



Staffordshire
Pension Fund
Local Government Pension Scheme

2022 Annual Stewardship Report



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1.0 Foreword

- 1.1 The Staffordshire Pension Fund (“the Fund”) recognises its role as one of promoting best practice in responsible investment and engagement (RI&E) and stewardship, which is consistent with seeking improved long-term investment returns.
- 1.2 The Fund defines the concept of stewardship in line with the FRC, in that *“Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.”*
- 1.3 The Fund previously complied with the Financial Reporting Council’s (“FRC”) 2012 UK Stewardship Code.
- 1.4 The Fund’s Investment Strategy Statement (“ISS”) states as an investment belief that RI&E can enhance long term investment performance across all asset classes and should be integrated into all investment processes.
- 1.5 The Fund’s ISS also states that financial markets could be materially affected by climate change and that responsible investors should proactively manage this risk through stewardship activities in partnership with like-minded investors where feasible.
- 1.6 The Fund has published its first Climate Change Strategy in 2022, which details plans to reduce carbon emissions and become net zero by 2050. This is available, alongside the ISS and other key documentation on the Fund’s website at www.staffspf.org.uk
- 1.7 This report covers the period 1 January 2022 – 31 December 2022



Mike Sutherland
Chair of Pensions Committee



Melanie Stokes
Assistant Director for Treasury and
Pensions

2.0 Purpose and governance

Principle 1.

Signatories’ purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Staffordshire Pension Fund

- 2.1 Staffordshire Pension Fund (“The Fund”) is a Local Government Pension Scheme (LGPS) with over 114,000 members and 450 employers. The Fund’s investments are currently valued at over £6.4bn (at 31 December 2022).
- 2.2 The Fund is administered by Staffordshire County Council (“SCC”) who are legally responsible for the Fund.
- 2.3 SCC declared a climate emergency in 2019 and aim to achieve net zero emissions by 2050 across every aspect of their service provision and estate. In the 2 full years since this was declared the Council has reduced its emissions by 43%. This includes the office buildings and resources used by the Pension Fund. SCC have pledged to 'think climate change in all we do to limit our impact on the environment' in an aim to make Staffordshire sustainable.



- 2.4 SCC delegates it’s responsibility for administering the Fund to the Staffordshire Pensions Committee, which is the formal decision-making body under the SCC Constitution.
- 2.5 The Pensions Committee delegates some powers to the Pensions Panel, specifically relating to investments. The Pensions Panel make recommendations to the Pensions Committee on several matters, for example, strategic asset allocation (SAA), investment benchmarks, performance targets, and review the performance of the Fund’s Investment Managers.
- 2.6 The primary objective of the Fund is to ensure that sufficient funds are available to meet all pension liabilities as they fall due for payment.

- 2.7 The Fund’s SAA is formulated in consultation with its investment advisers, Hymans Robertson. A full SAA review was carried out alongside asset liability monitoring (ALM) work in preparation for the Actuarial Valuation at 31 March 2022, and was developed with reference to the Fund’s objectives, investment beliefs and climate change strategy.
- 2.8 The SAA is reviewed and approved by the Pensions Committee every three years as part of the triennial actuarial valuation process, and to take account of developments in investment markets. The SAA is monitored more frequently at quarterly meetings of the Pensions Panel
- 2.9 The Pensions Committee and Pensions Panel seeks to ensure that as far as possible, RI&E factors are incorporated into the investment process across all asset classes.
- 2.10 To assist them doing this, the Fund endorses the United Nations Principles of Responsible Investing (“UNPRI”) and seeks to encourage its active equity managers, and all other managers as far as practicable, to sign up to them to fully incorporate RI&E issues into their investment process.
- 2.11 As at December 2022, all the Fund’s active equity managers (including those within the LGPS Central Limited Multi Manager Active Global Equity Fund) were signed up to UNPRI.
- 2.12 The Fund defines RI&E in the same way as the UNPRI, as an approach to investing that aims to incorporate environmental, social and governance (“ESG”) factors into investment decisions, to better manage risk and generate sustainable, long-term returns. A selection of ESG factors is shown in the diagram below.



Environmental

- Resource utilisation
- Sustainability
- Pollution
- Carbon emissions



Social

- Community
- Human Rights
- Employees
- Customers
- Suppliers



Governance

- Stakeholder alignment
- Ownership structure
- Regulatory controls
- Board accountability
- Transparency

- 2.13 In practice the Fund’s policy will be to apply the UK Stewardship Code 2020 through;
- it’s contractual arrangements with asset managers;
 - membership of the Local Authority Pension Fund Forum (“LAPFF”);
 - being part of the LGPS Central Limited pool.

Investment Beliefs

2.14 The Fund shares a set of common investment beliefs. These help inform the setting of its investment strategy and are included within the Fund's ISS. After a consultation exercise with Councillor Members, the investment beliefs were updated in 2019 to incorporate beliefs about RI&E. These are listed below.

- *A long-term approach to investment will deliver better returns and the long-term nature of LGPS liabilities allows for a long-term investment horizon.*
- *Liabilities influence the asset structure. Funding levels, contribution and investment strategies are linked, and all should be considered together when making investment decisions.*
- *Asset allocation is one of the most important factors in driving long term investment returns, but strategy implementation is becoming increasingly more important.*
- *Diversification of investments across and within asset classes can improve the risk / return profile, but must be resilient through market crises, and the benefits are subject to diminishing returns.*
- *Inefficient markets mean there is a place for active management, providing there is a realistic expectation of out-performance and has the potential to contribute to non-financial goals.*
- *Risk premiums exist for certain investments, which together with secure and growing income streams can help to recover funding deficits and underpin the ability to meet the Fund's future pension liabilities.*
- *The fees of investment managers should be aligned with the Fund's long-term interests. Value for money is more important than the minimisation of cost.*
- *Responsible investment and engagement, which covers a wide range of Environmental, Social and Governance issues, can enhance long-term investment performance across all asset classes and should be integrated into all investment processes.*
- *A strategy of engagement, rather than exclusion, is more effective and supportive of responsible investment and engagement. The opportunity to influence through stewardship is waived with a divestment approach.*
- *Financial markets could be materially affected by climate change. Responsible investors should proactively manage this risk through stewardship activities in partnership with like-minded investors where feasible.*
- *Asset managers and investee companies with robust governance structures will be better positioned to handle future events. Decision making and performance are improved when there are diverse individuals involved.*

2.15 In February 2022 the Fund published its first Climate Change Strategy, which detailed the Fund's strategy for achieving a portfolio of investment assets with net-zero carbon emissions by 2050, and interim targets for carbon reductions by 2030. This is publicly available on the Pension Fund Website [Staffordshire Pension Fund - Responsible Investment & Engagement \(staffspf.org.uk\)](https://staffspf.org.uk) and was presented to and approved by members of the Pensions Committee in February 2022. The Climate Change Strategy recognises that consideration of climate risk falls within the scope of the Fund's fiduciary duty and established some specific climate change beliefs which are detailed below.

- *The Earth's climate is changing because of human activity, and that unabated, such change would have devastating consequences.*
- *The Fund supports the ambitions of the 2015 COP21 Paris Agreement and aims to achieve a portfolio of assets with net zero carbon emissions by 2050.*
- *Governments, policy makers, consumers, companies, and investors must all work collaboratively in a co-ordinated response to limit the rise in global temperatures. Individual investor influence is not enough alone.*
- *As part of a transition to a low carbon economy, demand for energy must be addressed in addition to the suppliers of energy, for greenhouse gas emissions to reduce to net-zero.*
- *It is possible for companies with current high emission levels to reduce their emissions and thrive in a low carbon economy, and that the support and stewardship of investors is key to influencing this.*
- *Climate change is a long-term financially material risk for the Fund, across all asset classes, and has the potential to impact the funding level of the Fund through impacting on employer covenant, asset pricing, longer-term inflation, interest rates and life expectancy.*
- *The Fund supports engagement over divestment and the objectives of the Climate Action 100+ initiative; an investor led initiative to ensure the world's largest carbon emitting companies adopt the appropriate governance structures to effectively manage climate risk, decarbonise in line with the Paris Agreement, and disclose using the Taskforce for Climate Related Financial Disclosures (TCFD) recommendations.*
- *Climate change risks and opportunities should be considered at all levels of investment decision making, from asset allocation to individual investment decisions.*
- *Diversification across a variety of asset classes, economic areas and sectors is an important tool in reducing climate risk and maximising opportunities presented by the transition to a low carbon economy.*

- *Improvements in reporting, consistency, comparability, and data quality, including scope 3 emissions are needed for investors to make accurate and fully informed investment decisions.*

Enabling Effective Stewardship

- 2.16 As part of its Pensions Panel meetings, the Fund publishes a quarterly RI&E report. The RI&E report is a publicly available document and includes details of voting and examples of engagement carried out by investment managers on the Fund's behalf. The quarterly RI&E report also includes the most recent engagement work undertaken by LAPFF and our pooling company, LGPS Central, on behalf of the Fund.
- 2.17 All of the Fund's policies, including those relating to RI&E are publicly available on the Fund's website, [Staffordshire Pension Fund - Responsible Investment & Engagement \(staffspf.org.uk\)](https://staffspf.org.uk). The Fund communicates with its members and stakeholder in a variety of different ways and welcomes feedback, see paragraph 3.7.
- 2.18 Since 2020 members of the Fund's decision-making bodies, the Pensions Committee and Pensions Panel, have attended several training sessions on RI&E and climate change to ensure they are equipped with the knowledge to enable them to incorporate these factors effectively in their decision-making.
- 2.19 Diversity is another key area of stewardship for the Fund. LGPS Central is a member of the 30% Club which it also reflects in its voting principles, on behalf of the Fund. Females represent 58% of the Officers across the Staffordshire Pension Fund service teams. Staffordshire County Council, the Administering Authority of the Fund has its own diversity and inclusion pledge, released in November 2022;

We are committed to promoting equality of opportunity and tackling inequalities both in our community and workforce, but we recognise that disadvantage and discrimination still exist, and COVID-19 has widened the gap nationally.

We pledge to eliminate unlawful discrimination and treat people fairly, and over the last 12 months have been reviewing our organisational approach to diversity and inclusion both for our residents and our workforce.

In the last 12 months the Council's progress has included:

- Publishing a new Gender Pay Gap and Workforce Profile
- Launch of a new Translation and Interpretation service to allow communities to receive information in different languages

- Supporting people who face barriers to employment by offering work placements through its “Open Door” scheme

The Council’s own mean gender pay gap has also continued to fall to 9.7% and is significantly below national and public sector benchmarks. (The gender pay gap is a measure of the difference between men and women's average earnings and is not the same as equal pay for the same job)

- 2.20 During 2021 and 2022 the Fund worked with Hymans Robertson on reviewing its SAA, in advance of the 2022 actuarial valuation. A large proportion of this work involved ensuring RI&E factors and climate change were incorporated into the SAA (see paragraph 2.26 below) and enabled the publication of the Fund’s first Climate Change Strategy.
- 2.21 In 2020 the Fund commissioned its first Climate Risk Report from LGPS Central and has received subsequent annual reports in 2021 and 2022. Part of the Climate Risk Report’s purpose is to assess the governance arrangements of the Fund regarding how RI&E and climate change are incorporated.
- 2.22 As well as the production of a Climate Change Strategy, a further recommendation from the Climate Risk Reports was to produce a Climate Stewardship Plan. The first version was produced in April 2021 which has been subsequently updated for April 2022. The Climate Stewardship Plan aims to focus the Fund’s engagement on the investment managers and underlying investments that can have the most impact on reducing the Fund’s climate risk and is used by the Fund as a working document to help guide discussions.
- 2.23 Progress made against the Climate Stewardship Plan is reported quarterly to the Pensions Panel as part of the RI&E report. This includes examples of the dialogue with, and engagement by, the Fund’s investment managers.
- 2.24 Expansion of a Climate Stewardship Plan to cover other areas of RI&E beyond climate change is also being actively considered by the Fund’s officers.
- 2.25 As a result of the receipt of the Fund’s Climate Risk Reports, the Fund was able to publish a Taskforce on Climate-related Financial Disclosures (TCFD) report in April 2021. This report is likely to become mandatory for the LGPS soon and makes climate disclosures under four recommended elements: Governance, Strategy, Risk management and Metrics and targets. This report has also been updated and re-published in April 2022.
- 2.26 The Fund’s commitment to integrating RI&E into its SAA can be evidenced by the recent reallocation of capital, as shown below.
- In 2020 \$35m was committed to the Blackrock Global Renewable Power Fund III, which was the Fund’s first commitment to the infrastructure asset class.

- In 2021 6.0% of the Fund was allocated to global sustainable equities and assets (c£250m) were transitioned to the Impax Global Opportunities Strategy which targets opportunities arising from the transition to a more sustainable economy.
- In 2021 £25m was committed to Equitix Fund VI, a UK infrastructure fund, specialising in social infrastructure, renewables, and other regulated assets.
- In August 2022 £650m (10% of Fund SAA) of passive global equities were transitioned from a global market capitalisation index to a low carbon index (the Legal and General Investment Management Low Carbon Transition Global Equity Index) which reduced carbon emissions intensity by 70% initially and is consistent with a decarbonisation pathway to net-zero emissions by 2050.
- In 2022 the Fund committed to the LGPS Central Core/Core Plus Infrastructure Fund, which has made commitments to funds which have a bias to RI&E integration, including (at the time of writing) Equitix Fund VI (as above), the IFM Net Zero Infrastructure Fund and NextPower III Fund, which focusses on UK Solar assets.

Principle 2

Signatories' governance, resources, and incentives support stewardship.

- 2.27 The Pensions Committee has full delegated powers to deal with all functions relating to local government pensions on behalf of Staffordshire County Council, including the management of the administration of benefits and the strategic management of the Fund's assets. The Pensions Committee is made up of 9 elected councillor members and 6 non-voting representatives. More detail is contained in the Fund's Governance Policy Statement which is available at www.staffspf.org.uk.
- 2.28 The main tasks of the Pensions Committee are to:
- *decide the overall funding strategy;*
 - *decide how much of the Fund should be shared out between different types of assets and which countries they should be invested in;*
 - *make sure that the Fund invests in different kinds of assets to spread the risk;*
 - *review investments to make sure they are suitable for the needs of the Fund;*
 - *decide how to use its discretionary powers; and*

- *approve the Pension Fund Annual Report and Accounts.*
- 2.29 The Pensions Committee's activities are overseen by the Pensions Board. The requirement for a Local Pensions Board was introduced by the Scheme Advisory Board (SAB) and the Pensions Regulator, who were looking to strengthen LGPS Fund governance. The Board's role is to ensure the effective and efficient governance and administration of the Fund. This includes securing compliance with LGPS regulations and any other legislation relating to the governance and administration of the LGPS. The Board is made up of 6 representatives with equal representation from employer bodies and scheme membership.
- 2.30 As well as meeting sufficiently regularly to discharge its duties and responsibilities effectively, all Pensions Board representatives have an open invitation to attend all meetings of the Pensions Committee and Pensions Panel, in an observer capacity.
- 2.31 Day to day responsibility for stewardship is delegated to the Assistant Director for Treasury and Pensions, assisted by the Treasury and Pensions Investment team. The team consists of 4 x CIPFA Qualified Accountants and 3 x Investment Accounting Technicians with a wealth of investment and public finance experience.
- 2.32 The Fund has adopted a training policy for Members and Officers in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) Knowledge and Skills Framework. The training addresses 8 areas of knowledge and the policy is available at www.staffspf.org.uk.
- *Pensions legislation and guidance.*
 - *Pension Governance.*
 - *Funding strategy and actuarial methods.*
 - *Pensions administration and communications.*
 - *Pensions financial strategy, management, accounting, reporting and audit standards.*
 - *Investment strategy, asset allocation, pooling, performance and risk management.*
 - *Financial markets and products.*
 - *Pension services procurement, contract management and relationship management.*
- 2.33 The Pensions Committee and Pensions Board receive two annual training sessions covering the areas identified in the annual training needs analysis survey. Recently this has included training on RI&E (Financial markets and

products knowledge) and the LGPS Governance structure (Legislative and governance).

- 2.34 This training helps inform and incentivise the Pensions Committee and Pensions Panel in their efforts to incorporate material ESG factors into the investment process across relevant asset classes. Non-financial factors are considered as part of investments to the extent that they are not detrimental to the investment returns. Social impact may be considered, but financial return is the primary concern.
- 2.35 As an externally managed fund, much of the day-to-day stewardship of assets and the exercising of voting rights is undertaken by the Fund's investment managers, including the Fund's asset pool, LGPS Central. Details of proxy voting and engagement with underlying companies is detailed in the quarterly reports the Fund's investment managers and LGPS Central produce for the Fund. This voting is summarised in a quarterly RI&E report to the Pensions Panel.
- 2.36 Links to the Fund's individual investment manager and LGPS Central's RI&E policies, as well as details on the UK Stewardship Code and the UNPRI are available at the Staffordshire Pension Fund website at [Staffordshire Pension Fund - Responsible Investment & Engagement \(staffspf.org.uk\)](https://www.staffspf.org.uk).
- 2.37 The Fund has been a member of the Local Authority Pension Fund Forum (LAPFF) since 1 April 2013. LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting social responsibility and high standards of corporate governance at the companies in which they invest. Formed in 1990, the Forum brings together most local authority pension funds and their pooling companies, with combined assets of over £350 billion. The Pensions Panel receives a copy of the LAPFF quarterly engagement report as part of its meeting papers. LGPS Central Limited is also a member of LAPFF, alongside all its 8 Partner Funds.
- 2.38 As the Fund's pooling company, LGPS Central has an RI&E team which supports the Fund's stewardship activities. The LGPS Central RI&E Team currently consists of an Investment Director, Head of Stewardship, RI&E Manager (Net Zero), RI&E Manager (Integration) and two RI analysts. Team members come from diverse academic backgrounds and specialisms across RI&E policy development, ESG integration in public and private markets, stewardship, and engagement across the value chain, as well as climate expertise.
- 2.39 LGPS Central has its own RI&E Framework, which all 8 Partner Funds were involved in creating, LGPS Central also has its own Responsible investment and engagement policies, which are available on their website <https://www.lgpscentral.co.uk/responsible-investment/>

- 2.40 LGPS Central ensure RI&E is integrated into all their investment products through a Responsible Investment Integrated Status (RIIS) process. This is described in detail at paragraph 3.23.
- 2.41 The LGPS Central RI&E Team leverages a strong network among peer investors both in the UK and globally, as well as investee companies, industry associations and relevant regulatory bodies.
- 2.42 LGPS Central's RI&E team report to the Chief Investment Officer and work in close collaboration across multiple internal teams on;
- the approach to RI&E when new funds are conceived and set up;
 - the selection and monitoring of fund managers;
 - engagement and voting, as relevant to the asset class; and
 - RI&E performance assessment and reporting.
- 2.43 LGPS Central have produced Climate Risk Reports for the Fund and assisted with the production of the Fund's TCFD reports, Climate Stewardship Plan, Climate Change Strategy and UK Stewardship Code compliance. As well as providing Members and Officers with training on RI&E Implementation.
- 2.44 LGPS Central employ EOS at Federated Hermes (EOS) as its stewardship provider, with the remit of engaging companies on material ESG issues across all relevant asset classes, sectors, and markets, and executing voting in line LGPS Central's voting principles.
- 2.45 Following a comprehensive due diligence process by LGPS Central, EOS were selected as their beliefs aligned well with LGPS Central's and Partner Fund beliefs, namely that dialogue with companies on ESG factors is essential to build a global financial system that delivers improved long-term returns for investors, as well as more sustainable outcomes for society. The EOS team provides access to global companies based on a diverse set of skills, experience, languages, connections, and cultural understanding. EOS also engages regulators, industry bodies and other standard setters to help shape capital markets and the environment in which companies and investors can operate more sustainably.
- 2.46 Hymans Robertson are investment advisers to the Staffordshire Pension Fund and support the Fund with investment advice, attendance at Pension Committee and Panel meetings, training for Members, and advice on RI&E issues. Hymans Robertson have a dedicated Responsible Investment team and a wealth of experience in incorporation of ESG factors into investment advice for LGPS Funds.
- 2.47 Hymans Robertson have delivered training to Pensions Committee Members on Responsible Investment and Engagement, Strategic Asset Allocation, and the Road to Net Zero recently.

- 2.48 The Fund also employs an independent adviser, Carolan Dobson, who provides challenge and an independent perspective on investments and RI&E matters. She attends Pensions Committee and Pensions Panel meetings.
- 2.49 The Fund believes that its current governance arrangements work well, however, one area that is being strengthened is regarding independent investment advice to the Pensions Panel. Historically, the Fund has had 2 independent investment advisers, however since the retirement of an independent investment adviser in 2020, the Fund has only employed one. The Fund aims to recruit a second independent adviser in 2023 to strengthen the external advice received and provide further challenge to the main independent adviser, Hymans Robertson, which will support the Fund's stewardship activities. Providing advice on corporate governance, including RI&E has been included as a key part of the specification for this role.

Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

- 2.50 As a predominantly externally managed Fund, the Fund expects its investment managers to have effective policies addressing potential conflicts of interest. Investment managers are assessed on potential conflicts of interest and their written policies at the evaluation and appointment stage, which also applies to managers selected by LGPS Central. Conflict of interest policies are available on managers' websites for public scrutiny, and it is expected that the policy should be subject to regular review.
- 2.51 With respect to conflicts of interest within the Fund, Pension Panel, Pensions Committee and Pensions Board members are required to make declarations of interest at the public section of each quarterly meeting. If a member declares that they are conflicted, then the context would determine the action that would be taken i.e. if they declare that they have an interest that is either personal or financial to an item on the agenda, then they may be asked to leave the room and/or be excluded from voting.
- 2.52 LGPS Central's approach to managing and mitigating risks associated with conflicts of interest is outlined in a Conflicts of Interest Policy, which is made available to all staff and clients. While this policy is intended to ensure compliance with FCA rules (SYSC 4 & 10) and regulations around conflicts management and requirements under MIFID II, the policy is also designed to ensure fair outcomes for clients and to ensure that LGPS Central fulfils its stewardship responsibilities to its clients in terms of how their assets are managed.
- 2.53 LGPS Central's Conflict of Interest Policy is signed off by the Investment Committee, Executive Committee and Board. The policy is reviewed annually, and any changes are approved through the same governance process.

- 2.54 LGPS Central operates a 'one for eight' RI&E service model. This ensures that they deliver a consistent level of service to all eight Partner Funds and that no conflicts arise in terms of the level of support they get from the RI&E Team. As an example, LGPS Central provided Climate Risk Reports to all eight Partner Funds for the first time in 2020. Since then, Climate Risk Report annual provision has followed the same delivery order. This is to ensure consistency and fairness among Partner Funds and to avoid some receiving reports six months apart or others over 12 months apart.
- 2.55 LGPS Central employees, including senior management and members of the executive committee, are required to complete conflicts management training on an annual basis and confirm their adherence to its standards. This training includes guidance on what constitutes a conflict of interest. The conflicts policy is also contained within the LGPS Central Compliance Manual, which is readily available to all staff.
- 2.56 When LGPS Central appoints external investment managers, a thorough due diligence process is undertaken. This includes consideration of the external managers process and procedures around the management of conflicts of interest. LGPS Central expects their managers to have robust controls and procedures in place around conflict management and to demonstrate commitment to managing conflicts fairly.
- 2.57 LGPS Central only manages client (Partner Fund) assets, all their active portfolios are managed externally, and its staff are not remunerated through a bonus scheme. These factors are key mitigants in terms of conflict risk.
- 2.58 Conflicts can arise during the voting season. For instance, this could be where a proxy voting provider also provides other services to corporates or where they have pension schemes as clients whose sponsor company they engage with and provide voting recommendations on. The Fund expects proxy voting agents to be transparent about conflicts of interest and to implement appropriate measures to ensure conflicts are managed such as Chinese walls, conflict management policies and conflicts registers.
- 2.59 EOS at Federated Hermes – LGPS Central's external stewardship provider – has applied an enhancement to its service since 2021, to further improve transparency by informing voting clients of potential significant conflicts of interest when EOS provides voting recommendations. One such conflict would be when EOS recommends a vote in relation to clients' sponsor companies, and specific assurance of EOS' independence in assessing this stock is needed.
- 2.60 EOS has a publicly available Conflicts of Interest Policy and conflicts are maintained in a group Conflicts of Interest Policy and Conflicts of Interest Register. As part of the policy, staff report any potential conflicts to the compliance team to be assessed and, when necessary, the register is updated. The Conflicts of Interest Register is reviewed by senior management on a regular basis.

- 2.61 Conflicts can also arise around transition management. With the transition of assets into pools being both high value and high profile. LGPS Central require that all colleagues involved in the transition management and transition adviser appointment process are required to complete a conflicts of interest declaration. The declaration asks colleagues to provide details of any conflicts with any of the potential transition managers/advisers for assessment by the compliance team. The approach taken is that conflicts will inevitably arise particularly in the form of existing business relationships and previous periods of employment with the transition managers/advisers on the shortlist. Also, if conflicts are declared and recorded, they can be managed.

Principle 4



Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

- 2.62 Risk management is central to the management of the Pension Fund, as reflected by the coverage of risk in key documents such as the Funding Strategy Statement (FSS), the Investment Strategy Statement (ISS) and the Annual Report and Accounts. Risk management is an essential element of good governance in LGPS schemes, and the Fund aims to comply with the CIPFA Managing Risk publication, the Pensions Act 2021 and the Pensions Regulator's Code of Practice for Public Service Pension Schemes, as they relate to managing risk.
- 2.63 The main strategic risk to the Fund is failing to meet its primary objective of having sufficient funds to meet its liabilities when they become due for payment. This particular risk is managed through the Funding Strategy, which uses Asset Liability Modelling (ALM) to look for a combination of investment and contribution rate strategies that gives the likelihood of achieving the desired funding level. The primary reason for the high variability (risk) in outcomes derives from the relatively high proportion of the Fund invested in return seeking assets, such as equities and increasingly more income producing assets such as property, private debt, infrastructure, and multi-asset credit. However, in the long term this is considered to deliver returns that are commensurate with the risk, and this helps to keep employer contributions lower than they would otherwise be. It also relies upon the strong covenant of the major employing bodies in the Fund which allows for a long-term perspective to be taken.
- 2.64 Staffordshire County Council, as the Administering Authority, adopts best practice risk management, which supports a structured and focused approach to managing risks and ensures risk management is an integral part in the governance of the Fund, at a strategic and operational level. Risks are regularly reported to the Pensions Committee and Pensions Panel as part of routine quarterly reporting. There is also a separate Risk Register, which is reviewed every quarter by the Pensions Board and reported to the Pensions

Committee annually. This is separated into 4 main areas, Funding, Administration, Governance, and Investment, with emerging risks pulled out and analysed in a separate tab. Climate risk has been included within the risk register, for example, due to the financially material risk to investment returns.

2.65 The Pension Fund Risk Register has a set of high-level objectives which cover all key aspects of the Fund under each of these areas. The greatest risks to the Fund are therefore those associated with not meeting the high-level objectives. The Risk Register details the risks associated with not achieving the Fund’s objectives as a series of sub risks against those high-level objectives. This ensures a comprehensive coverage of all areas of the Fund. Each of the detailed risks has been given an impact and a likelihood score before and after any controls are applied. These have been combined to give an overall pre-control and post-control risk score, which has been assigned a Red – Amber – Green (RAG) rating.

2.66 In identifying and managing ESG risks, the Fund’s stewardship partners are:

Organisation	Remit
	<p>The Fund is a 1/8th owner of LGPS Central Ltd which has identified four Stewardship Themes that are the primary focus of engagement. These themes are viewed as likely to be material to the Fund’s investment objectives and time horizon, likely to have broader market impact, and to be of relevance to stakeholders. See further detail immediately below.</p> <p>During 2022, LGPS Central has been directly involved in more than 40 engagements across these themes. A selection of engagement cases is provided under Principles 9-11 below</p>
	<p>EOS at Federated Hermes is contracted by LGPS Central Ltd to expand the scope of the engagement programme, especially to reach non-UK companies.</p> <p>In 2022, EOS engaged with 833 companies on 3,477 environmental, social, governance, strategy, risk and communication issues and objectives. EOS takes a holistic approach to engagement and typically engages with companies on more than one topic simultaneously. Many of the issues and objectives engaged upon in 2022 were linked to one or more of the UN Sustainable Development Goals (SDGs).</p>
	<p>The Fund is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF conducts engagements with companies on behalf of local authority pension funds. In the year to 30 September 2022 (LAPFF’s reporting year), LAPFF engaged with over 150 companies through more than 80 meetings across a spectrum of material ESG issues.</p>

2.67 In close collaboration with Staffordshire Pension Fund and the other Partner Funds, LGPS Central has identified four core Stewardship Themes that guide the pool’s engagement and voting efforts. These are;

- *climate change,*
- *plastic,*
- *fair tax payment and tax transparency, and*
- *human rights risks.*

These themes have been chosen based on the following parameters:

- Economic relevance
- Ability to leverage collaboration
- Stakeholder attention.

2.68 Identifying core themes that are material to the Partner Funds’ investment objectives and time horizon, that are likely to have broader market impact, and that are perceived to be of relevance to stakeholders, helps LGPS Central prioritise and direct engagement. LGPS Central fully acknowledge that the spectrum of ESG risks is broad and constantly evolving. However, and in agreement with the LGPS Central pool partners, they consider it appropriate to pursue stewardship themes over a three-year horizon, at a minimum, while conducting annual reviews to allow for necessary adjustments or changes. This helps LGPS Central build strong knowledge on each theme, seek or build collaborations with like-minded investors, identify and express consistent expectations to companies on theme-relevant risks and opportunities, and to measure the progress of engagements. Furthermore, the Fund and LGPS Central take the view that engagement on a theme needs to happen at multiple levels in parallel; company-level, industry-level, and policy-level. With the long-term investment horizon of its Partner Funds, LGPS Central take a whole-of-market outlook and changing the “rules of the game” through industry and policy dialogue is as important, if not more important, than individual company behaviour. Section 4 provides a detailed overview of engagement activity and progress for each Stewardship Theme.

2.69 Individual investment managers, LAPFF and LGPS Central are all involved in a variety of industry initiatives on behalf of the Fund, which help shape sustainable corporate and investor practice. These include;

- PRI (Principles for Responsible Investment)



- The Institutional Investor Group on Climate Change



- Transition Pathway Initiative (TPI)



- The Local Government Pension Scheme Advisory Board



- 30% Club Investor Group



- Climate Action 100+



- The Investor Forum



- The British Private Equity and Venture Capital Association
- The Cross-Pool RI Group within the LGPS
- The Financial Reporting Council (FRC) Investor Advisory Group

LGPS Central also respond to various national and international industry consultations on behalf of Partner Funds, ensuring participation in wider industry initiatives and regulation. An example of this is the Just Transition Enquiry, which is published, along with other engagement activity on the LGPS Central website which can be accessed using the following link [Consultation Responses – LGPS Central](#)

Market risks

- 2.70 **Investment in equities.** A significant proportion of the Fund is invested in equities, although this is reducing as an output of the latest SAA review. Equities are expected to provide better returns than fixed income assets over the long term. The risk with this strategy is that equity values fall significantly in the short-term and they fail to outperform fixed-income assets in the long term. This risk is managed through reliance on the funding strategy which monitors the positive cash flows of the Fund and the long-term covenant of the main employing bodies. This then allows the Fund to take a long-term investment perspective and maintain a high exposure to equities which, over time are expected to deliver better financial returns.
- 2.71 **Interest rates.** Changes in interest rates will impact the level of the Fund's liabilities and the value of the Fund's investment in fixed income. Little can be done in relation to the change in liabilities; this is a fundamental part of the

Fund. To mitigate the risk of capital loss on fixed income assets from interest rate changes, the Fund's SAA allows scope to adjust the exposure to fixed income, should it be necessary.

- 2.72 **Inflation.** Future payments the Fund must make to pensioners are linked to inflation. Therefore, increases in the rate of inflation will increase the value of payments to pensioners. The Fund invests in assets, such as index-linked gilts, which are linked to inflation. This reduces risk as it matches the return on these assets to actual increases in inflation.
- 2.73 **Pension Fund investment managers underperform their target Benchmarks.** The majority of the Fund is invested through external investment managers; this risk is partially managed by keeping a substantial share of the Fund invested passively and by ensuring that the active managers have complementary styles. Each manager has an investment management agreement in place which sets out the relevant investment benchmark, investment performance target, asset allocation ranges and any investment restrictions. This constrains the investment managers from deviating significantly from the intended approach, while permitting sufficient flexibility to allow the manager to reach their investment performance target. All this is allied to regular monitoring. Investments made through LGPS Central are also held with external managers. These managers are not directly employed by the Fund therefore the Fund does not have the same control over monitoring their performance. However, the Fund works closely with LGPS Central in monitoring investment manager performance.
- 2.74 Most of the Fund is invested in liquid investments. Risks are also managed through diversification. For example, across asset classes e.g., equities, fixed income, property, private equity, private debt, infrastructure and cash; also, across managers and styles, geographical areas e.g. UK, Overseas, Emerging Markets; and lastly through ensuring managers maintain a diversified portfolio of investments within their mandate. Foreign currency risk is not currently hedged but the Fund has detailed its approach to this risk in a Currency Hedging Policy which is available on the Fund's website. [Staffordshire Pension Fund - Currency Hedging Policy \(staffspf.org.uk\)](http://staffspf.org.uk).
- 2.75 The Pensions Committee receives an annual report from the Fund's independent performance measurer, currently Portfolio Evaluation Ltd, to show both performance and risk, where risk is measured as the variability of returns, both against liabilities and against equity or other benchmarks. The Pensions Panel receives reports which monitor such risks quarterly.

Systemic Risks

- 2.76 **Climate Change.** The Fund has received Climate Risk Reports from LGPS Central since 2021 which has allowed for the publication of annual TCFD reports and Climate Stewardship Plans. In 2022 the Fund published its first Climate Change Strategy, including a series of targets to reduce the carbon intensity of the Fund. All these documents are published annually which is possible due to the detailed information included in the Fund's annual Climate

Risk Report provided by LGPS Central. Climate change is a risk for asset owners that cannot be fully diversified, almost all asset classes, sectors, and regions are likely to be affected by the physical, policy or market-related consequences of climate change over the long term. The Climate Risk Report benchmarks the Fund's carbon intensity annually, analyses climate related risks and opportunities and considers the financial consequences for the Fund given plausible climate change scenarios. The Report then recommends areas for the Fund to improve its resilience to climate change.

- 2.77 As part of the Fund's SAA review work in 2021 and 2022 undertaken by the Fund's advisers Hymans Robertson, modelling was undertaken to assess the potential decarbonisation path for the Fund. The output from this was used to help design the initial targets contained in the Fund's Climate Change Strategy and built into the Fund's new SAA, which was approved by the Pensions Panel in March 2022. As shown in paragraph 2.26, positive allocations to climate friendly asset classes have been taking place over the past few years which will likely only increase under the new SAA as the Fund is moving away from listed equities towards private market investments. However, the implementation of these moves, which started in 2020, will take several years to fully complete.
- 2.78 The Fund works collaboratively with LAPFF, LGPS Central and other Partner Funds on systemic market risks, such as climate change. LGPS Central has been an active member of Climate Action 100+ (CA100+) since inception. CA100+ engages 166 companies across the globe that are responsible for 80% of industrial carbon emissions globally. The project has been ramped up through a benchmarking tool asking companies to set an explicit target of net-zero emissions by 2050, and to provide verification through short- and medium targets as well as decarbonisation strategies.

Principle 5

Signatories review their policies, assure their processes, and assess the effectiveness of their activities.

- 2.79 The 2022 Annual Stewardship report has been reviewed by the Fund's Pensions Committee, RI&E Staff at LGPS Central and several Senior Fund Officers. This review and challenge have given us confidence that our reporting is fair, accurate and balanced and most importantly informative, in that it imparts critical information on our approach to stewardship to our stakeholders.
- 2.80 The Fund's ISS is reviewed annually by the Pensions Panel, including the Fund's investment beliefs, as detailed in Principle 1, before submission to the Pensions Committee for formal approval. The investment beliefs include specific beliefs relating to RI&E and the stewardship of assets and ensures that these key themes are incorporated throughout the Fund's investment process. A major review of the investment beliefs took place in 2019 where additional information on RI&E and stewardship was included.

- 2.81 The Pensions Panel receive a quarterly RI&E report, which includes the LGPS Central and LAPFF quarterly engagement reports as appendices. Other investment managers also produce quarterly investment reports which include RI&E information, and these are routinely received by the Fund. The Fund's investment managers also provide RI&E policy documents, which are publicly available on their websites, (e.g. [LGIM ESG Impact Report](#)) and the Fund provides a link to a selection of these from its own website ([Staffordshire Pension Fund - Responsible Investment & Engagement \(staffspf.org.uk\)](#)), ensuring that reporting is accessible to stakeholders. For the reports that the Fund produces, it aims to ensure that all reports are clear and understandable for the Pensions Committee, Panel Members and the wider public, whilst still containing sufficient detail and coverage of the subjects involved. Presentations at Pensions Committee and Pensions Panel meetings by LGPS Central, investment managers and Hymans Robertson are used to aid members' understanding of the topics under discussion to ensure robust decision making for the Fund. An example of this is a Private Equity manager HarbourVest, presenting to the Pensions Committee training session in July 2022, explaining how and why an ESG focus is embedded across their organisation.
- 2.82 The Fund receives an annual Climate Risk Report from LGPS Central, which assesses the Fund's carbon footprint and other climate related metrics, Climate Scenario Analysis and Climate Stewardship Plan. This report includes recommendations on how the Fund could improve its policies and processes in relation to climate change, many of which have been achieved or significant progress has been made on achieving. Such as the production of the Climate Change Strategy, which was produced in 2022 following a recommendation in the 2021 Climate Risk Report.
- 2.83 LGPS Central carry out an AAF controls audit of investment operations annually. The controls testing has included assessment of the accuracy of RI&E data implementation in relation to LGPS Central's Voting Policy, voting implementation, and accuracy of voting data. In addition to the AAF controls work, LGPS Central carries out quarterly internal quality controls of engagement and voting data before it is shared with Partner Funds through regular Stewardship Updates. During 2022, LGPS Central introduced improved stewardship reporting making it more compact. This was done in part to make the stewardship reporting more accessible and easier to digest, and, as the Annual Stewardship Report also acts as LGPS Central's UK Stewardship Code submission, will lessen the need for some detail on a quarterly basis.
- 2.84 LGPS Central's key stewardship themes for engagement were identified collaboratively with the Partner Funds and allow focus on the most pressing issues to the Partner Funds. In November 2021 members of the 8 Partner Funds requested an update of a key engagement themes to focus more on Human Rights. LGPS Central responded by amending the stewardship theme 'Technology and disruptive industry risks', where engagement had

predominantly focussed on Human Rights specific in the tech sector, to a broader, sector-wide Human Rights theme.

- 2.85 An LGPS Central Partner Fund Quarterly Responsible Investment and Engagement working group allows for information-sharing and debate on LGPS Central's provision of RI&E services. Officers from the 8 Partner Funds, including Staffordshire, meet to discuss RI&E matters, discuss key topics, and suggest future areas of focus for the LGPS Central RI&E team. The performance of the LGPS Central RI&E team is also reviewed regularly by this group.
- 2.86 With regards to the improvement in Stewardship of assets, the Carbon metrics in the 2022 (third) Climate Risk Report produced by LGPS Central showed a 30% reduction in the Fund's carbon footprint and positive development against other metrics. The Climate Risk Report is supplied annually, which provides a useful update on the Fund's progress in reducing emissions and includes the required data for the Fund to also be able to provide its annual TCFD report.
- 2.87 In the Fund's Climate Change Strategy, first published in 2022, four objectives have been set with a target date of 2030 to assist the Fund in achieving its aim of being carbon net zero by 2050. The Fund plans to review its Climate Change Strategy every 3 years, and report progress against the targets set annually. The 3 yearly reviews will look at improving targets as more reliable climate data becomes available (e.g. Scope 3 emissions) and incorporating further asset classes into the targets as more information becomes widely available on alternative asset classes.
- 2.88 Staffordshire Pension Fund is subject to audit annually by its external auditors and regular audits by its internal auditors. The latest external audit report raised no material issues with the Fund's Statement of Accounts. The latest internal audit report for Pension Fund investments gave a substantial assurance (the highest available). Governance of the Pension Fund is also monitored by the Local Pensions Board, who, amongst other things, help ensure that the Staffordshire Pension Fund is managed and administered effectively and efficiently in terms of administration and governance, including investments and funding, and complies with the Code of Practice on the governance and administration of public service pension schemes issued by the Pensions Regulator.

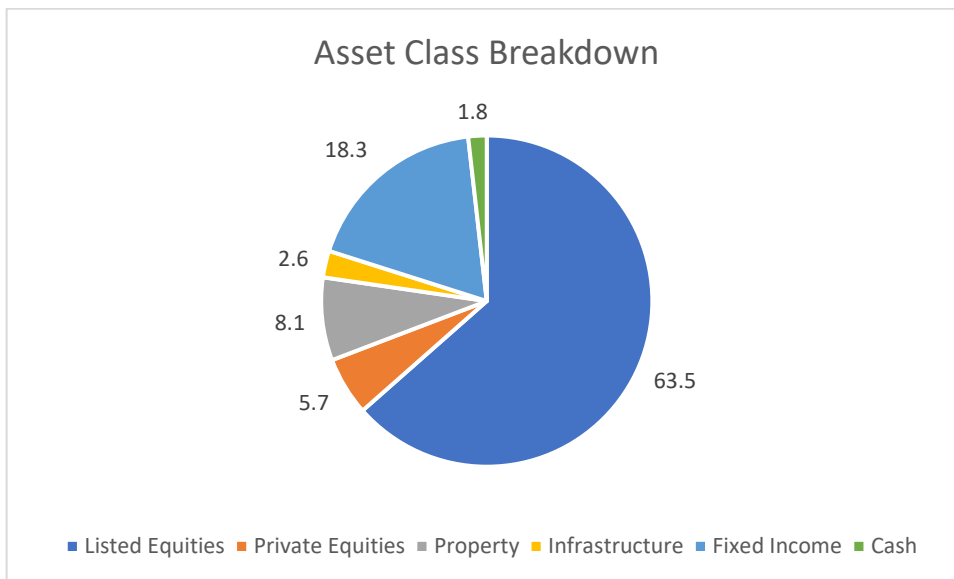
3.0 Investment approach

Principle 6

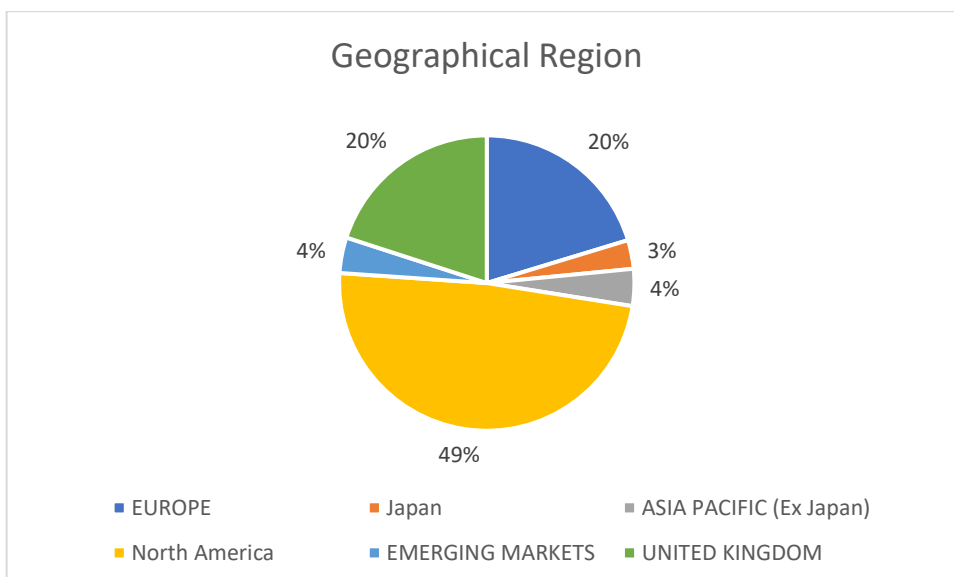
Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

- 3.1 Staffordshire Pension Fund is a defined benefit local government pension scheme. It is a statutory public service scheme. The scheme's benefits and terms are set out in regulations passed through parliament. Membership is automatic for nearly all eligible employees taken on or before the age of 75, but they can opt out.
- 3.2 The Staffordshire Pension Fund administers the Local Government Pension Scheme (LGPS) for over 400 employers and over 116,000 members in the Staffordshire area. At 31 December 2022 Staffordshire Pension Fund had 33,766 Active members, 42,862 Deferred members, 40,332 Retired members and spouse/Dependant members. The average age of all Fund members is 55-59 years. For active members (those currently paying into the scheme) this is 45 to 49.
- 3.3 At 31 December 2022 the Fund had net assets with a value totalling £6.4bn. Employers include:
- *local unitary councils*
 - *universities, academies*
 - *town and parish councils*
 - *housing associations*
 - *charities*
- The Fund is administered by Staffordshire County Council who are legally responsible for the Fund. The Council delegates its responsibility for administering the Fund to the Staffordshire Pension Fund Committee, which is its formal decision-making body.
- 3.4 The investment horizon of the Staffordshire Pension Fund is long term, given the ongoing nature of the Fund, therefore assets are invested with a long term perspective. This is evidenced by the high weighting to equities (69.2% at 31 December 2022).

3.5 Breakdown of asset classes by % at 31 December 2022:



3.6 Breakdown of assets by region at 31 December 2022:



3.7 Staffordshire Pension Fund has a Communication Policy Statement (available on the Pension Fund website [Staffordshire Pension Fund - Policies \(staffspf.org.uk\)](http://staffspf.org.uk), which details how the Fund will communicate with its members, employers and other stakeholders. Methods of communication used are varied to suit the needs of the different stakeholders. These are regularly reviewed to ensure they are the most effective possible. Communication methods used include;

- *“My Pensions Portal” (allowing members to access their pensions membership records and produce their own pension quotes),*
- *the Pension Fund website,*

- *an annual newsletter,*
- *an annual AGM,*
- *Employer meetings,*
- *Emails,*
- *letters.*

The annual AGM in particular allows for stakeholders of the Fund, especially employers to air any views on the Fund and discuss with officers any issues or priorities they have. The Fund is subject to the Freedom of Information Act (FOI) and also receives questions regarding the stewardship of its investments via this route, see paragraph 3.12. For example, in January 2022 the Fund received an FOI request regarding investments in Fossil Fuels. This was responded to by detailing the Fund's policy of engagement rather than divestment and referring the requestor to the Fund's RI&E section of the website for details of its approach to RI&E along with links to the quarterly RI&E report within the Pensions Panel papers.

- 3.8 The Pension Fund Actuary assesses the funding level of the Staffordshire Pension Fund every 3 years in line with regulations. The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was at 31 March 2022. This valuation revealed that the Fund's assets, which at 31 March 2022 were valued at £6,833 million, were sufficient to meet 120% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2022 valuation was £1,137 million. Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure outlined in the FSS. Individual employers' contributions for the period 1 April 2023 to 31 March 2026 were set in accordance with the Fund's funding policy also detailed in the FSS.
- 3.9 During the valuation process the Fund consults with employers on its FSS including the proposed contribution rate policy, giving them chance to comment and raise any concerns they may have on its appropriateness.
- 3.10 Pensions Committee members receive training on various RI&E matters and how stewardship is integrated into the Fund's investment process. This allows members to give greater scrutiny to the investment process and provide further assurance. A training needs analysis is carried out annually for Pensions Committee and Board members, to guide areas where further knowledge needs to be developed. The 2021 training needs analysis highlighted pensions legislation as an area in which members felt they have less knowledge, so a training session on pensions legislation was provided to members in July 2022 by Hymans Robertson. During 2022 all Pensions Committee members were given access to Hymans Robertson's online training portal Aspire, which includes training on Responsible Investment in its Investments module. This allowed members to complete the training at their own pace at a time convenient to them. Members were advised of specific modules which may be useful to complete ahead of Committee meetings based on the items on the agenda.

- 3.11 Staffordshire Pension Fund's Annual Report and Accounts including information on RI&E activity undertaken by the Fund in the year, are available publicly on the Pension Fund website. [Staffordshire Pension Fund - Reports and accounts \(staffspf.org.uk\)](https://staffspf.org.uk)
- 3.12 Staffordshire County Council and therefore Staffordshire Pension Fund, is subject to the Freedom of Information Act 2000. The Fund regularly receives information requests under the act relating to its investments. These are all responded to as fully as possible within the timeframes set out in the act. Freedom of Information requests (FOIs) often focus on RI&E and particularly engagement or divestment requests. In addition to formal FOIs the Fund also receives emails and letters from scheme members, often via Councillors, regarding its investments and on specific RI&E themes. These are also carefully considered by Officers and responded to, fully informing the correspondent of the policies and procedure the Fund has in place in relation to its investments. An increase in FOIs and calls for fossil fuel divestment was an influence in the Fund deciding to produce a Climate Change Strategy, and to help clearly explain to all stakeholders the steps being taken to address the issue. In 2022 the Fund also received FOI requests regarding Big Livestock, arms and tobacco investments.
- 3.13 The Fund receives quarterly reports from all its managers which cover the performance of the investments they manage, RI&E, and voting. Through the Fund's Climate Stewardship Plan the Fund monitors managers' engagement with companies which contribute most to the climate related risks and carbon footprint of the Fund. Progress against this is reported quarterly to the Pensions Panel and the plan is updated annually, following the latest Climate Risk Report from LGPS Central.

Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

- 3.14 The Fund ensures that investment managers are aligned with its long-term interests on all issues including RI&E considerations. This is done through regular meetings and dialogue, and by requesting and viewing the applicable policies relating to RI&E.
- 3.15 The Fund requires that all its investment managers produce an RI&E report at least quarterly, detailing engagement, stewardship and voting with investee companies on behalf of the Fund. All the Fund's equity investment managers are signatories of the UNPRI, including those within LGPS Central equity products, as are most other investment managers across other asset classes. An increasing area of focus for investment managers recently is to report on their alignment with the UN Sustainable Development goals (UNSDG's)

(shown below). The Fund does not formally require this reporting yet but will review this in the future, as it has found alignment with the UNSDG's a useful tool when looking at the commitment to RI&E by investment managers. The UNSDGs can also provide useful context, particularly in the infrastructure asset class where the Fund has begun to invest in recent years.



- 3.16 A useful example of a manager reporting on the UNSDG's was during the due diligence process, when allocating to a recent infrastructure fund - Equitix Fund VI. Equitix Fund VI invests predominantly in social infrastructure, renewable energy and environmental services. During interviews with Equitix questions were asked on what RI&E reporting would be provided and how it would be incorporated into their investment process. Equitix provided the Fund with a summary of their reporting where individual infrastructure assets are reported on in detail in terms of their contribution to individual UN Sustainable Development Goals. This allowed the Fund to see clearly which UNSDG it was positively contributing to.
- 3.17 In the Fund's annual Climate Risk Report from LGPS Central, carbon related metrics consistent with the requirements of TCFD reporting are included, allowing annual publication of TCFD reports for the Fund. The first Climate Risk Report received in 2021 also included Climate Scenario Analysis which assessed the Fund's asset allocation against a series of three temperature scenarios (2°C, 3°C and 4°C) across three time horizons (2030, 2050, 2100). It showed that a 2°C scenario is most likely to give the best outcomes for the

Fund and the 4°C scenario the worst; confirming that the Fund should be targeting Paris aligned investments.

- 3.18 In 2022 the Fund published its first Climate Change Strategy, detailing the Fund's approach to climate change and incorporating the Fund's climate objectives and beliefs. The Fund recognises that climate-related risks can be financially material, and that consideration of climate risk falls within the scope of the Fund's fiduciary duty. As a result of this, and due to the potential impact of climate change, the Fund has established some specific climate change beliefs which are presented in paragraph 2.15. These build on the investment beliefs, detailed in the Fund's Investment Strategy Statement (ISS), which already incorporate wider responsible investment and engagement considerations.
- 3.19 The Fund will continue to work closely with its investment adviser, Hymans Robertson ('Hymans') to ensure that any long-term net-zero carbon target is achievable. High-level, potential changes, to adjust for climate risks within the investment strategy, will also be considered across the following categories.
- *Changing the investment strategy – e.g. making further commitments to infrastructure, with a focus on renewable energy.*
 - *Revising existing investment mandates – e.g. ensuring all existing arrangements have climate change considerations embedded into them.*
 - *Reallocating capital to new investment managers or investment strategies - e.g. reallocating to specific climate thematic strategies.*
- 3.20 Other more practical considerations will also be considered, such as the impact of any changes made, the availability of solutions and the capacity of the Fund to implement them. Any high-level changes will be modelled to regularly review the Fund's roadmap for decarbonisation, which will feed into future SAA reviews.
- 3.21 The Fund's Actuary, Hymans, will take climate change considerations into account for the Fund's Triennial Actuarial Valuation and Funding Strategy review where possible, as they did in the Asset Liability Modelling carried out during the March 2022 Valuation.
- 3.22 The Fund is a Partner Fund of the LGPS Central pool, and LGPS Central is an important partner to the Fund on matters of RI&E and Stewardship, through collaboration, stewardship of assets managed by the pool and stewardship advice. To ensure RI&E is fully considered in all investments LGPS Central have established an overarching KPI that 100% of product launches must receive Responsible Investment Integrated Status (RIIS).
- 3.23 RIIS enables an all-encompassing approach to any fund launch by LGPS Central and through the lifespan of that fund, to give internal and external stakeholders straightforward assurance that RI&E is being integrated with the breadth and quality they desire. The proposal for RIIS within particular

investment products is communicated through a RIIS Document, which is co-sponsored by the Director of Responsible Investment & Engagement and the relevant Investment Director for the product(s). By requiring co-sponsoring of the RIIS documents, LGPS Central ensure that RI&E is an integrated process. The specific RIIS proposal is brought to the Investment Committee for review and approved only if LGPS Central are satisfied that the combination of processes, techniques, activities and reporting achieve, in a manner suitable to the asset class, product, or mandate in question, align with the Company's agreed responsible investment and engagement aims. These are;

- *primarily, to support the Company's investment objectives; and*
- *secondary, to be an exemplar for RI&E within the financial services industry and raise standards across the marketplace.*

3.24 The LGPS Central RIIS criteria to be met by any product or fund are:

- *LGPS Central RI&E beliefs are appropriate for the asset class or mandate in question.*
- *Relevant RI&E related documentation supports the decision to invest, e.g., policies and procedures at external managers or co-investment companies.*
- *Fund managers factor RI&E into their selection of portfolio assets.*
- *RI&E reviews are carried out by the fund managers frequently and at the appropriate levels.*
- *LGPS Central delegated Stewardship responsibilities are carried out thoroughly, e.g., engaging with companies, shareholder voting, manager monitoring, industry participation.*
- *Fund managers are transparent in their reporting to Partner Funds and the wider public (where appropriate)*

3.25 An assessment of RI&E is a core part of LGPS Central's manager selection process. Typically, manager selection processes are done in three broad stages: use of a standard questionnaire, a request for proposal, and manager meetings, of which RI&E assessments feature in all three. In stages one and two, the RI&E Team draft questions for insertion and then score the managers based on their responses. In both stages, a 10-15% weighting is attached to the RI&E questions to reflect the importance that LGPS Central places on full ESG integration. A representative from the RI&E Team then attends all the manager meetings. A key objective in the assessment of a manager is whether the ultimate decision maker is engaged in the integration of ESG factors into his or her decision-making process. Managers will not be appointed unless they can demonstrate sufficient awareness of and ability to manage the risks posed by ESG factors.

3.26 In close dialogue with Partner Funds, LGPS Central decided that the tendering for a product launched in 2022 for Global Sustainable Equities

Mandates would take the form of a three-sleeve approach encompassing Broad, Thematic and Targeted offerings. LGPS Central's Active Investment Team conducted a three-stage selection process, having advertised for potential managers in 2021. The first stage, the Selection Questionnaire, attracted 77 applications across the three sleeves. Applications were all read and marked by members of the LGPS Central team in a fair, transparent and consistent manner with support from the RI&E Director and the Investment Risk Manager. 22 applications were selected to progress to the next stage, the Request for Proposal. Submissions were read and marked by the team in the same manner. Nine applications, comprising three for each sleeve, were taken through to the final Due Diligence Stage. This consisted of 3-hour meetings for each manager. Meetings included a presentation followed by breakout sessions in separate virtual meeting rooms which provided the team with further insight and an opportunity to focus on areas such as RI&E and Risk. The presentations and interviews were scored by the team and resulted in three managers being selected, one for each sleeve. Following the selection of the successful managers, the three products were able to launch in May 2022 with total commitments of c£1bn from Partner Funds. Since the fund launches, the RI&E team at LGPS Central have investigated different tools which could be used for measuring the impact of the fund's investments and also looked at a number of different secondary benchmarks which could be used for internal measurement purposes. These areas are still under review and will be reported on in the future if appropriate.

- 3.27 The Fund has delegated voting and day to day engagement with investee companies to its investment managers. LGPS Central Limited and investment managers agreements set out how RI&E factors are considered within each portfolio.
- 3.28 For non-listed investments such as private equity and private debt, RI&E integration is less developed. The "fund of funds" limited partnership structure of some of these investments also adds a further layer of complexity and distance from underlying companies. This is an area the Fund will look at in coming years, along with market trends, to increase the RI&E integration of private market assets (i.e. non-estimated carbon emission data is not currently widely available).
- 3.29 LGPS Central varies its approach to integration of RI&E depending on the asset class and the maturity within the sector. Once appointed, LGPS Central require external public market fund managers to complete a quarterly ESG questionnaire. Some disclosure items are "by exception" (for example alerting us to changes in ESG process or personnel) and others are mandatory. LGPS Central receives quarterly data from external fund managers on the number of engagements undertaken and the weight in the portfolio. The LGPS Central RI&E team attend quarterly monitoring meetings with external managers with the purpose of monitoring and assessing the level of ESG risk and climate risk in each portfolio, and to determine whether the manager is successfully applying the expected ESG process. The monitoring of managers is achieved through a combination of internal portfolio analysis, inspection of the

manager's responses to quarterly data requests, and via dialogue at the quarterly meetings.

3.30 LGPS Central has developed a red, amber, yellow, green (RAYG) rating for manager monitoring, of which RI&E is a core component. These ratings get updated each quarter based on the discussion at the manager meetings. The RAYG rating is split into four possible ratings: red (manager fails to convince, warrants formal review with potential manager exit), amber (manager warrants closer scrutiny with potential for going on "watch"), yellow (manager is fulfilling role but with minor areas of concern) and green (manager shows clear strengths tailored to requirement). They score managers on four components of their RI&E approach:

- *philosophy, people, and process*
- *evidence of integration*
- *engagement with portfolio companies*
- *climate risk management.*

Reflecting its importance, the RI&E component carries 13% of the weight in the overall score.

3.31 For private equity funds, LGPS Central conduct a review every 2-3 years of each fund's RI&E processes. They utilise the same five-pillar scoring framework (policy, people, process, performance, transparency and collaboration) that they assess during the original due diligence. The review is based upon literature provided by the fund and upon responses to specific RI&E questions put to the manager. Following this, LGPS Central rescore the manager on each pillar and assess whether they have improved since the initial due diligence.

3.32 LGPS Central believe that the extent to which, and the way, ESG is integrated into fixed income investing varies significantly by the type of issuer (corporate, sovereign, supranational, municipal, etc) and a one-size fits all approach is unlikely to be optimal. They reflect this belief in their selection process for fixed income mandates. For example, when tendering for equity mandates, they usually ask for one example demonstrating how ESG has been integrated into the investment decision making process. During the selection of LGPS Central's Multi Asset Credit Fund, they asked managers to provide three examples each pertaining to a different type of issuer to ensure that RI&E was being fully incorporated into all aspects of the portfolio.

Principle 8

Signatories monitor and hold to account managers and/or service providers.

3.33 As a predominantly externally managed Fund, Staffordshire Pension Fund expects its managers to ensure that RI&E matters are incorporated into every aspect of the investment process. However, the Fund understands that the ultimate responsibility for this remains with the Fund and cannot be delegated.

It is therefore imperative that the Fund monitors its external managers, whether direct or through LGPS Central, to ensure that managers are upholding their fiduciary duty to protect long term shareholder interest. All the UK-based external managers for LGPSC ACS funds across active equity and active fixed income are currently signatories to the UK Stewardship Code, which provides assurance of the ability and ambition of these managers to carry out stewardship duties at best practice level. As of 1 April 2022, each of the Fund's equity managers was a signatory to the UN Principles for Responsible Investment (UNPRI), whose first two principles address ESG integration and active ownership. The Fund expects its managers to monitor companies, intervene where shareholder outcomes can be improved and report back regularly on activity undertaken.

- 3.34 Investment managers are monitored by the Pensions Panel, with quarterly performance and RI&E information reported for each direct investment manager. The Fund aims for investment managers to meet the Pensions Panel at least once a year in addition to further, more regular meetings with Fund Officers. The Fund employs the services of an investment advisory firm Hymans Robertson and an independent Investment Adviser, who, along with Officers of the Fund, closely monitor the performance of the Fund's managers. The Investment Adviser will attend Pensions Panel meetings and assist Panel in the questioning of the managers and in the discussions that follow, by providing any guidance they need to help them to make the right decisions for the Fund's interests. The Investment Adviser's objectives were reviewed at the Pensions Panel meeting in June 2022 and include assisting the Fund in enhancing arrangements for monitoring implementation of its investment strategy and assisting the Fund in strengthening its oversight of the products and services provided by LGPS Central. The Fund monitors the performance of its investment advisers in compliance with CMA regulations.
- 3.35 Any issues with investment management companies are discussed during Pensions Panel meeting by Members, Officers and Advisers. Issues can then be discussed directly with investment managers and ultimately contracts can be terminated if it is felt necessary. Investment managers appointed via the pool are monitored by LGPS Central. Any issues can be raised by Partner Funds in the monthly Investment Working Group meetings.
- 3.36 The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and believes that collective engagement through LAPFF enables maximum influence. LAPFF quarterly reports and weekly emails communicate on those companies with material corporate governance failings whom they have been engaging with.
- 3.37 For investments made through LGPS Central, LGPS Central monitor engagement undertaken by the external managers. These managers are all long-term investors with sizeable positions in their highest conviction portfolio holdings, giving them excellent access to company management which they use effectively to drive company change. During 2022 LGPS Central found there were a few occasions where the level of engagement disclosure was unsatisfactory, or where the link between an engagement and subsequent

investment decision-making was not clear. In these instances, fund managers were marked down during LGPS Central's RAYG rating (red – amber – yellow – green) review and LGPS Central discussed its concerns with the managers in question in quarterly meetings.

- 3.38 An example of LGPS Central changing the RAYG rating, occurred in Q2 2022. Going into 2022, one of their managers was downgraded to a 'Yellow' rating due to concerns around the lack of evidence of ESG analysis on new additions to the portfolio. The issue persisted in Q1 2022 which prompted warning that the RAYG rating will be downgraded to an 'Orange'. LGPS Central reiterated their expectations for managers' ESG integration activities during their quarterly review meeting with the manager. Following this, the level of disclosure greatly improved in Q2 and Q3 2022. The manager now provides a summary of their analysis of ESG risks and opportunities of new additions to the portfolio and flags new ESG issues in current investee companies. LGPS Central are now able to gain greater confidence that ESG is integrated into their investment analysis and will consider upgrading the integration rating to a green should improvement persist.

4.0 Engagement

Principle 9

Signatories engage with issuers to maintain or enhance the value of assets.

- 4.1 As a predominantly externally managed Fund most engagement is carried out by investment managers or by partner organisations, including LAPFF, LGPS Central and EOS at Federated Hermes (the stewardship provider to LGPS Central). During 2022, EOS engaged with more than 800 companies on behalf of the Fund. In 2022 the Fund published its second annual Climate Stewardship Plan to help guide engagement with managers and companies on Climate change. The Climate Stewardship Plan is focused on the 10 investee companies, from a variety of sectors such as Energy, Materials, Mining, Cement and Chemicals, which have most impact / are of most relevance to the Fund's climate risk. The % of CA100+ Benchmark indicators met and TPI Management Quality score was also provided for these 10 companies in the 2022 Climate Risk Report. Along with suggested climate related topics to be discussed with each individual manager during meetings. Progress against the Climate Stewardship plan is reported quarterly to the Pensions Panel.
- 4.2 LAPFF conducts engagements with companies on behalf of its member LGPS Funds. In the year to 30 September 2022 (LAPFF's reporting year) LAPFF engaged with well over 150 companies across a spectrum of material ESG issues. 135 out of 387 engagement interactions by LAPFF during this period, saw improvements and/or a change in process by the company engaged with. In addition, in the most recent period, LAPFF also wrote to a further 352 companies about "say on Climate".

- 4.3 During 2022 LGPS Central has continued engagement on four core Stewardship Themes as identified in collaboration with its Partner Funds, including Staffordshire Pension Fund:
- *Climate and biodiversity risk,*
 - *Plastic pollution,*
 - *Responsible tax behaviour and*
 - *Human Rights.*

Given that engagement requires perseverance and patience, it is expected that the same themes will be pursued over a three-year horizon (current period 2022 – 25), and in some cases – like with climate change – a longer time. LGPS Central also continues to employ a broader stewardship programme, beyond the core themes, covering issues like remuneration and board diversity, to name but a few.

Engagement examples

- 4.4 One Issue the Fund and LGPS Central have been questioned on by members during the past year is about its engagement with companies operating in the Occupied Palestinian Territories (OPT), where LAPFF and LGPS Central have called for human rights impact assessments (HRIAs) from companies operating in this area. Many companies that were identified in the Office of the United Nations High Commissioner for Human Rights (OHCHR) list of companies active in the area, published in February 2020, appear not to have sufficient risk management processes, or indeed public human rights policies in place. LGPS Central has taken part in dialogue with Booking Holdings Inc, led by LAPFF. LGPS Central expect businesses that operate in areas of war and conflict to take particular care to respect human rights. The Israeli-Palestinian conflict poses clear human rights risks for companies, but the sensitive political situation makes engagement challenging.

Occupied Palestinian Territories (OPT) Engagement Example

In a meeting held in the second quarter of 2022, LGPS Central discussed steps that the company is taking to manage human rights risks from its operations in the Occupied Palestinian Territories (OPT). Booking Holdings had recently published a human rights statement which touched on the topic of conflict areas, although not specifically OPT. The company is working with a third-party consultant to understand their firmwide human rights risks and the consultant has helped with the drafting of the human rights statement.

Outcome

LGPS Central were pleased with the outcome of the engagement as Booking Holdings indicated that they have plans to undertake specific enhanced due diligence related to their businesses in OPT. It remains to be seen whether this will be able to be shared publicly.

4.5

Plastic pollution (microfibers) Engagement Example

Through a microplastics engagement project led by First Sentier Investors, LGPS Central seek to encourage domestic and commercial washing machine manufacturers to add filter technology as standard to all new washing machines produced by the end of 2023. This is to help combat microplastics pollution to the environment, a problem caused in large proportion by synthetic textiles which release microfibrils (a type of microplastic) when washed. A first round of engagements with 13 target companies was held during 2021. One company, Arcelik, has launched a machine under the Grundig brand with a filter fitted as standard in the UK (Fibrecatcher).

As an escalation to previous engagements, in the second quarter of 2022 LGPS Central co-signed a letter with First Sentier Investors and LGIM, on behalf of 29 investors with £5 billion AUM, to the ministers at DEFRA. In the letter, investors emphasised support for the recommendations of the “All Party Parliamentary Group on Microplastics” issued in 2021, specifically to mandate the installation of microfibre filters in new washing machines from 2025.

Outcome

As highlighted in the letter Alberto Costa MP’s Microplastic Filters (Washing Machines) Bill would allow the government to take this legislation forward appropriately. The letter was sent in May 2022. LGPS Central will seek direct dialogue with ministers at DEFRA and monitor the legislation, alongside further engagements with companies.

4.6

Climate Change Engagement Example

As part of CA100+, LGPS Central are engaging NextEra Energy (NEE) on their climate risk management and energy transition efforts. LGPS Central were pleased recently to see NEE announce a goal to achieve net zero carbon emissions by no later than 2045. NEE’s plan was announced as part of their Real Zero plan which does not rely on offsets for Scope 1 and 2 emissions, which CA100+ investors have cautiously expressed support for, but are seeking a meeting at board level to discuss some areas of concern. These include NEE detailing a clear pathway for absolute emission reductions, capex alignment with the Real Zero target and policy advocacy that directly supports the company’s own net zero ambition. Lead investors for CA100+ held a meeting with the Company Secretary of NEE in August 2022 asking to discuss these concerns with the lead Independent Director of the Board.

Outcome

While NEE remains reluctant to allow dialogue with the Board, CA100+ will continue pushing for this and a letter has gone out reiterating the request to discuss investor concerns directly with the Board. Should this continue to be difficult, LGPS Central will consider appropriate escalation including voting against the Chair of NEE.

4.7

Human Rights Engagement Example

LAPFF Chair, Cllr Doug McMurdo, attended the Rio Tinto AGM in April 2022 in person, both to ask a question and to speak with Rio Tinto representatives. Cllr McMurdo asked whether Rio Tinto would be willing to review its processes for undertaking social and environmental impact assessments. This question stemmed from a concern in a recent LAPFF mining and human rights report that Rio Tinto's current processes are missing major environmental, social, and governance (ESG) risks. Cllr McMurdo then held follow-up conversations with the Rio Tinto CEO, incoming Chair, and outgoing Chair. The concerns about impact assessments surfaced in part from LAPFF's conversations with affected community groups, two of which LAPFF met at the AGM.

Outcome

Cllr McMurdo met with advocates for communities affected by Rio Tinto's QMM mine in Madagascar. He also met the Arizona Mining Reform Coalition, who are concerned about the impact of Rio Tinto and BHP's joint venture, Resolution Copper, on surrounding Indigenous and settled communities.

Later in the second quarter of 2022, Cllr McMurdo met Rio Tinto executives at an investor event in London. Among other topics discussed were block cave mining and the financial materiality of social and environmental impacts by companies. LAPFF will continue to seek to discuss the topic of impact assessments with company.

4.8

Net Zero Transition Engagement Example

During Q2 2022 LAPFF engaged with several automotive manufacturers on their approach to a net zero economy, and whether this transition will be done in a 'fair and just' manner. Also, as part of this engagement LAPFF reached out to several car manufacturers to discuss their approaches to raw material sourcing and how companies ensure that this is done in a responsible manner. LAPFF has met with three manufacturers so far, speaking to Investor Relations representatives from Ford, BMW and Mercedes-Benz. Mercedes provided a brief overview of its approach to decarbonising its vehicles alongside some information on its due diligence but did not provide in-depth details on how it was ensuring minerals were responsibly sourced. LAPFF met with Ford in Q3 2022 to discuss its approach to human rights and responsible mineral sourcing. The meeting was a short one, but the company's participation in the Initiative for Responsible Mining Assurance was discussed.

Outcome

LAPFF's conversation with BMW provided some insight into the company's processes and how it is managing a just transition. BMW sources minerals directly for its battery producers, which it sees as a positive step in shortening the supply chain and maintaining better transparency. It was positive to hear that although the company does not source materials from the Democratic Republic of the Congo (DRC), it was actively working with NGO's and bodies on the ground to attempt to rectify a range of human rights and environmental issues that are ongoing in the region.

Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers.

- 4.9 The Fund seeks to work collaboratively with other institutional investors to maximise the influence that it can have on individual companies. The advantage of collective engagement is that there is greater leverage over the company due to the pooling of holdings. This will increase the individual power and influence of investors to push for change. Details of any collaborative engagement is brought to the attention of the Pensions Panel in the quarterly RI&E report.
- 4.10 As part of the LGPS Central investment pool the Fund works collaboratively with the other Partner Funds and LGPS Central on engagement. This increases the influence the Fund can have and the resources available. LGPS Central has a dedicated RI&E team and has partnered with EOS as a Stewardship provider.
- 4.11 LGPS Central also works collaboratively with other national groups on behalf of the Partner Funds, such as Climate Action 100+ (CA100+). LGPS Central is actively involved in leading and/or supporting five CA100+ engagements across mining, oil & gas, and utility sectors. All companies have set a high-level ambition of being net-zero by 2050, with varying remits in scope. LGPS Central welcome the increased level of transparency and accountability that is offered by companies' taking climate transition plans to shareholders for advisory votes. At the same time, LGPS Central are ready to scrutinise these plans and to vote against those that are considered to be not fully aligned to a 1.5C scenario, which was the case for plans and/or progress reports proposed by BP, Rio Tinto, Glencore, Shell and Barclays at their respective 2022 AGMs.
- 4.12 LGPS Central views engagements with the banking sector a critical part of their cross-sector engagement efforts which are needed to achieve real world decarbonisation. LGPS Central is part of a coalition of investors led by ShareAction engaging with several large banks on their net zero transition.

LGPS Central Decarbonisation in Banking Sector Engagement Example

LGPS Central sent a letter to Barclays to explain their vote at the May 2022 AGM, as well as to engage on Barclay's Climate Strategy, Targets and Progress 2022 report. As a positive development, Barclays has started using the IEA's Net Zero by 2050 Roadmap for Energy sector analysis as a reference and has set specific 2030 sector emissions intensity targets. LGPS Central have expressed concern over the ranges for these targets, which do not appear fully aligned with IEA's Net Zero analysis and will continue engagement on this.

Outcome

While Barclays initially set a 2035 timeline for phasing out financing of US thermal coal power generation, LGPS Central greatly welcome their recent commitment to bring forward the deadline from 2035 to 2030, which took effect from 2022.

4.13

LGPS Central Plastic Pollution Engagement Example

LGPS Central has been part of a collaborative engagement project led by Dutch investor Achmea Investment Management over the last two years with six packaging companies, asking these to reduce, re-use and replace fossil-fuel based plastics in their packaging products.

Meetings have been held with senior management at Amcor (Australia), Berry Global (US), Huhtamaki Oyj (Finland), LyondellBasell **(US)**, **Mondi (UK)** and **Sealed Air (US)**.

Investors have asked for more transparency on materials used, (more ambitious) targets for the use of more sustainable and circular materials, and ESG performance indicators in executive remuneration. Companies have responded positively to investor asks e.g. by introducing SASB reporting standards providing more insight into materials used. Overall, dialogues have been very constructive. All companies have set plastic reduction/recycling/reuse targets which show ambition. They have also seen progress with companies on adding ESG related KPIs in remuneration. LGPS Central and collaborative investor partners would like to see removal of plastics and use of alternative materials scaled up.

Outcome

This engagement project was closed during 2022 due to steady progress by these packaging companies during the engagement period. While investors would like to see greater ambition (short/medium-term targets) and greater degree of removal of plastics, LGPS Central are now considering whether engagement effort should be focused on another part of the plastics value chain during 2023.

- 4.14 The Fund has been a member of LAPFF since April 2013 and intends to continue that relationship indefinitely. LAPFF engages with companies over environmental, social and governance issues on behalf of its members. LAPFF engagements may deal with company specific matters or broader industry concerns.

4.15

LAPFF Forced Labour Engagement Example

LAPFF has continued to investigate issues of Uyghur forced labour in Xinjiang and other regions of China. After two engagements with companies earlier in 2022, LAPFF has been looking at potential ways forward through collaborative engagement on the issue. LAPFF joined the Investor Alliance for Human Rights Uyghur Region Engagement Group in 2022 and has attended a quarterly meeting, gaining insight into what other investors have learned in their engagements. The Forum also reached out to and held meeting with the Australian Strategic Policy Institute (ASPI), which produced the report 'Uyghurs for Sale' in March 2020, linking 82 global brands to factories in the Xinjiang region with suggestions of forced Uyghur Labour. LAPFF met with. The meeting with the ASPI revealed that companies operating in the Xinjiang region could not undertake the thorough levels of due diligence they were claiming to be able to do.

Outcome

LAPFF followed up with questions to both Cisco and Dell on the Uyghur issue, after meetings earlier in the year, but neither company responded to these questions. LAPFF is currently looking at ways to progress dialogue with companies already engaged on this issue and how to get non-responders to engage in a meaningful manner.

4.16

LAPFF Modern Slavery Engagement Example

LAPFF supports Rathbones Votes Against Slavery engagement, which targets FTSE 350 companies that fail to comply with Section 54 of the Modern Slavery Act. The engagement has had a range of successes, with many companies now compliant with Section 54. LAPFF joined two calls with Segro and Synthomer to discuss the companies' approach to modern slavery and reporting.

Outcome

Both companies appear to take onboard the need for more transparent reporting, particularly with regards remediation processes. Across engagements where modern slavery is concerned, LAPFF continues to stress the point that if and when instances of modern slavery are found, the company should transparently report on these alongside the remediation processes.

4.17

LAPFF Decarbonisation Engagement Example

LAPFF is a member of the CA100+ Transport Group, which aims to engage major automakers on their plans to decarbonise their operations and shift to zero emission vehicles. During 2022 lead investors of the CA100+ Transport Group met with representatives from Toyota as there have been concerns about Toyota's approach to zero emission vehicles. Although the company has been a large producer of hybrid vehicles, plans and capital expenditure on battery electric and other zero emission vehicles have been less developed than some of their peers. This creates potential risks to investors considering the rapid increase in the sale of electric vehicles. The investor group also met as a collective during 2022, to discuss wider developments within the transport sector, including decarbonisation of heavy-duty vehicles.

Outcome

As part of their work in this area, LAPFF signed onto a letter to US regulators regarding heavy duty vehicle emissions standards. LAPFF plans to continue to engage with the largest automakers on their plans to decarbonise their fleets.

Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers.

- 4.18 The Pension Fund operates a policy of engagement with companies it is invested in, rather than divestment and the day-to-day responsibility for engagement with investee companies is delegated to the Fund's managers. The individual managers have their own policies for escalation of stewardship activities which are published on their individual websites alongside their statements of adherence to the UK Stewardship Code. These include engagement with companies, meetings with directors and board members and possible divestment if necessary. These policies are assessed as part of the manager appointment process and are discussed at meetings with managers. The Fund is satisfied with the adequacy of its managers' escalation guidelines. The Fund may also be eligible to participate in certain individual and class action securities litigation, should this be deemed appropriate.
- 4.19 The Fund can also escalate issues through LAPFF by supporting a shareholder resolution or by raising issues in the first instance. As part of its engagement process, LAPFF has guidelines on escalation which are available on its website.
- 4.20 During meetings with investment managers the Fund takes the opportunity to raise any concerns within portfolios.

Escalation with Manager Example

In April 2021 with JP Morgan. Following the production of the 2021 Climate Risk Report, the Fund raised the issue of 3 stocks in their portfolio which had a very high carbon intensity (China Resources Cement, Electricity Generating Public Company and Vistra Corporation) and whether these companies had credible plans to achieve net zero emissions.

Outcome

JP Morgan fully integrates environmental, social and governance concerns into their portfolio's and ultimately exited its holdings in these 3 companies, with investor pressure cited as helping elevate the issue. This led to a reduction in the Fund's carbon footprint (tCO2 E/\$M Revenue) in the JP Morgan portfolio by 83.7%.

- 4.21 A large percentage of the Fund is invested passively via Legal and General Investment Managers (LGIM).

Escalation with Manager Example

In July 2022 LGIM voted against the Re-election of Keith Williams as director at Royal Mail Plc's AGM. This vote is significant as it relates to the escalation of their activities on one of their core stewardship themes, gender diversity. LGIM has expanded its gender diversity policy in the UK to include the executive committee, as well as the company board.

Outcome

A vote against was applied as the company has an all-male executive committee. From 2022, LGIM have applied voting sanctions to the FTSE 100 companies that do not have at least one woman on their executive committee, with the expectation that there should be a minimum of 33% over time. LGIM will continue to engage with companies on gender diversity, and to implement their global and regional voting policies on this issue

5.0 Exercising rights and responsibilities

Principle 12

Signatories actively exercise their rights and responsibilities.

- 5.1 The Pensions Panel receives regular updates from investment managers on details of votes cast on corporate resolutions and the reasoning behind those votes, as part of a quarterly RI&E report; any points of interest are also highlighted. The Fund also publishes a report on the voting activities carried out by Managers on its behalf as part of its Annual Report and Accounts. This can be found on the Pension Fund website [Staffordshire Pension Fund - Reports and accounts \(staffspf.org.uk\)](https://www.staffordshirepensionfund.org.uk/reports-and-accounts)

- 5.2 For non-listed equity assets exercising of rights is done via engagement with the Fund's investment managers who have full delegation of the day-to-day management of the interaction with underlying assets. This will become of increasing importance with the move away from listed equities and more towards private markets following the 2022 SAA review. For private market investments via LGPS Central, LGPS Central have worked with private market partners to identify key performance indicators that are relevant for the underlying asset, and which they would request reporting against.
- 5.3 Where assets are managed by LGPS Central Limited, the exercising of voting rights in relation to our investments with them is carried out via LGPS Central but reported to Partner Funds via quarterly RI&E focussed meetings and regular quarterly reporting.
- 5.4 Investment managers' RI&E, stewardship and governance policies are obtained on appointment and links to these are published on the Fund's website. The Pensions Panel receives regular updates from managers on details of votes cast on corporate resolutions for holdings in relevant portfolios as part of their quarterly investment reports. It is expected that investment managers will vote all eligible shares in accordance with their approved stewardship policies. Any other points of interest are also highlighted as part of a separate RI&E report each quarter. Finally, a summary of voting carried out by our equity managers is included in the Fund's Annual report and Accounts.
- 5.5 The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and believes that collective engagement through LAPFF enables maximum influence. Membership of LAPFF also enables the Fund to benefit from their voting alerts service which highlights companies with material corporate governance failings, in addition to meetings and webinars on a variety of RI&E topics. In the year to 30 September 2022, 14 voting alerts were received from LAPFF.
- 5.6 In 2022 the Fund voted on a total of 153,942 resolutions through its various equity investment managers, voting with management on 125,127 resolutions, against management on 27,122 and abstaining on 1,693.
- 5.7 The Fund and LGPS Central both manage Securities Lending programmes whereby any stocks on loan can be recalled in order to execute shareholder voting rights if the issue is considered to be sufficiently material, with due consideration to the transaction costs and loss of income involved.
- 5.8 The LGPS Central Limited Responsible Investment and Engagement Framework states that the Company votes all eligible shares in accordance with its agreed voting policies. This includes the voting shares of portfolios managed externally where those funds are held in segregated accounts. Voting decisions will relate to engagements undertaken during the period in review and a vote might be used as an escalation step in an engagement process, as detailed in the Company's Annual Stewardship Report. LGPS

Central's voting decisions are executed by third party provider(s); the provider(s) also offer analysis and advice. The Company will seek to co-file shareholder resolutions where beneficial to clients' long-term interests. The Company has a procedure to recall lent stock to vote on significant issues.

- 5.9 In 2022 LGPS Central revised their Securities Lending Policy to ensure that voting impact is maximised, e.g. in relation to critical, ongoing engagements that LGPS Central expect to escalate through shareholder resolutions or other forms of voting (e.g. votes against Board members). Among critical engagements are companies identified as high-risk in respect of climate change. These are identified through Partner Fund's Climate Risk Reports and sit within the scope of Climate Action 100+. LGPS Central considered the cost implications of excluding all companies in their Voting Watch List from securities lending and concluded that a more targeted approach would be the most proportionate and efficient response. This targeted approach entails a restriction of lending on a sub-set of companies that they view as critical engagements ahead of each voting season. Ahead of voting season 2022, 12 companies on the Voting Watch List (of 50 companies) were restricted from lending. The restriction will be lifted once relevant AGM's are held.
- 5.10 LGPS Central has published an RI&E framework that includes clear commitments on shareholder voting, including the commitment to vote, as far as possible, in every invested market. LGPS Central reports on voting activities on a quarterly basis and will disclose on a vote-by-vote basis for all company resolutions through the LGPS Central website. LGPS Central take a principles-based approach to voting and are guided by their established voting principles, which Staffordshire Pension Fund can contribute to. At high level, they expect companies to:
- *Adhere to essential standards of good governance for board composition and oversight.*
 - *Be transparent in their communication with shareholders.*
 - *Remunerate executives fairly.*
 - *Protect shareholder rights and align interests with shareholders.*
 - *Promote sustainable business practices and consider the interests of other stakeholders.*
- 5.11 EOS provides LGPS Central with voting recommendations based on LGPS Central's Voting Principles which are input into the voting platform prior to the vote deadline. The voting recommendations are then cast as voting instructions if there is no further intervention, except in the case of share-blocking votes. To prioritise their impact, LGPS Central establish a "Voting Watch List" annually that consists of approximately 50 companies which cover larger holdings and/or core engagements in and outside of stewardship themes. Votes at these companies will be given particular scrutiny ahead of the AGM.
- 5.12 LGPS Central also use voting to reinforce and promote ongoing engagement, whether that is carried out directly, through collaborative initiatives or through their external stewardship provider EOS. This means that LGPS Central

regularly raise issues concerning environmental sustainability, such as climate change, and broader social issue like human rights through their voting. Many votes against management concern good governance (board composition, board oversight and skill sets, remuneration etc.) – these votes are often an expression of underlying concerns with lack of expertise and or/oversight at board level on issues like climate change or human rights. LGPS Central believe that strong governance increases the likelihood of companies dealing well with environmental and social risks.

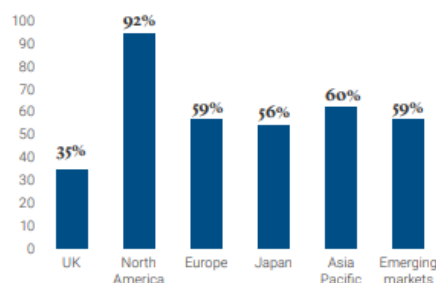
- 5.13 Voting alerts are received from both LAPFF and LGPS Central (via EOS). Where appropriate these are then passed on to the relevant investment managers. In most cases, LPGS Central took a similar view to LAPFF. Any difference in view is explained to the Fund and other Partner Funds, with the opportunity for Partner Funds to seek further clarifications on LGPS Central's voting intention. In May 2022, when LGPS Central voted to oppose and abstain on two shareholder resolutions at the Meta AGM, LAPFF had issued a voting alert to vote 'for'. Resolution 7, which asked the company to publish a report on external costs of misinformation and impact on diversified shareholders. LGPS Central voted in line with their Stewardship provider's recommendation to oppose as they believe the requested report was too vague. Resolution 9 sought a report and advisory vote on the Metaverse, and LGPS Central abstained from voting, believing that the board, alongside management are best placed to decide on strategic investments such as the Metaverse. LGPS Central did however send a letter to the company stating their support for the report and explained this to Partner Funds in a voting briefing, giving the full detail behind their reasons for opposing this resolution.
- 5.14 Details of proxy votes are reported to the Pensions Panel every quarter in the RI&E report. This report details all votes cast by each of the Fund's investment managers including through LGPS Central and are received from the individual managers in their quarterly investment/ESG reports, which contain greater detail on votes cast and the reasons behind such.

5.15 An example of one of our equity managers, LGIM's, quarterly voting report from its Q3 ESG Impact report Q3 2022 is included below:

Global - Q3 2022 voting summary

Proposal category	Total for	Total against	Total abstentions	Total
Anti-takeover related	110	2	0	112
Capitalisation	1740	121	0	1861
Directors related	2325	616	48	2989
Remuneration related	352	379	0	731
Reorganisation and Mergers	411	132	0	543
Routine/Business	1802	241	0	2043
Shareholder Proposal - Compensation	1	3	0	4
Shareholder Proposal - Corporate Governance	4	3	0	7
Shareholder Proposal - Directors Related	148	41	0	189
Shareholder Proposal - General Economic Issues	1	1	0	2
Shareholder Proposal - Health/Environment	0	4	0	4
Shareholder Proposal - Other/Miscellaneous	0	8	0	8
Shareholder Proposal - Routine/Business	39	5	0	44
Shareholder Proposal - Social/Human Rights	1	2	0	3
Shareholder Proposal - Social	0	0	0	0
Total	6934	1558	48	8540
Total resolutions				8540
No. AGMs				449
No. EGMs				469
No. of companies voted				864
No. of companies where voted against management /abstained at least one resolution				482
% no. of companies where at least one vote against management (includes abstentions)				56%

% of companies with at least one vote against (includes abstentions)



Number of companies voted for/against management



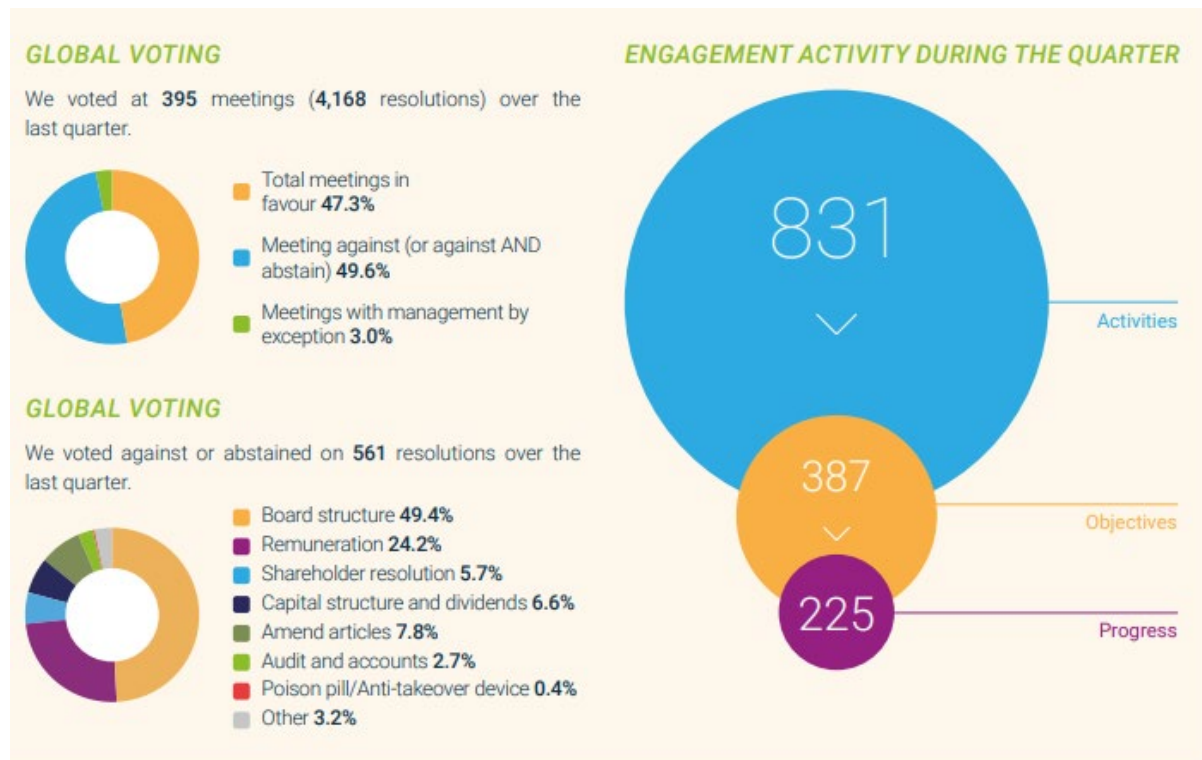
5.16 LGIM's quarterly ESG report also includes details of significant votes as below example, again from Q3 report.

Company name	Ninety One Plc.*
ISIN	GB00BJHPLV88
Market Cap	£1.143 billion (07 October 2022, source: London Stock Exchange)
Sector	Financials – investment banking & brokerage services
Issue identified	This was a management-proposed 'Say on Climate' vote, relating to the net zero transition. At the beginning of the year, we published our expectations for management-proposed 'Say on Climate' votes on our blog .
Summary of the resolution	Resolution 11: Approve Climate Strategy AGM date: 26 July 2022
How LGIM voted	Against
Rationale for the vote decision	A vote against was applied as LGIM expects companies to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5°C. This includes the disclosure of scope one, two and material scope three GHG emissions and short-, medium- and long-term GHG emissions reduction targets consistent with the 1.5°C goal.
Outcome	97.6% shareholder voted in favour of the resolution. LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.
Why is this vote 'significant'?	LGIM considers this vote significant as it is an escalation of our climate-related engagement activity and our public call for high quality and credible transition plans to be subject to a shareholder vote.

*Case study shown for illustrative purposes only.

The above information does not constitute a recommendation to buy or sell any security.

5.17 An example of LGPS Central’s quarterly voting statistics and engagement activity from their Q3 2022 report is included below:



5.18 An example of the reasoning behind one of LGPS Central’s votes from August 2022 is shown below:



Company: Tesla Inc.

Theme: Climate Change, Human Rights/Child Labour

Rationale: LGPS Central voted in favour of the shareholder resolution to Report on Corporate Climate Lobbying in line with the Paris Agreement, against management recommendation. The company has set climate change related objectives and provides information on these matters in the Environmental Impact section of its 2021 Impact Report. Tesla states that information on its political and lobbying activities is available to shareholders through publicly available federal lobbying reports. While there is currently no evidence of misalignment between Tesla’s lobbying and the Paris Agreement objectives, additional disclosure on all parts of its advocacy (direct, indirect, and grassroots lobbying), would facilitate better management of climate opportunities and risks. Overall, this would enable shareholders to better evaluate Tesla’s risk related to its policy and advocacy activities and whether these positively support the company’s own climate objectives and aligns with the Paris Agreement. LGPS Central supported the resolution to Report on Eradicating Child labour in Battery Supply Chain. The Management did not support this resolution stating that it prohibits all forms of child labour by suppliers in its Supplier Code of Conduct. The proposal required the company to disclose risks regarding the company’s policies and practices about battery

materials in its supply chain with respect to child labour. The company, in its 2021 Impact Report, had reported its risk mitigation through its supply chain and found no evidence of child labour. LGPS Central believe that as Tesla already commits to have adequate policies in terms of child labour in its supply chain, the company could provide a detailed report on its risk management for the same. This additional disclosure would promote better management of ESG risks and opportunities while enhancing the company's human rights practices.

Result: Even though neither of the resolutions received the required number of votes to pass, both received notable shareholder support. The resolution on climate lobbying received 34.3% votes, which shows that shareholders would like to know in detail about the company's lobbying in line with the Paris Agreement. The resolution on child labour received 10.4% votes.

5.19

Private Markets Engagement Example

LGPS Centrals primary private markets managers took a controlling stake in a **genealogy and gene testing business**, questions were raised in the media around data protection and information security risk. Questions around the evolution of the investee companies' business model and the potential monetisation of the company's DNA database were also raised. In recognition of the potential risks and sensitivities associated with the transaction, the RI&E Team at LGPS Central worked with colleagues in the Private Equity Team to engage with the manager to raise these concerns.

Outcome

The manager recognised the significance of data privacy to the investee company and provided assurance around the capabilities of their own data team outlining the extensive involvement of the team in the deal from the outset. It was clear that due consideration was given to key regulations such as GDPR. Assurances were also given that the company's commitment to transparency and disclosure around data processing would remain post-acquisition and that policies and procedures would remain best in class. Through this engagement, LGPS Central was able to establish that the specific risks raised were managed appropriately thus mitigating the risk of litigation and reputational damage.

Private Markets Engagement Example

LGPS Central's primary managers notified them of an issue with a potential co-investment opportunity in a **medical supplies company**. The company had found evidence of forced labour issues in the supply chain of one of their largest medical glove suppliers, an issue that had come to the attention of US Border Protection authorities. LGPS Central took comfort that the manager notified them of the issue promptly; however, they still challenged them hard on their due diligence and their efforts to ensure that the company addressed the issue as a matter of urgency.

Outcome

LGPS Central communicated to the manager that there is a zero-tolerance for forced labour issues regardless of the jurisdiction in which they arise. LGPS Central consider that supply chain disruption can be a material risk for corporations and can cause reputational damage that is hard to quantify and difficult to rectify. In this case regulatory censure was also a potential issue. Therefore, by pursuing the matter to a satisfactory conclusion LGPS Central were acting in the best financial interests of their Partner Fund's beneficiaries as well as acting as a responsible steward on their behalf.

If you have any comments on this 2022 Stewardship Report or require any more information on the subjects contained within it, please contact:

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