



| <u>Committee and Date</u> | <u>Item</u> |
|---------------------------|-------------|
| Pensions Committee        | <b>9</b>    |
| 15 March 2024             | Public      |
| 9.30am                    |             |

## **CORPORATE GOVERNANCE MONITORING**

**Responsible  
Officer**

Peter Chadderton

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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, 1<sup>st</sup> October 2023 to 31<sup>st</sup> December 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,
  - 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.
- 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 2023. The revised plan is attached as Appendix E.

## **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 latest report from December 2023 reports is publicly available on our website.

#### **6. Background**

6.1 The Shropshire County Pension Fund has been actively voting for over sixteen 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 A LGPS Central Voting statistics  
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. As with previous years LGPS Central do not provide a quarterly report for this quarter as they concentrate on the Climate Risk reports for clients and their year-end report. Examples that relate to the Fund's portfolio as at 31<sup>st</sup> December 2023 in the LGIM Report include Volkswagen and Rolls Royce and Mediobanca.

## **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 In addition to the public overview Columbia Threadneedle Investments also produce a confidential report on an ongoing engagements which can be shared with Committee members on request.
- 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 31<sup>st</sup> December 2023 include under climate engagements National Grid, BP and Persimmon Homes. LAPFF engaged with Nestle on the wider implications of regenerative agriculture and climate and specific company engagements such as Glencore, Ford, Mercedes, and The Home Depot.

## **9. LGPS Central Stewardship Themes**

- 9.1 LGPS Central have confirmed following consultation that their engagement themes for 2024 to 2027 are:
- Climate Change
  - Natural Capital
  - Human Rights Risk
  - Sensitive and Topical Issues

9.2 The only change from the December report is that the final category that was previously titled Controversial Activities has been renamed to Sensitive and Topical Issues. It is still expected that engagement in this area will cover the same areas such as tax transparency but that the revised title allowed greater flexibility without the negative connotations. As reported in December 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 As reported in December 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 LGPS Central are continuing to work on the definitions for success across the four themes 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 LGPS Central have confirmed 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 (September Committee Papers).

## 10. Columbia Threadneedle Stewardship Themes

10.1 In December 2023 we advised that the fund had voted for the following projects to be added to the 2024 engagement themes for Columbia Threadneedle Investments (CTI).

- Sustainable Supply and Demand of Critical Minerals
- Responsible Water Stewardship
- Sustainable Food Systems
- Geopolitical Risks and Mining Supply Chains

10.2 CTI have now completed their consultation and announced the rolling program of 10 projects for 2024 across their five engagement themes. The table below shows the current projects:

| Theme                     | Project                                            |
|---------------------------|----------------------------------------------------|
| Climate Change            | Coal phase out                                     |
|                           | Deforestation                                      |
| Environmental Stewardship | Emissions and plastic waste                        |
|                           | Sustainable supply and demand of critical minerals |
|                           | Responsible Water Stewardship                      |
| Human Rights              | Responsible governance of Artificial Intelligence  |
| Public Health             | Diversity in clinical trials                       |
|                           | Sustainable Food Systems                           |
| Governance                | Improving board gender diversity in Asia           |
|                           | Independent Board Evaluation                       |

10.3 The updated project list above includes three of the four projects the Fund voted for the exception being Geopolitical Risks and Mining Supply Chains which failed to make the final cut and was replaced with Independent Board Evaluation. The Fund recognises the need to maintain a balanced engagement across all Environmental, Social and Governance (ESG) areas and is supportive of the revised project areas.

## 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 Scheme Advisory Board (SAB) have raised the consultation with the minister for Local Government earlier this year.

## **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 and a summary of the key outcomes was reported to the December Committee.
- 12.2 The Fund still awaits detailed guidance in respect of some of the points raised in the consultation though it is believed that the LGPS Central model meets the Governments 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.
- 12.3 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.
- 12.4 The consultation response will require updates to the Funds Annual Report for 2023/24 and SAB are looking to issue final updated guidance by the end of this month in this respect.

## **13. Climate Stewardship Plan Update**

- 13.1 The climate risk report presented to the Committee in December 2023 contained recommendations to update the Climate Stewardship plan to reflect the changes in the Funds equity portfolios.
  - Five companies have been removed from the plan as changes in equity holdings mean they are no longer one of the top ten emitters across the Funds equity holdings at the time of the climate risk report. The five companies removed were:  
  
Ryanair  
  
RWE AG  
  
CF Industries  
  
BP  
  
Glencore

- Five companies were added to the plan as they form part of the top ten emitters at the time of the climate risk report. The Five companies added were:

Taiwan Semiconductor Manufacturing Co. Ltd

Conocophillips

Linde PLC

Micron Technology Inc

L’Air Liquide

13.2 The ten companies selected will be prioritised by LGPS Central for engagement and monitoring.

13.3 The updated Climate Stewardship Plan is included as Appendix E.

#### **14. Net Zero Strategy**

14.1 In October 2023 LGPS central launched a Net Zero Strategy 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 The Funds own Climate Strategy is due for review in December 2024. Given the outcomes of the DHLUC consultation, the next steps on investments in emphasising the requirement for Investments to be through LGPS Central as the Funds pooling company, it makes sense that the two documents should be aligned. LGPS Central’s strategy in achieving net zero will be a key driver in ensuring the Fund achieves net zero.

14.3 A training session with LGPS Central to run through the main drivers in their net zero policy and the expected timelines will be arranged to facilitate discussion prior to redrafting the existing strategy. This training session will be arranged prior to the June Committee meeting if a suitable date can be agreed so that appropriate time can be devoted to this matter.

#### **15. Stewardship Code**

15.1 The Fund successfully applied to become a signatory of the FRC stewardship code at 31<sup>st</sup> May 2023. This was the application deadline for all new submissions. As the Fund is now a signatory to the code the Fund can choose to apply for renewal again at the 31<sup>st</sup> May or at 30<sup>th</sup> October.

15.2 The Fund has decided that it makes more sense to apply in October as this will decrease the additional workload at financial year end and allow us to report on our financial year rather than the calendar year which the original submission was based on.

- 15.3 Agreement from the FRC has been received and the Fund will submit a transitional 15-month report covering the period from 1<sup>st</sup> January 2023 to 31<sup>st</sup> March 2024 to facilitate this change in reporting dates.
- 15.4 The Fund will provide members with a draft copy of the updated report for the September Committee in preparation for the October submission.

**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 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

Corporate Governance Monitoring report, Pensions Committee 1 December 2023

TCFD Report, Pensions Committee 1 December 2023

Climate Risk Report, Pensions Committee 1 December 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. Climate Stewardship Plan