



<u>Committee and Date</u>	<u>Item</u>
Pensions Committee	8
15 Sept 2023	Public
10.00am	

CORPORATE GOVERNANCE MONITORING

**Responsible
Officer**

Peter Chadderton

e-mail: peter.chadderton@shropshire.gov.uk Tel:(07990) 086399

1. Synopsis

- 1.1 The report is to inform members of Corporate Governance and socially responsible investment issues arising in the quarter, 1st April 2023 to 30th June 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.
- 2.2 Members are asked to note that the Fund has successfully been recognised as a signatory of the Financial Reporting Council (FRC) UK Stewardship Code which promotes best practice on governance.

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 as 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 were applicable on the Fund's behalf, Columbia Threadneedle 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 last report was issued in December 2022 and an updated report is expected in December 2023.

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 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 LGIM portfolio as at 30th June 2023 include Anglo American, Phillips and Duke Energy. Glencore is not included in the LGIM portfolio but does sit within the LGPS Central Global Equity portfolio.

8. Responsible Engagement Activity

- 8.1 During the last quarter Columbia Threadneedle 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 service provided by Columbia Threadneedle 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.
- 8.3 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 June 2023 include Rio Tinto, Barclays, Shell, BHP and Anglo American.

9. Stewardship Code Update

- 9.1 I am delighted to announce that Shropshire County Pension Fund are now a recognised signatory to the UK Stewardship Code. The Fund takes its stewardship responsibilities extremely seriously and this recognition from the Financial Reporting Council (FRC) is an important milestone.
- 9.2 The Fund is one of less than twenty Pension Funds in England and Wales that have achieved this recognition and represents our continued work with our Investment Managers and our pooling company LGPSC Central to improve our stewardship activity across all ESG (Economic, Social and Environmental) areas in our investment strategies. The Fund's stewardship code application will be added to the SCPF website and communications are currently in the process of being sent out to promote this achievement.
- 9.3 A renewal application to show continued progress and compliance will be required by the 31st May 2024 and a draft of the application will be brought to the March 2024 Pensions Committee for review.

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. 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. We will advise both the Committee and the Board once a response has been issued.

11. LGPS Central Climate Change Training

- 11.1 Formal climate change training covering the following four key areas agreed with Members will be held after this 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).

12. Deforestation Policy

- 12.1 A request was made at the March Committee in respect of deforestation policy in respect of our equity managers. Only LGIM of our equity managers have a specific deforestation policy and a copy of this is attached at Appendix E.
- 12.2 LGPS Central include Biodiversity loss under climate change in there voting principles and include deforestation specifically in their broader engagement themes.
- 12.3 LGPS Central is a member of the investor coalition “Investor Policy Dialogue on Deforestation (IPDD) which was established in 2020 and members of the Finance Sector Deforestation Action (FSDA) Group. An example of engagement by this group is shown in Appendix A2.

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 16 September 2022

Corporate Governance Monitoring 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

Cabinet Member

N/A

Local Member

N/A

Appendices

A. LGPS Central Manager Voting Activity Reports (A1 -A2).

B. LGIM Manager Voting Activity Report

C. Columbia Threadneedle Responsible Engagement Overlay Reports.

D. LAPFF Quarterly Engagement Report

E. LGIM deforestation policy