 2023 TCFD report will be presented today by LGPS Central.

12. DLUHC Local Government Pension Scheme: Next Steps on Investments

12.1 The government published its response to the consultation on the next steps on investments as part of the Chancellor's Autumn statement. The draft response to this consultation was presented to Committee in September 2023.

12.2 The key points coming out of the consultation are:

1) Funds will be required to consider an allocation of 5% to Levelling Up assets and 10% to private equity but are not mandated to invest in these areas if it does not fit within their investment strategy.

2) The Government will revise pooling guidance to set out its preferred model (including delegation of manager selection and strategy implementation), which could be different to the current model of some pools.

3) Government announced all assets should be transferred to pools by the 31 March 2025 under a comply and explain framework.

12.3 The consultation response has addressed few of the concerns raised by LGPS Schemes, though it is noted that the asset allocations are not mandatory, and the fund is well placed to explain why certain asset classes have yet to be transferred and are likely to remain outside the pool as at 31st March 2025.

12.4 The Fund will await the detailed guidance in respect of point 2 though it is believed that the LGPS Central model meets the Government's criteria in that the pool are responsible both for manager selection within funds and the strategy adopted by those managers to achieving both the required investment returns and the appropriate ESG (Environmental, Social and Governance) outcomes.

12.5 Upon receipt of the revised guidance the Fund will work with LGPS Central and the other seven LGPS funds in the Central pool to work through the proposals within the response in more detail.

13. Climate Change Training

13.1 Formal climate change training covering the following four key areas agreed with Members was presented following the September Committee.

- What does “Net Zero” mean.
- Review of the carbon metrics that are being used to assess progress.
- How climate risk is assessed within strategic risk.
- The 2023 climate risk report (New features and what they mean).

13.2 LGPS Central will today take members through the resulting Climate Risk Management Report and TCFD for 2023 to demonstrate the approach in practice.

13.3 The Climate Risk Management Report assesses the Fund’s maturity against a TCFD maturity map produced by The Prince’s Accounting for Sustainability Project. There are a number of recommendations in this report that the Fund will consider for future reporting and as part of the review of the Fund’s Climate Strategy for 2024.

14. Net Zero Strategy

14.1 In October 2023 LGPS central launched a Net Zero Strategy a copy of which is attached at **Appendix E**. the policy is consistent with the Funds stated aim of achieving net zero by 2050 and achievement of the goals of the Paris Agreement on climate change.

14.2 Based on the developments and timescales set out the Fund is now reviewing our own Climate Strategy to enhance coverage and ensure an ongoing consistent approach with our pooling company. We will look to bring the updated strategy to Committee in March 2024.

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 2 December 2022

TCFD Report, Pensions Committee 2 December 2022

Climate Risk Report, Pensions Committee 2 December 2022

Corporate Governance Monitoring report, Pensions Committee 17 March 2023

Corporate Governance Monitoring report, Pensions Committee 24 June 2023

Corporate Governance Monitoring report, Pensions Committee 15 September 2023

DLUHC Consultation Update, Pensions Committee 15 September 2023

Cabinet Member

N/A

Local Member

N/A

Appendices

A. LGPS Central Manager Voting Activity Reports

B. LGIM Manager Voting Activity Report

C. Columbia Threadneedle Responsible Engagement Overlay Reports

D. LAPFF Quarterly Engagement Report

E. LGPS Central Net Zero Strategy