Committee and Date	Item
Pensions Committee 13 September 2024 10.00am	Public

CORPORATE GOVERNANCE MONITORING

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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 April 2024 to 30th June 2024.

2. Recommendations

2.1 Members are asked to accept the position as set out in the report in respect of voting and engagement activity.

- Stewardship Update at Appendix A and Manager Voting Reports from LGPS Central at Appendix 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.

2.2 Members are asked to review the draft Climate Change Strategy 2024 at Appendix F and approve with or without comment.

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. A revised draft strategy is included in these papers at Appendix F for discussion.

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 Stewardship Report Q4 2023/24 including examples of engagement action.

Appendix A1 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. Examples that relate to the Fund's portfolio as at 30th June 2024 in the LGPS Central Report include updates on Shell, Glencore and Tesla and engagement case studies on CRH, Sherwin Williams, Chipotle Mexican Grill, Tencent Holdings and Amazon, Examples that relate to the Fund's portfolio as at 30th June 2024 in the LGIM Report include Chevron Corporation, Restaurant Brands International, Tesla, London Stock Exchange, Deutsche Bank and Disney.

7.3 Appendix A also includes an update on Exxon Mobil's legal action against shareholders for consistently presenting resolutions requesting medium term emissions reduction targets. The case was dismissed after shareholders withdrew motions so unfortunately there was no court ruling on whether the action taking by Exxon Mobil had any legal standing. The Fund does not hold any holdings in Exxon Mobil but will continue to monitor to see if this approach is adopted by any other companies.

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 engagement 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 and often engages at a sector level as well as with specific companies. Examples of some of the companies within the Shropshire portfolio on 30th June 2024 include under water stewardship Chipotle Mexican Grill. Under banking and

Finance HSBC, and Shell and BP under energy. Under mining and Human rights Glencore, and under Governance BAE Systems and London Stock Exchange.

9. LGPS Central Stewardship Themes

9.1 There have been no changes to the LGPS Central engagement themes for 2024 to 2027, which are:

- Climate Change
- Natural Capital
- Human Rights Risk
- Sensitive and Topical Issues

9.2 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.

9.3 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.

9.4 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 in 2024. The updates had not been progressed

for the June quarter reports so we look to receive these later in the year.

10. DLUHC TCFD Consultation

10.1 As reported in December 2022, the Fund has formally responded to this consultation alongside our pooling company LGPS Central. This consultation was issued under the previous Government and we still expect formal guidance to be issued on TCFD reporting and we continue to adapt our reports each year to ensure we take advantage of the latest data. The Scheme Advisory Board (SAB) continue to raise the matter with Government. The Fund is supportive of transparency and consistency in this area.

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

11.1 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.

11.2 The Fund have also received a request for comment from Simon Hoare the former Minister for Local Government on efficiencies in the LGPS as discussed at the last meeting. Despite the election a formal response was issued to this request at the request of the LGA and SAB. A copy of the response issued is attached at Appendix E

11.3 On the 16th August the new Government issued their Pension review phase one terms of reference. The first phase of the review will focus on developing policy in four areas:

1. Driving scale and consolidation of defined contribution workplace schemes;

2. Tackling fragmentation and inefficiency in the Local Government Pension Scheme through consolidation and improved governance;

3. The structure of the pensions ecosystem and achieving a greater focus on value to deliver better outcomes for future pensioners, rather than cost; and

4. Encouraging further pension investment into UK assets to boost growth across the country.

11.4 Areas two and four specifically impact the LGPS and closely follow the direction of travel seen in the previous government consultations.

11.5 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 in more detail.

11.6 Following on from phase one of the Pensions Review the Government issued a call for evidence on the 4th September 2024 covering three key areas. The questions are mainly aimed at the Defined Contribution Market but there are some generic and a number of specific questions that directly relate to the LGPS. The below highlights the key areas and shows the generic and specific questions the Fund has been asked to consider:

Scale and Consolidation

1) To what extent has LGPS asset pooling been successful, including specific models of pooling, with respect to delivering improved long-term risk-adjusted returns and capacity to invest in a wider range of asset classes?

2) What are the main factors behind changing patterns of UK pension fund investment in UK asset classes (including UK-listed equities), such as past and predicted asset price performance and cost factors?

Costs vs Value

1) Is there a case for Government interventions, aimed at employers or other participants in the market, designed to encourage pension schemes to increase their investment budgets in order to seek higher investment returns from a wider range of asset classes?

Investing in the UK

1) What is the potential for a more consolidated LGPS and workplace DC market, combined with an increased focus on net investment returns (rather than costs), to increase net investment in UK asset classes such as unlisted and listed equity and infrastructure, and the potential impacts of such an increase on UK growth?

2) What are the main factors behind changing patterns of UK pension fund investment in UK asset classes (including UK-listed equities), such as past and predicted asset price performance and cost factors?

3) Is there a case for establishing additional incentives or requirements aimed at raising the portfolio allocations of DC and LGPS funds to UK assets or particular UK asset classes, taking into account the priorities of the review to improve saver outcomes and boost UK growth? In addition, for the LGPS, there are options to support and incentivise investment in local communities contributing to local and regional growth. What are the options for those incentives and requirements and what are their relative merits and predicted effectiveness?

The Government have requested responses to the questions in no more than 500 words per question by the 25th September.

Details of the response to the questions will be provided at the December Committee and will be agreed with the Chair prior to submission.

12. Climate Stewardship Plan

12.1 The Climate Stewardship Plan was updated in March 2024 to reflect the latest climate risk report and covers the following 10 companies:

Taiwan Semiconductor Manufacturing Co. Ltd

Lafargeholcim

Next Era Energy

Royal Dutch Shell

CRH PLC

Iberdrola

Conocophillips

Linde PLC

Micron Technology Inc

L'Air Liquide

12.2 To date LGPS Central have provided an update on their Engagements with Royal Dutch Shell (Shell) and these are also covered in their stewardship report at Appendix A.

12.3 We have now received a full update covering engagement on all the companies on the Climate Stewardship Plan and this is shown at Appendix A2.

12.4 The table will be updated by LGPS Central to provide transparency on these key companies as part of the climate engagement.

13. Net Zero Strategy

13.1 A training session for Pensions Committee and Pensions Board Members was held in August 2024 covering the following key areas:

A recap on existing climate reporting

An overview of what a net zero Commitment involves for the LGPS

Public and Private net zero asset class strategies

LGPS Centrals Implementation progress.

The training slides and recording of the presentation is available on the Members SharePoint site.

13.2 The Funds own Climate Strategy is due for review in December 2024 and a draft strategy is attached at Appendix F for Members consideration and approval. Given the outcomes of the former DLUHC consultation, the next steps on investments in emphasising the requirement for Investments to be through LGPS Central as the Funds pooling company and the new Government taking a similar approach, 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 so short and medium term targets have now also been incorporated into the funds climate strategy in order to achieve its long term ambition to become net zero by 2050 or before.

13.3 The strategy has been updated to reflect the increase in data available since it was first written in 2021 and to reflect the Funds expected pathway to net Zero for monitoring purposes across different asset classes.

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 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

Corporate Governance Monitoring report, Pensions Committee 15 March 2024

Corporate Governance Monitoring report, Pensions Committee 21 June 2024

Cabinet Member

N/A

Local Member

N/A

Appendices

A. LGPS Central Quarterly Stewardship Report

A1. LGPS Central Manager Voting Activity Reports

A2. LGPS Central Manager Voting re Climate Stewardship Plan

B. LGIM Manager Voting Activity Report

C. Columbia Threadneedle Responsible Engagement Overlay Reports

D. LAPFF Quarterly Engagement Report

E. Final Response to Ministerial letter.

F. Draft Climate Change Strategy 2024