



<u>Committee and Date</u>	<u>Item</u>
Pensions Committee	8
21 June 2024	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 January 2024 to 31st March 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,
 - 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.

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 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 31st March 2024 in the LGPS Central Report include updates on Shell and Apple and engagement case studies on BHP and Kinder Morgan, Examples that relate to the Fund's portfolio as at 31st March 2024 in the LGIM Report include Skandinaviska Enskilda Banken, DR Horton, Nestle, Apple and Bayer.

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. Examples of some of the companies within the Shropshire portfolio on 31st March 2024 include under banks and climate, Barclays and HSBC and ABB under climate. Under company products in conflict zones companies including Caterpillar BAE Systems and Thales.

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 from the middle of 2024 (September Committee Papers).

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. 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. 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 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.
- 11.3 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.
- 11.4 The consultation response will require updates to the Funds Annual Report for 2023/24 and we are working through the SAB guidance as we complete the 2023/24 Annual Report.
- 11.5 The Fund have also received a request for comment from Simon Hoare Minister for Local Government on efficiencies in the LGPS and this is covered in more detail in a separate agenda item.

12. Climate Stewardship Plan

- 12.1 The climate 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 Since March 2024 LGPS Central have continued to try and engage with Shell on their Energy Transition Strategy. No response was received which resulted in LGPS Central voting against the strategy at Shell's AGM. In total 21.97% of shareholders voted against the strategy and as this exceeds the 20% threshold set out in section 1.4 of the UK Corporate Governance Code, which now requires Shell to engage with Shareholders on this topic. LGPS Central are expecting to meet with the Chair or Deputy Chair from Shell in the near future and an update will be provided at the next Committee.
- 12.4 LGPS Central intend to provide an update on engagements with all the other companies included in the Climate Stewardship Plan for the September Committee.

13. Net Zero Strategy

- 13.1 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.
- 13.2 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.
- 13.3 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 will be arranged prior to the September Committee meeting.

14. Responsible Investment Summit

- 14.1 LGPS Central held a virtual responsible investment summit on the 5th June for officers and Committee Members. The training day was recorded and a copy of the video is available to all members if they were unable to attend on the day.
- 14.2 The event included presentations on the following areas.
- Artificial Intelligence: The Cultural Climate Change.
- The State and Outlook for the Net Zero Transition.

Macro uncertainty: Managing geopolitical risk in the year of global elections.

Global Oil Major BP International Oil Company to International Energy Company

Climate Scenario Analysis : To model or not to model

What is effective stewardship

Where next with responsible investment

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 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

Corporate Governance Monitoring report, Pensions Committee 15 March 2024

Cabinet Member

N/A

Local Member

N/A

Appendices

A. LGPS Central Quarterly Stewardship Report

A1. LGPS Central Manager Voting Activity Reports

B. LGIM Manager Voting Activity Report

C. Columbia Threadneedle Responsible Engagement Overlay Reports

D. LAPFF Quarterly Engagement Report