



<u>Committee and Date</u>	<u>Item</u>
Pensions Committee	8
2 December 2022	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 2022 to 30th September 2022.

2. Recommendations

- 2.1 Members are asked to accept the position as set out in the report, 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); LGPS Central Stewardship Update at Appendix C and SCPF's DLUHC Consultation response regarding TCFD 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; 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 April 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. They will be presenting at this meeting to update members on their latest engagement activities and progress made in relation to climate change and related targets.

9. DLUHC TCFD Consultation

- 9.1 Shropshire County Pension Fund and Shropshire Council as the Administering Authority (AA) are supportive of the Governments proposal to mandate TCFD Reporting for Local Government Pension

Schemes. We recognise that climate change and the transition to a low carbon economy presents material risk and opportunities to the scheme. We also consider that mandatory TCFD reporting will encourage

- More comprehensive reporting of emissions by corporations, particularly if this regulation is supported by complimentary regulations across the economy.
- innovation by ESG research providers and product vendors around scenario analysis, stress testing and other forms of climate related portfolio

- 9.2 Shropshire County Pension Fund recognises the benefit of fund level carbon metrics across scope 1,2 and 3 emissions, however in our response we flag the challenges associated with reporting across all asset classes at this level with current data sets. Significant reliance will need to be placed on estimated data and in the absence of guidance around the apportioning of emissions there is a risk that inconsistent methodologies will be adopted. If adding Scope 1,2 and Scope 3 emissions together, significant care will need to be taken to avoid double counting. This risk could be mitigated by the provision of clear guidance.
- 9.3 We consider that it will remain critical for pension schemes to assess carbon emissions metrics at portfolio level to understand risk exposures at a granular level, to identify engagement priorities and to inform AGM voting decisions.
- 9.4 The integration of Environmental, Social and Governance factors including climate change into investment analysis and appraisal remains critical and therefore we agree that climate risk analysis needs to be holistic, taking into consideration the full of gamut of climate related risks and opportunities. It is important that this is acknowledged and explained when reporting carbon emissions data to stakeholders.
- 9.5 Shropshire County Pension Fund also considers that clear guidance on reporting methodologies will be required if the climate reports are to be comparable across different funds. Different approaches to data estimation and the apportionment of emissions will give rise to different results. It is important that a distinction is made between carbon reporting for the purpose of understanding a portfolio's footprint and alignment and carbon reporting for the purpose of understanding carbon risks and opportunities. A copy of the Consultation response is attached at Appendix D.

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 September 2021

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

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. LGPS Central Stewardship Update (C1)

D. DLUHC Consultation Response