



<u>Committee and Date</u>	<u>Item</u>
Pensions Committee	
21 March 2025	
10.00am	Public

## 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, 1<sup>st</sup> October 2024 to 31<sup>st</sup> December 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.
- LGPS Central at Appendix A
  - 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 and accept with or without comment the changes to the Climate Stewardship Plan as a result of the Climate Risk Report presented in December 2024. The revised plan is attached as Appendix E.

## 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 (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.

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 2024 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 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. As with previous years LGPS Central do not provide a quarterly report for this quarter as they concentrate on the Climate Risk reports for clients and their year-end report. Examples that relate to the Fund's portfolio as at 31<sup>st</sup> December 2024 in the LGIM Report include Volvo and Colgate Palmolive as well as voting examples from BHP, Westpac Banking Corporation and Microsoft.
- 7.4 The Fund has completed arrangements with LGPS Central to allow LGPS Central to vote on all the equity holdings. This will have two benefits to the Fund The LGIM portfolio would then be classed as an advisory portfolio and allow both LGPS Central and the Fund to include it as under pooled management and more importantly it will allow a more streamlined and consistent approach to voting on shares. At the moment voting decisions are made by LGIM and LGPS Central separately and where shares fall in both portfolios can lead to conflicts. This revised approach will lead to a consistent approach to voting whilst retaining the discounted management fees agreed with LGIM under the Shires Framework when the passive portfolio was established.
- 7.5 We will continue to provide the Committee with Quarterly updates from LGIM as these demonstrate their wider stewardship beliefs as well as voting information.

## **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 2024 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 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.

- 8.4 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 D.
- 8.5 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 they often engage at a sector level as well as with specific companies. Examples of some of the companies within the Shropshire portfolio on 31<sup>st</sup> December 2024 include an article on the transition to electric cars which covers a number of motor manufactures in our portfolio. London Stock Exchange is included in an article on governance. Shell and BP where both engaged re on going commitments and Chipotle for water stewardship.

## **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 are expected in the first report for 2025 which will be presented to the June Committee.

## **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.
- 10.2 This issue was not considered as part of the Pensions review so the Fund will voluntarily continue to disclose data until formal guidance is received.
- 10.3 We have also through LGPS Central fed into the TNFD discussion paper on nature transition plans, and as above we will continue to keep an eye on this area to ensure that we can meet any future reporting requirements that may be required.

## **11. Stewardship Code**

- 11.1 Under delegated authority from the Committee in September 2024 the Fund sent its renewal application to retain its status as a signatory to the code.
- 11.2 The application covered the original twelve principles which can be sub divided into the following four categories:
- Principles 1 to 5 cover the Funds purpose and governance.
  - Principles 6 to 8 cover the Funds investment approach.
  - Principles 9-11 cover engagement.
  - Principle 12 covers exercising rights and responsibilities.

- 11.3 In February 2025 the FRC confirmed that the Fund had been successful in retaining its signatory status, which is great result as only approximately a third of LGPS schemes have attained this status.
- 11.4 Status requires an annual submission, and we shall shortly start pulling the evidence together for 2024 to allow submission of our renewal application in October 2025. A draft copy of the application will be presented to the Committee in September.
- 11.5 A copy of the final application is available on the Funds website for public review.

## **12. Mansion House Proposals – “Fit for the Future”**

- 12.1 In December the Fund agreed to provide delegated authority to the Head of Pensions in consultation with the Chair of the committee to submit a response to the consultation by the deadline of the 16<sup>th</sup> January 2025. A copy of that response is attached at **Appendix F** and this was circulated to the rest of the Committee for any comments before final submission.
- 12.2 The consultation response to the 30 questions raised covers the following three areas:
- 1) LGPS Pooling
  - 2) UK Investment
  - 3) Governance (Fund and Pool)

### **LGPS Pooling**

- 12.3 All Pools must be FCA Regulated – LGPS Central already meet this criteria and the decision to set up on this basis puts them in a strong position in respect of the proposals
- 12.4 The requirement for administering authorities to delegate the implementation of their investment strategy to the pool. Whilst the Fund accepts and supports the rationale for pooling investments, it is the Fund and its Scheme employers that are responsible for meeting their individual long-term liabilities. We therefore don't believe the proposals as they stand allow the Fund to fully meet its fiduciary duty.
- 12.5 The Pool should provide investment advice to partner Funds. We believe this proposal runs the risk of significant conflicts of interest and whilst we appreciate the governments proposal is aimed at reducing costs we believe that in its current form it is adding additional risk into processes that have seen the LGPS develop into one of the best funded public sector pension schemes.

- 12.6 The transfer of legacy assets to pool control by 31<sup>st</sup> March 2026. Our concerns here is that we see very little benefit to this approach which added significant cost and resourcing commitments to LGPS Central. The Fund has demonstrated through its actions a commitment to placing new private market commitments with LGPS Central where suitable products exist. In respect of the Funds absolute return product managers (T Rowe Price, Blackrock and Securis) the Pool does not have suitable investment products at this time. We agree that a close working relationship is required to ensure the cost-effective development of new products. There are a number of options as to how this might be achieved in practice and we await the consultation response on this matter.

### **Local Investment**

- 12.7 The Government's proposals set out that growth is their number one mission. Through this it is recognised that the LGPS already invests approximately 30% of its assets in the UK (SCPF 12%). The government believes that the LGPS can make a distinctive contribution to UK and local growth, building on its local role and networks, through increasing its long-term investment in local communities.
- 12.8 The Fund are not supportive of centrally driven targets for local investment as we believe that investment must always be on a risk driven basis. The Fund believes the Government's ambitions would be better achieved by reverting to the outcome of the 2023 pooling consultation and defining local as being within the UK. It would then be up for the pools and their partner Administering Authorities to decide on the balance of any allocation between UK-wide investments and investments within the locality of their pool.
- 12.9 There are a number of areas in respect of local investments that require clarification following the consultation.

### **Governance (Fund and Pool)**

- 12.10 The final key area relates to the governance of funds and pools. The government is largely proposing bringing in recommendations from the Scheme Advisory Board (SAB) Good Governance Review. These are recommendations which the Fund has followed for a number of years, including training and conflicts of interest. These areas will need to be reviewed in line with any final guidance.
- 12.11 The Fund is happy with the inclusion of an independent person being on the Committee as an advisor and have long supported this approach and have already appointed an LGPS Senior Officer as per the proposals.
- 12.12 The Fund has confirmed its agreement in principle to independent reviews but we would prefer to see a risk based approach following

the initial review so that depending upon the level of compliance the next review would not always be at a fixed interval.

12.13 The Fund agrees that company boards should include one or two shareholder representatives should the decision of the consultation be to expand the remit of the pooling companies. It would then be imperative that Partner Funds have a greater role in the oversight and governance of the pooling company in fulfilling their role as shareholders alongside their Fiduciary Duty.

12.14 The consultation response was originally expected to be in the spring but the latest advice is that due to the number of responses received that this is now likely to be in the summer.

### **LGPS Central Transition Plan**

12.15 As part of the "Fit for the Future" consultation pooling companies were required to submit a transition plan to government outlining how they would meet the objectives of the consultation. A summary of the LGPS response is attached at **Appendix G**.

12.16 The company have set out their plan to meet the governments five minimum standards:

- 1) Administering Authorities would remain responsible for setting a high-level investment strategy and would be required to use the pool as the principal source of advice on their investment strategy.
- 2) Administering Authorities would be required to fully delegate the implementation of their investment strategy to the pool.
- 3) Pools would be required to be established as FCA authorised entities with FCA permissions to provide advice and implement investment strategies.
- 4) Administering Authorities would be required to transfer all assets to the management of the pool.
- 5) Pools would be required to develop the capacity to carry out due diligence on local investments and to manage such investments.

12.17 In respect of standard one the company have acknowledged that it will take time and will involve them developing strategic partnerships whilst in house expertise is established. They have also acknowledged that primary legislation will also be required if this approach is chosen following the consultation.

12.18 In respect of standard two the Company are proposing the creation of a new Investment solutions team. To some extent we have already delegated authority on the LGPS products we invest in, our concerns relate to the costs and time frame for LGPS assuming this responsibility for legacy assets.



- 12.19 In respect of standard three, the Company is already established with the full range of FCA permissions necessary to run and operate collective investment vehicles and to provide the full range of investment services including implementation of investment strategies and the provision of advice.
- 12.20 In respect of standard four the company have acknowledged the issues and are looking to ensure all decisions make economic sense in consultation with Funds.
- 12.21 In respect of standard five the pool are defining local investment as within the footprint of the pool and are looking to build expertise by working with Funds to develop opportunities.
- 12.22 The plan from the company is from a slightly different perspective than the consultation response from the Fund being based around minimum standards given the open nature of the consultation. The company have been open and transparent throughout the process and are committed to working with partners to meet whatever the final consultation response and legislation require.

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

DLUHC Consultation Update, Pensions Committee 15 September 2023

TCFD Report, Pensions Committee 6 December 2024

Climate Risk Report, Pensions Committee 6 December 2024

Mansion House Proposal Report, Pensions Committee 6 December 2024

Corporate Governance Monitoring report, Pensions Committee 15 March 2024

Corporate Governance Monitoring report, Pensions Committee 21 June 2024

Corporate Governance Monitoring report, Pensions Committee 13 September 2024

Corporate Governance Monitoring report, Pensions Committee 6 December 2024

**Cabinet Member**

N/A

**Local Member**

N/A

**Appendices**

- A. LGPS Central Manager Voting Activity Reports
- B. LGIM Manager Voting Activity Report
- C. Columbia Threadneedle Responsible Engagement Overlay Reports
- D. LAPFF Quarterly Engagement Report
- E. Climate Stewardship Plan
- F. Final response to Pensions review “Future Fit” consultation
- G. LGPS Central “Fit for the Future” Transition plan summary