



Pensions Committee
Date 19 September
2025

Item

Public

Corporate Governance Monitoring Report

Responsible Officer:	Peter Chadderton		
email:	peter.chadderton@shropshire.gov.uk	Tel:	07990 086399
Cabinet Member (Portfolio Holder):			

1. Synopsis

- 1.1 The report is to inform members of corporate governance changes including the governments "LGPS - Fit for the Future" consultation response, since the last committee and socially responsible investment issues arising in the quarter, 1st April 2025 to 30th June 2025. The report also updates the Committee on a letter received from the Palestine Solidarity Campaign after the quarter end.

2. Executive Summary

- 2.1. Detail is provided on the actions taken by the Funds key stewardship partners in respect of the quarter from 1st April 2025 to 30th June 2025.
- 2.2. The Funds position on conflict affected and high risk areas (CAHRA) is clarified following correspondence sent from the Palestine Solidarity Campaign to members of the committee.
- 2.3. Information is also included on the governments Local Government Pension Scheme (England and Wales): Fit for the future consultation response and the impacts upon the Fund.

3. Recommendations

- 3.1. Members are asked to note and accept the position as set out in the report in respect of voting and engagement activity.
- LGPS Central at Appendix A/A1,
 - Columbia Threadneedle Investments Responsible Engagement Overlay Activity Report at Appendix B and
 - LAPFF Engagement Report at Appendix C.

- 3.2. Members are asked to note and accept with or without comment the Funds statement upon investments in companies in conflict affected and high risk areas at Appendix D
- 3.3. Members are asked to note and accept with or without comment the governments Local Government Pension Scheme (England and Wales): Fit for the future consultation response.

Report

4. Risk Assessment and Opportunities Appraisal

- 4.1. Risk Management
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.
- 4.2. Human Rights Act Appraisal
The recommendations contained in this report are compatible with the Human Rights Act 1998.
- 4.3. There are no direct Equalities or Community consequences.
- 4.4. Environmental Appraisal
The Fund's Corporate Governance Policy enables it to influence the environmental policies of the companies in which it invests.

5. Financial Implications

- 5.1. There are no direct financial implications arising from this report.

6. Climate Change Appraisal

- 6.1 The Fund takes responsible investment very seriously and has a Climate Change Strategy (updated in September 2024) in place committing to net zero by 2050 in line with the Paris accord on climate change adopted in 2015 and setting out interim targets to that goal.
- 6.2 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.

- 6.3 Shropshire County Pension Fund is a signatory to the UK stewardship code.
- 6.4 Shropshire County Pension Fund has also received and published Climate Risk Reports and TCFD reports since December 2020. The latest report from December 2024 is publicly available on our website.

7. Background

- 7.1 The Shropshire County Pension Fund has been actively voting for over seventeen years at the Annual General Meetings and Extraordinary General Meetings of the companies in which it invests. Voting is carried out by LGPS Central through EOS @ Federated Hermes (EOS) on all equity portfolios since the 1st January 2025 which ensures a consistency of approach. Appendix A/A1 to this report shows the voting examples by EOS and engagement work by LGPS Central.
- 7.2 Prior to January 2025 voting was undertaken by both LGIM in respect of the Funds passive equity portfolio and EOS on behalf of LGPS Central.
- 7.2 The Fund is also addressing its social responsibility through a strategy of responsible engagement with companies. Columbia Threadneedle Investments (CTI) provides this responsible engagement overlay on the Fund's global equities portfolios.
- 7.3 CTI engage with companies across five key engagement themes and a rolling program of 10 projects. The current themes and projects are shown below:

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

- 7.4 Engagements often operate over a period of several years reflecting the time taken to build relationships and develop real change. A copy of their quarterly report is attached at Appendix B.

- 7.5 In addition the 86 LGPS Scheme members and the pooling companies are represented by the Local Authority Pension Fund Forum (LAPFF). LAPFF use the holdings of the entire Local Government Pension Scheme to leverage engagement with companies on a range of ESG issues and their quarterly report is attached at Appendix C.

8. Manager Voting Activity

- 8.1. The LGPS Central stewardship report at Appendix A is a generic report across all of the investments operated by LGPS Central and those products that LGPS Central can vote on through Legal and General, it is not specific to the products in which the Fund is invested. This means that the majority of examples and engagements will relate to the Fund's portfolio but not all. In respect of the report at Appendix A, the following five companies were not held by the Fund as at the 30th June 2025 - BHP, ArcelorMittal, Ahold Delhaize, Antofagasta PLC and Zalando.
- 8.2. The Fund holds the following public market investments which are voted on and engaged with by LGPS Central:
- LGPS Central Global Equity (Multi Manager Fund)
 - LGPS Central Sustainable Equities Broad Fund
 - LGPS Central Sustainable Equities Targeted Fund
 - LGPS Central Investment Grade Credit Fund (Engagement Only)
 - Legal and General Investment Managers (LGIM) Low Carbon Global Equity Passive Fund.
- 8.3 The Funds investments are held on a pooled basis so the Fund actually holds units in a pool which has underlying investments, this means unlike previous segregated mandates the equities are in the name of LGPS Central or LGIM. On average there are approximately between 1700/2000 underlying holdings in the portfolios.
- 8.4 LGPS Central have set their stewardship themes for three years covering 2024 to 2027 reflecting again the average length of engagements to impact real change.

Their current themes are:

- Climate Change
 - Natural Capital
 - Human Rights Risk
 - Sensitive and Topical Issues
- 8.5 LGPS Central have developed the following scale to allow transparency and understanding of the success of engagements and these are reflected were appropriate in the report at Appendix A in section 4 pages 20-26.

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.

- 8.6 For example in the case of an engagement on climate change the four levels would reflect the following positions:
- 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. Responsible Engagement Activity

- 9.1. 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 B in the REO Activity report. This report covers companies across all the Fund's equity portfolio's.
- 9.2. 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.
- 9.3. As part of the service provide by Columbia Threadneedle they screen holdings against breaches and controversies around the UN Global Compact which is a voluntary initiative to get CEO's to adopt sustainable and socially responsible practices. There were no reported breaches in the last quarter.
- 9.4. 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 C.
- 9.5. 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 they often engage at a sector level as well as with specific companies. Examples of some of the companies within the Shropshire portfolio on 30th June 2025 include an article on collaboration in Asia which covers Taiwan Semi-Conductor Manufacturing Company (TSMC). Glencore were featured in the article on water stewardship. The engagement with energy companies includes both BP and Shell. The article on Human Rights in the luxury goods sector covers both Moncler and LVMH Moet Hennessy Louis Vuitton which are held in our portfolios. The article on CAHRAS (Conflict affected and High Risk Areas) includes a number of defence firms held within our portfolio including Lockheed Martin, Safran and Leonardo.

10. Conflict Affected Areas

- 10.1 On the 28th August Committee members received a letter from the Palestine Solidarity Campaign (PSC) requesting the Fund divest from companies involved in breaches of International Humanitarian Law supported by a legal position paper.

- 10.2 The PSC has previously identified that SCPF has £142m in investments supporting Israel, the vast majority of this relates to investments in multinational companies that operate on a global basis. The top 10 investments listed by PSC accounted for 75% of the value quoted by the PSC.

Alphabet	£32M
Amazon	£32M
HSBC	£7.3M
Mitsubishi	£6.9M
General Electric	£6.4M
Barclays	£5.6M
Cisco Systems	£5.4M
CNH International	£4.5M
Booking.com	£3.6M
McDonalds	£3.4M
Total Top 10	£107M

- Figures from PSC database

- 10.3 The Fund does have direct exposure to some Israeli companies through its pooled passive investments with LGIM in the form of Israeli Banks and IT companies in the main. This exposure was approximately £5.5Million at 30th June 2025.
- 10.4 The Fund's position on investment in companies in conflict affected and high-risk areas is set out in our statement (**Appendix D**) and is backed by legal opinion from Nigel Giffen KC which was obtained by the Scheme Advisory Board on behalf of the LGPS.
- 10.5 The Fund referred the new letter and supporting evidence to the Scheme Advisory Board (SAB) who commissioned the original legal advice. SAB issued a statement on their website dated 29th August and the wording below is taken from that website:

The Board is aware that many funds will have received a letter this week from the Palestine Solidarity Campaign, alleging that LGPS administering authorities are in breach of their legal obligations in relation to the ongoing humanitarian disaster in Gaza. The letter is accompanied by a more detailed [position paper](#) that has been prepared by senior lawyers at Doughty Street Chambers.

The letter says that both the Secretary of State, as the responsible authority for the Scheme, and individual administering authorities must take action to address the very serious allegations it contains. Although the letter asks for a response within 21 days, the Board believes that it is more important to take the necessary time to consider the arguments made and the appropriate response to them. The Board has a long-established role in assisting funds to act collectively in responding to this kind of challenge and it will aim to do so again. That may include seeking further legal advice.

Last year, letters were sent from PSC to funds that made similar allegations. In response the Board commissioned legal advice from Nigel Giffen KC which addressed the issues as they were understood in October 2024. Whilst the latest

letter and position paper present more extensive, complex and specialist legal arguments than the earlier letter, they make no reference to the Giffin advice.

While the principles set out in the earlier advice still hold, we recognise that the situation in Gaza is an evolving one and we need to consider whether, and if so what, further advice it would be helpful to provide funds and who would be best placed to provide that.

The Board will also write to the Local Government Minister to ask for a Government statement on the issues raised – these matters of international law are clearly more in the competence of central than local government, something which the position paper acknowledges.

In the meantime, funds may wish to review their Responsible Investment policies in relation to human rights abuses and ensure they are both satisfied with the content of those policies and confident they are being applied effectively in practice.

- 10.6 The Fund have also referred the issue to LGPS Central our pooling company and responsible investment partner. Their response is in line with SAB in reviewing the position to determine if additional legal guidance is required and clarifying that there are no legal grounds for the fund to have to prepare a written response to the PSC within 21 days.
- 10.7 LGPS central believe ESG integration and stewardship are more effective than divestment in addressing human rights risks. LGPS Central's investment vehicles have extremely limited exposure to companies in Israel, as we offer passive funds that track indices, and our active funds do not hold significant investments in Israeli companies. We have also communicated with our Israeli holdings to ensure they adopt best-in-class human rights practices.
- 10.8 In 2024, LGPS Central and its partners engaged with more than 100 companies operating in conflict zones, including the Occupied Palestinian Territories. We expect these companies to comply with the UNGPs while operating in fragile regions, including Conflict-Affected and High-Risk Areas (CAHRAs). Investing in CAHRAs necessitates thorough human rights due diligence, risk assessments, and stakeholder engagement to mitigate negative impacts and ensure alignment with international law. By promoting transparency and collaboration, we can effectively promote risk management and support human rights in conflict-affected areas. The growing adoption of the UN's Heightened Human Rights due diligence framework underscores the importance for businesses to address human rights and conflict risks proactively.
- 10.9 The Fund continues to keep the position under review and looks to Central Government for direction in these matters as was the case in the Russian invasion of Ukraine. Whilst recognising the hardship for people living in these areas, for the reasons outlined in our CHARA statement, the Fund believes that the effective stewardship of assets, provides the best long-term outcomes for stakeholders and society.

11. Local Government Pension Scheme (England and Wales): Fit for the future consultation

11.1. In November 2014 following the Chancellors Mansion House speech, the government launched its consultation on the Local Government Pension Scheme (LGPS) with the intention of creating a firmer trajectory for asset pooling.

11.2. The consultation covered three key areas of the LGPS.

- 1) Reform of asset pooling.
- 2) Boosting UK and local investment.
- 3) Strengthening Governance of both the Administering Authorities and LGPS Pooling companies.

11.3. The Fund submitted a response to the consultation in January 2025 alongside all other 86 Funds and a number of interested parties including actuaries, consultants, employers and trade unions.

11.4. The consultation response was issued on the 29th May 2025 and in essence effectively agreed the proposals set out in the Mansion House speech with some minor amendments. The full response can be found at <https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-fit-for-the-future/outcome/local-government-pension-scheme-england-and-wales-fit-for-the-future-government-response>

Reform of asset pooling

11.5. Work continues with LGPS Central to understand the how the process will work in practice and how this will impact the upcoming investment strategy review following the valuation results later in year. As previously advised, we will be looking to set a high level strategy based on the guidelines. An example of hoe the current strategy would look is shown below:

Asset Class	Strategic asset allocation %	Tolerance Range (+/-%)
Listed Equity	55	5
Private Credit	7.5	4
Private Equity	7.5	4
Property/Real Estate	5	2
Infrastructure	7.5	4
Other Alternatives	7.5	2
Credit (i)	10	2
UK Government Bonds	0	0
Investment Cash	0	0

The fund would not specify the breakdown between active and passive equity or determine the nature of those equity investments.

The other alternatives allocation would be discussed with LGPS Central directly but currently includes the funds bond Portfolio with T Rowe Price, Hedge Fund with BlackRock and Insurance Linked Securities with TwelveSecuris.

There is strong on-going cooperation between the Fund and LGPS Central in ensuring that new provisions allow pooling to move forward in a structured and rational way that minimises transition costs and protects the position of both parties.

- 11.6. The Fund will be required to delegate implementation of the new strategy to LGPS Central.
- 11.7. As previously advised the Fund will be required to transfer all investments to LGPS Central by the 31st March 2026. The government have accepted that not all investments will be physically transferred by that date, but LGPS Central must have control of the asset decisions from that point. The minimum standards for pooling will be introduced in the Pensions Scheme Bill with further statutory guidance providing details on implementation. When the Pensions Bill is passed, we will have greater clarity on this phase and be able to present members with greater detail.

Boosting investment in local areas

- 11.8. The government have also set out that Funds will need to set out local investment strategies in their Investment Statements going forward so we will consider the implications of this and arrange appropriate training for the Committee as part of the strategic asset allocation review to address this point. Whilst Funds will again be responsible for outlining their approach the due diligence and the final investment decision will reside with LGPS Central.
- 11.9. The Fund going forward will be required to place a statement in our annual report on the impact of local investments. The responsibility for this has been placed on the pooling companies who will also have to report on this subject annually at a total assets level and provide details for individual fund reporting.
- 11.10. The Company are currently looking at recruitment and requirements in this area to ensure that they will be in a position to deliver from the 1st April 2026. At this time there has been no decision on whether this will be with local investments added to existing products or creation of a separate local investment vehicle.
- 11.11. The final announcement on the placement of the 21 Funds looking for a new pool is expected on the after 30th September and the final position may influence any local investment decisions given the definition of local as within the footprint of the pool.

Strengthening of governance of LGPS Administering Authorities and LGPS pooling Companies

Fund Governance

- 11.12. The original consultation picked up on a number of the recommendations from the Scheme Advisory Board's (SAB) 2021 good governance review and the Fund was strongly in support of these changes.

- 11.13. Committee Members will be required to have appropriate knowledge and skills. A training program has now been put in place and shared with all Members as with the aim to give Members a full background to the LGPS and the role of the Pensions Committee as well as addressing key areas such as the 2025 valuation results and their impacts on the strategic asset allocation review. Training is covered in more detail in the Funds Training policy which is available on the Funds website: <https://www.shropshirecountypensionfund.co.uk/media/fpojljop/training-policy-december-2024.pdf>
- 11.14. The original consultation required the Fund to publish a governance compliance statement, training and an administration policies. The Fund already produces these three documents, but the consultation response suggests strategies on governance, knowledge and training including conflicts of interest will replace the governance compliance statement. We will review over the next six months to ensure that these documents address all of the government requirements or are updated to reflect the latest guidance prior to the financial year end. Any policy changes will be brought back to the Committee as part of the Administration updates received quarterly.
- 11.15. The Scheme Advisory Board (SAB) implementation group continues to consider how these can be best achieved in practice. These reviews will be in addition to the annual internal audit reviews the Fund commissions from Shropshire Council's internal audit team.

Pool Governance

- 11.16. The Company is currently undertaking a three part governance review looking at shareholder governance, client governance and company governance and we anticipate final response to these reviews in the final quarter of 2025 as a number of the recommendations are likely to cross multiple parts.
- 11.17. The government will work alongside SAB and the government actuary's department (GAD) to develop guidance on how shareholders can hold pooling companies to account for investment performance. The government are also working with the above bodies to formalise reporting on performance and transaction costs by pooling companies. Whilst formal guidance is likely to come once the Pensions Bill has passed the Fund continues to work with other funds in LGPS Central to consider options for fiduciary oversight, of the pools investment performance.
- 11.18. Alongside the pooling consultation the government has also mandated as mentioned previously a reduction in the number of pooling companies from eight to six and requested decisions in principle from the impacted administering authorities by the 30th September 2025. Whilst this deadline is still outstanding no formal decisions have been made at this time. There has been some press articles on the preferences of some Funds but no ratification from Government is expected until after the end of September.

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

Climate Risk Report, Pensions Committee 6 December 2024

Mansion House Proposal Report, Pensions Committee 6 December 2024

Corporate Governance Monitoring report, Pensions Committee 13 September 2024

Corporate Governance Monitoring report, Pensions Committee 6 December 2024

Corporate Governance Monitoring report, Pensions Committee 21 March 2025

Corporate Governance Monitoring report, Pensions Committee 20 June 2025

Local Member: N/A

Appendices [Please list the titles of Appendices]

Appendix A – LGPS Central Stewardship Report 1st April 2025 to 30th June 2025

Appendix A1 – LGPS Central/EOS Voting Records 1st April 2025 to 30th June 2025

Appendix B – Columbia Threadneedle Investments Engagement Overlay Report 1st April 2025 to 30th June 2025

Appendix C – LAPFF Quarterly Engagement Report 1st April 2025 to 30th June 2025

Appendix D – Statement on investments in companies in conflict affected and high risk areas (CAHRAs)