Staffordshire Pension Fund
Local Government Pension Scheme

2024/25 Annual Stewardship Report

www.staffspf.org.uk

Contents

1.0 Foreword

1.1 The Staffordshire Pension Fund (“the Fund”) recognises its role as one of promoting best practice in responsible investment and stewardship (RI&S), which is consistent with seeking improved long-term investment returns.

1.2 The Fund defines the concept of stewardship in line with the Financial Reporting Council (‘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 was accepted as a signatory of the FRC’s 2020 UK Stewardship Code in August 2023 and reconfirmed again in February 2025.

1.4 The Fund’s Investment Strategy Statement (“ISS”) states as an investment belief that RI&S 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 published its first Climate Change Strategy in 2022, which details plans to reduce carbon emissions and become net zero by 2050. An updated Climate Change Strategy has been produced annually since, which 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 April 2024 – 31 March 2025.

Chris Gilbert
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 124,000 scheme members and 540 employers. The Fund's investments are currently valued at over £7.7bn (at 31 March 2025). Staffordshire Pension Fund is a defined benefit, statutory public service scheme. The scheme's benefits and terms are set out in regulations passed through Parliament. There are 86 individual LGPS funds in England and Wales with total assets of hundreds of billions of pounds.
The LGPS has scheme members working in:

- local government
- education
- police and fire staff
- the voluntary sector
- private contractors

2.2 The Fund is administered by Staffordshire County Council ("SCC") which is legally responsible for the Fund. The Fund Officers sit within the Finance and Resources Directorate of the County Council.

2.3 SCC declared a climate emergency in 2019 and aims to achieve net zero emissions by 2050 across every aspect of its service provision and estate. Since this was declared, the Council has reduced its emissions by 50%. 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.

Doing Our Bit to make Staffordshire Sustainable

2.4 SCC delegates its 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 reviews the performance of all 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 it's investment consultant, Hymans Robertson. A full SAA review was conducted in conjunction with asset liability monitoring (ALM) work in preparation for the Actuarial Valuation at 31 March 2025, 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 seek to ensure that as far as possible, RI&S factors are incorporated into the investment process across all asset classes.

2.10 To assist them doing in this, the Fund endorses the Principles of Responsible Investing ("PRI") 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&S issues into their investment process.

2.11 As at March 2025, all the Fund's active equity managers (including those within LGPS Central (LGPSC) Limited Funds) were signed up to PRI.

2.12 The Fund defines RI&S in the same way as the PRI, 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 considered by the Fund 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 As a responsible investor, the UK Stewardship Code's principles reflect the Fund's approach to investor and stakeholder engagement. In perpetuity, the Fund responsibly stewards its assets in its contractual arrangements with asset managers (including ongoing monitoring), actively participating in the Local Authority Pension Fund Forum ("LAPFF"), and as an active shareholder of its asset pooling company, LGPS Central Limited (LGPSC).

Investment Beliefs

2.14 The Fund has a set of investment beliefs which inform the setting of the investment strategy, and they are included within the Fund's ISS. After consultation exercise with the Pensions Committee, the investment beliefs were updated in 2019 to incorporate beliefs about RI&S. In subsequent years, the Fund ensures the investment beliefs are delivering against its purpose and considers whether updates are necessary. The Fund's investment beliefs 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 The Fund published its first Climate Change Strategy, in 2022 and has reviewed and updated it annually since. The Climate Change Strategy details the Fund's strategy for achieving a portfolio of investment assets with net-zero carbon emissions by 2050, and progress made against interim objectives for carbon reductions by 2030. This is publicly available on the Pension Fund Website Staffordshire Pension Fund - Responsible Investment & Stewardship (staffspf.org.uk) and has been presented to and approved by the Staffordshire Pensions Committee annually since 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&S report. The RI&S 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&S report also includes the most recent engagement work undertaken by LAPFF and the asset pooling company, LGPSC, on behalf of the Fund.

2.17 All of the Fund's policies, including those relating to RI&S, are publicly available on the Fund's website, [Staffordshire Pension Fund - Responsible Investment & Stewardship (staffspf.org.uk)](). The Fund communicates with its scheme members and stakeholders in a variety of different ways and welcomes feedback, see paragraph 3.8.

2.18 During 2024/25, members of the Fund's decision-making bodies, the Pensions Committee and Pensions Panel, have attended several training sessions on RI&S and climate change. This was 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. LGPSC is a member of the 30% Club, which is also reflected in its voting principles, as is its voting on behalf of the Fund. Females represent 68% of the Officers across the Staffordshire Pension Fund service teams. Staffordshire County Council, the Administering Authority of the Fund has its own equality statement Equality, Diversity and Inclusion - Staffordshire County Council

The Equality objectives within that statement are:

- *Staffordshire is a place where there is equality of opportunity for all, regardless of circumstances;*
- *Staffordshire County Council is an inclusive and diverse employer, where our people feel they have the opportunity to succeed and progress;*
- *Staffordshire County Council develops and delivers services that are inclusive and accessible to all.*

Other measures in place within Staffordshire County Council include;

- Publishing an annual Gender Pay Gap and Workforce Profile;
- Supporting people who face barriers to employment by offering work placements through its "Open Door" scheme;
- A compulsory equality, diversity and inclusion mandatory e-learning module for all staff.

2.20 The Fund believes a firm commitment to diversity and inclusion also serves the best interests of its scheme members, as it acts as a catalyst for retaining and attracting talent. The Council's own mean gender pay gap has remained unchanged in the past year at 5.4% 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). Across the Finance and Resources Directorate, in which the Pension Fund Officers sit, disabled staff make up 6% of the workforce, 5.6% are from other ethnic groups and 4% are LGBT+. These percentages have all increased slightly in the past year.

2.21 During 2024/25 the Fund worked with Hymans Robertson on implementing its SAA changes, approved as part of the 2022 actuarial valuation and SAA review, whilst beginning work on the SAA prior to the 2025 valuation. A large proportion of the 2022 work involved ensuring RI&S factors and climate change were incorporated into the SAA (see paragraph 2.25 below).

2.22 In 2024/25, the Fund has continued to receive an annual Climate Related Disclosures Report from LGPSC. Part of the Climate Related Disclosures t Report's purpose is to assess how RI&S and climate change are incorporated into the governance arrangements of the Fund.

2.23 Although the 2025 Climate Related Disclosures Report did not include a Climate Stewardship Plan, the Fund, along with LGPSC and other LGPSC Partner Funds, established a three-year stewardship plan encompassing climate change, natural capital, human rights and sensitive topics (e.g. controversies).

2.24 The Fund's Climate Related Disclosures Report is aligned with the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD) meaning that the Fund is able to continue to publish an annual TCFD report, which it has done since 2021. A TCFD report is likely to become mandatory for LGPS funds soon where climate disclosures must be made under four recommended elements: Governance, Strategy, Risk management and Metrics and targets.

2.25 The Fund's commitment to integrating RI&S into its SAA can be evidenced by the recent reallocation of capital, as shown below.

- Allocation of 4% of the fund to LGPSC Global Sustainable Equity Active Broad Fund
- £20m allocation to Gresham House British Sustainable Infrastructure Fund III

Effectiveness

2.26 The performance of the Fund in the 12 months to 31 March 2025 shows an annual return on investments of 3.19%, slightly under the 2022 actuarial assumption of 4.4% per annum. Returns over longer periods are close to or in excess of the actuarial assumption, showing a return of (all to 31 March 2025) 4.39% over three years, 10.14% over five years and 7.81% since inception (taken to be 31 March 1995 for performance reporting).

2.27 The performance of the Fund and its asset allocation has been effective in allowing it to continue to meet its primary objective of paying pensions liabilities as they fall due for payment.

2.28 In the 2025 Climate Related Disclosures Report (based on the September 2024 asset data) it showed that the Fund has already met most of its 2030 climate objectives set in 2022, which was to reduce Weighted Average Carbon Intensity ('WACI') by 50-60% versus 2020 levels, (the Fund has achieved a 64.9% reduction versus 2020 levels) and reducing the proportion of the Fund invested in Fossil Fuels reserves to less than 4% by 2030 (the Fund has reduced this to 3.5%). Positive progress had also been made against all other objectives. Councillors have praised the good progress towards the net zero commitment, whilst still being mindful of the need to ensure other responsible investment factors are considered and that financial returns are not adversely affected.

2.29 As planned, the climate change objectives were reviewed during 2024/25 and updated objectives were set, reflecting improvements in data availability and achievements to date of the previous metrics. They are included in the latest Climate Change Strategy available on the website Staffordshire Pension Fund RI&S The new 2030 Climate Objectives set vs March 2020 data are;

- Reduce Normalised Financed Emissions (scope 1 & 2) by 65-75% for listed equities by 2030,
- Reduce Normalised Financed emissions (scope 1 & 2) by 25-35% for listed corporate bonds by 2030,
- Reduce the proportion of the Fund's listed equities and corporate bonds invested in Fossil Fuels reserves to less than 3% by 2030,
- Reduce the proportion of the Fund's listed equities and corporate bonds invested in thermal coal to below 1% by 2030.
- Increase the proportion of listed equities and corporate bond investments where carbon metrics are reported to over 95% by 2030
- Increase the proportion of listed equities and corporate bond investments with clean technology exposure (by revenue) to above 7.5% both by 2030

- Increase the proportion of listed equities and corporate bonds investments aligned or aligning to the 2015 Paris Agreement (as measured by LGPSC) to above 50% by 2030.

Principle 2

Signatories' governance, resources, and incentives support stewardship.

2.30 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 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.

2.31 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.*

2.32 The Pensions Committee delegates detailed decisions on investments to a sub-committee, the Pensions Panel. This is made up of a subset of 5 Elected councillor members of the Pensions Committee. The Pensions Panel has delegated powers from the Pensions Committee to consider the arrangements to ensure the effective management of the Pension Fund. The Panel reviews and make recommendations to the Pensions Committee on several matters, for example; strategic asset allocation, benchmarks and performance targets, the performance of Fund investment managers, the Investment Principles and the Funding Strategy statements, legislative, financial and economic changes which impact on the investment activity of the Fund and the advice from advisers appointed by the Panel.

2.33 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 4 representatives with equal representation from employer bodies and scheme membership.

2.34 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.

2.35 Day-to-day responsibility for the management of Fund assets is delegated to the Assistant Director for Treasury and Pensions, assisted by the Treasury and Pensions Investment team. The team consists of 5 x CIPFA Qualified Accountants and 3 x AAT qualified Investment Accounting Technicians with a wealth of investment and public finance experience.

2.36 As a public sector organisation, Pension Fund officers have a set salary which does not have the option to include any work-related financial incentives. There are therefore no conflicts between RI&S or any other returns and remuneration. However, some performance objectives set for the Fund's Investment officers incorporate RI&S within them.

2.37 The Pensions Committee Terms of Reference include

- *Ensuring the responsible investment, corporate governance and voting policies of the Fund are delivered effectively.*

2.38 The Pensions Panel terms of reference include;

- *The monitoring of the performance and effectiveness of the investment pooling operator to ensure it is providing an effective means of delivering the investment strategy (e.g. types of assets and style of investment management) and it is meeting the objectives that have been set (including requirements in relation to responsible investment).*

2.39 The Fund has adopted a training policy for Elected Members and Officers in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) Knowledge and Skills Framework. The training addresses eight 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; and*
- *Pension services procurement, contract management and relationship management.*

The Pensions Committee and Pensions Board receive at least two annual training sessions covering the areas identified in an annual training needs analysis survey. Recently, this has included training on the actuarial valuation (funding strategy and actuarial methods), pensions scams (Pensions administration and communications) and stewardship and engagement from LGPSC (Investment strategy, asset allocation, pooling, performance and risk management).

2.40 This training helps inform and incentivise the Pensions Committee and Pensions Panel in their efforts to incorporate appropriate material RI&S 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.

2.41 The County Council's internal audit team carried out audits of the Fund's governance arrangements for 2024/25. Substantial assurance (the highest possible) was given for this audit. A Strategic Asset Allocation audit was also carried out in 2024/25; this again received substantial assurance.

2.42 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 principally by the Fund's asset pool, LGPSC, for liquid assets. Details of proxy voting and engagement with underlying companies are detailed in the quarterly reports that the Fund's investment managers and LGPSC produce for the Fund. This voting is summarised in a quarterly RI&S report to the Pensions Panel.

2.43 Links to the Fund's individual investment manager and LGPSC's RI&S policies, as well as details on the UK Stewardship Code and the PRI, are available at the Staffordshire Pension Fund website at Staffordshire Pension Fund - Responsible Investment & Stewardship (staffspf.org.uk).

2.44 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. LGPSC is also a member of LAPFF, alongside all its 8 Partner Funds.

2.45 LGPSC has an RI&S team composed of a Head of Responsible Investment & Stewardship, a Head of Stewardship, an RI&S Integration Manager, a Net Zero Manager, a Senior Stewardship Analyst, and three RI&S Analysts. In January 2025, an additional RI&S Analyst with specialised knowledge in natural capital and data analysis was appointed to support LGPSC's growing reporting requirements. The RI&S team come from diverse academic backgrounds and specialities, including economics, investment management, politics, and sustainability. They have followed various career paths before transitioning to responsible investment, such as compliance, international affairs, risk management, fund management, credit analysis, sustainability, and consultancy. The Fund considers this diversity of skills, knowledge and experience to be a strength, and welcomes this diversity and breadth of perspectives.

2.46 The Fund, as a Partner Fund and shareholder of LGPSC, contributes to the review of LGPSC's RI&S Framework and policies pertinent to responsible investment, which are available on their website https://www.lgpscentral.co.uk/responsible-investment/
The Fund's avenues for providing input to LGPSC's approach to responsible investment are described in detail at paragraph 2.112.

2.47 LGPSC ensure RI&S is integrated into all their investment products through a Responsible Investment Integrated Status (RIIS) process. This is described in detail in paragraph 3.29.

2.48 The LGPSC RI&S 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 and civil society.

2.49 LGPSC's RI&S team report to the Chief Investment Officer and work in close collaboration across multiple internal teams on;

- the approach to RI&S when new funds are appointed;
- the selection and monitoring of fund managers;
- engagement and voting, as relevant to the asset class; and
- RI&S performance assessment and reporting.

2.50 LGPSC have produced Climate Reports for the Fund and assisted with the production of the Fund's TCFD compliant Climate Related Disclosures report, Climate Change Strategy and UK Stewardship Code compliance. As well as providing Elected Members and Officers with training on RI&S Implementation and stewardship, such as at the July 2024 Pensions Committee training session where LGPSC updated the committee on their approach to stewardship and engagement across asset classes.

2.51 LGPSC employ EOS at Federated Hermes (EOS) as its overlay 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 with LGPSC's voting principles.

2.52 Following a comprehensive due diligence process by LGPSC, EOS were selected and have been retained, as their beliefs aligned well with LGPSC's and Partner Funds' 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.

2.53 In 2024, LGPSC and EOS started collaborating to establish a voting system. This voting system, implemented in early 2025, has allowed LGPSC to vote the shares on the legacy Legal and General passive equity mandates, that LGPSC manages on behalf its Partner Funds under an advisory mandate.

2.54 Hymans Robertson are investment consultants to the Staffordshire Pension Fund and support the Fund with investment advice, attendance at Pension Committee and Panel meetings, training for Elected Members, and advice on RI&S issues. Hymans Robertson have a dedicated Responsible Investment team and a wealth of experience in the incorporation of RI&S factors into investment advice for LGPS pension funds.

2.55 Hymans Robertson have delivered training to the Pensions Committee on pensions governance, roles & responsibilities and actuarial valuation assumptions and methodologies, at the training sessions in July and November 2024.

2.56 The Fund also employs two independent advisers, Carolan Dobson and John Harrison, who provide challenge and an independent perspective on investments and RI&S matters. For example, at the September 2024 Pensions Panel, challenging the knowledge of a large passive equity manager, when casting votes over a vast number of stocks and the potential for "box ticking". This was followed up on via a meeting with the investment manager, the Fund, LGPSC and other Partner Funds, to get a better understanding of the managers engagement and voting processes. The Fund were assured by their approach, which focused on raising global market standards, as a whole through impact prioritisation and six global impact themes: nature, people, health, climate, governance, and digitisation. The independent advisers attend Pensions Panel meetings.

2.57 The Fund believes that its current governance arrangements are effective in delivering the Fund's purpose, and it strengthened its governance resources regarding independent investment advice to the Pensions Panel in 2024, recruiting John Harrison as a second independent adviser. This recruitment aimed to strengthen the external advice received and provide further challenge to Hymans Robertson, which support the Fund's stewardship activities. Providing advice on corporate governance, including RI&S, was 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.

2.58 The Staffordshire Pension Fund has a Conflicts of Interest Policy; [Staffordshire Pension Fund - Policies]
The Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the Staffordshire Pension Fund, whether directly, or in an advisory capacity. The Conflicts of Interest Policy is established to guide the Pensions Committee, Pensions Panel, Local Pension Board, Officers and Advisers. Along with other constitutional documents, including various Codes of Conduct, it aims to ensure that those individuals do not act improperly or create a perception that they may have acted improperly. It is an aid to good governance, encouraging transparency and minimising the risk of any matter prejudicing decision-making or management of the Fund otherwise.

2.59 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 LGPSC. 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.

2.60 With respect to conflicts of interest within the Fund, Pension Panel, Pensions Committee and Pensions Board Elected Members are required to make declarations of interest at the public section of each quarterly meeting. If an Elected 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.

2.61 A Register of Declarations is maintained by the Members and Democratic Services Department of the County Council, for all Elected Members. The below link is the register of declarations made by Members of the Pensions

Committee, as is shown, no declarations were made by Elected Members during the period 1 April 2024 to 31 March 2025.
[Declarations of interest at Pensions Committee, 31 March 2024 - 31 March 2025 - Staffordshire County Council]

2.62 LGPSC's approach to managing and mitigating risks associated with conflicts of interest is outlined in their Conflicts of Interest Policy, which is made available to all staff and clients. The policy is designed to ensure fair outcomes for clients and to ensure that LGPSC fulfils its stewardship responsibilities to its clients in terms of how their assets are managed. The policy is reviewed annually, and no major changes were made in 2024.

2.63 LGPSC's Conflict of Interest Policy is signed off by the Investment Committee, Executive Committee and Board. The Operational, Risk, Compliance, and Administration Committee (ORCA) is responsible for reviewing the policy annually.

2.64 LGPSC also provides investment advisory services to its Partner Funds, along with discrete investment management mandates and fund offerings. This creates the potential for conflicts of interest to arise when LGPSC offers advice related to a client's portfolio or appointed manager and could provide an equivalent or alternative product. To address this, LGPSC informs clients of potential conflicts of interest, covering these topics in both the advisory terms and ongoing advice. This allows clients to consider the potential conflict in their decision-making, request temporary LGPSC's team members to be ring-fenced, or seek separate independent advice on specific matters. LGPSC staff do not receive remuneration through a bonus scheme, which further helps to mitigate potential conflicts of interest.

2.65 LGPSC employees and the Board must complete ongoing conflict management training during their induction. This training includes guidance on identifying conflicts of interest.

2.66 When LGPSC 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. LGPSC expects their managers to have robust controls and procedures in place around conflict management and to demonstrate commitment to managing conflicts fairly. No potential instances of conflicts of interest were recorded in 2024 in the appointment of external managers.

2.67 EOS at Federated Hermes – LGPSC's external stewardship provider – are expected to be transparent about conflicts of interest and to implement measures to ensure they manage these conflicts, such as Chinese walls, conflicts management policies and conflicts registers. EOS at Federated Hermes has a publicly available Stewardship Conflicts of Interest Policy.

Stewardship conflicts of interest policy The policy details several potential conflict areas, including:

- Potential conflicts arising from Federated Hermes Limited's ownership of EOS
- Conflicts between the clients of Federated Hermes Limited and EOS
- Personal relationships between engagement staff and senior personnel at the companies being engaged.
- Potential stock lending and short-selling positions at Federated Hermes Limited

2.68 EOS's conflict policy document outlines the management, monitoring, and review processes for these conflicts and provides practical examples of how they are addressed. Conflicts encountered by EOS are recorded in the Federated Hermes group's Conflicts of Interest Policy and Conflicts of Interest Register. As part of the policy, employees must report any potential conflicts to the compliance team for assessment, and the register is updated when necessary. Senior management reviews the Conflicts of Interest Register regularly. In 2024, EOS alerted LGPSC on 26 notifications flagging potential conflicts of interest. The instances represented votes for LGPSC's holdings, which the EOS investment division also invested in.

2.69 EOS is responsible for appointing and casting LGPSC's proxy voting for companies not included in the voting priority list. LGPSC expect the proxy voting providers to be transparent about any conflicts of interest and to implement measures to manage these conflicts. This includes having conflict management policies and maintaining conflict registers. Conflicts of interest can arise during the voting season. For instance, a proxy voting provider may have conflicts if they offer other services to corporates or if they engage with and provide voting recommendations for a pension scheme's sponsoring company. LGPSC's proxy voting research provider, ISS, has identified three primary potential conflicts of interest:

- Corporate issuers who are clients of ISS Corporate Solutions (ICS).
- Corporate issuers who are clients of ISS.
- ISS's ownership structure

Conflicts of interest Example

LGPSC made a significant managerial appointment that brought a wealth of experience. At the time of the appointment, the candidate was involved in an advisory arrangement with an administrative authority from another LGPS pool. This was identified as a potential conflict of interest with LGPSC's ongoing business.

Outcome. The advisory arrangement was terminated by mutual agreement. There was a brief overlap during the initial weeks of the candidate's employment at LGPSC while the advisory arrangement was being wound down. To mitigate any conflicts during this transition, measures were implemented to restrict access to relevant business materials during this period

Conflicts of interest Example

If during a Pensions Panel meeting an investment into an investment firm was discussed on which an Adviser or Elected Member sat on the board of that investment firm.

Outcome. A declaration of interest would be made at the start of the meeting and the person in question would be asked to step outside of the room whilst this decision was discussed and voted upon. The individual would only rejoin the meeting on to the next agenda item. The same would happen at subsequent Panel meetings when performance and stewardship of the investment was discussed.

Principle 4

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

2.70 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.

2.71 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. It also uses numerous scenarios, to identify which potential market conditions would have what impact on the funding level of the Fund. This also assists in the identification of the key market risks to the portfolio.

2.72 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 which 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 investment perspective to be taken. This means the Fund has exposure to long term market wide systemic risks and it is within its interests to promote a well-functioning financial system.

2.73 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. Although covered by a separate strategy, climate risk has also been included within the Risk Register, due to the financially material risk to investment returns.

2.74 The Pension Fund Risk Register has a set of high-level objectives which cover all key aspects of the Fund under each of the 4 main 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. This is reviewed quarterly by Fund Officers and the Pensions Board, to ensure emerging risks (including market wide and systemic risks) are identified on a regular basis and ongoing risks are kept under review.

2.75 In identifying and managing ESG risks, the Fund's stewardship partners are:

Organisation	Remit
LGPS Central Limited	The Fund is a 1/8th owner of LGPSC 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. During 2024/25, LGPSC has been directly involved in more than 2,526 engagement activities across these themes. A selection of engagement cases is provided under Principles 9-11 below
Federated Hermes	EOS at Federated Hermes is contracted by LGPSC to expand the scope of the engagement programme, especially to reach non-UK companies. In 2024/25, EOS engaged with 687 companies on 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 2024/25 were linked to one or more of the UN Sustainable Development Goals (SDGs).
Local Authority Pension Fund Forum	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 2024, LAPFF engaged with over 340 companies through more than 80 meetings across a spectrum of material ESG issues.

2.76 In partnership with Staffordshire Pension Fund and other Partner Funds, LGPSC reviews its Stewardship strategy, including its themes and priorities, every three years. A thorough review was last completed in 2023. The strategy is composed of four pillars

2.77 Following review, the LGPSC's core Stewardship Themes for 2024-2027 were decided to be climate change, natural capital, human rights and Sensitive/Topical Activities. The Climate Change Stewardship Program supports the LGPSC Net Zero Strategy, which is essential for achieving the Funds net zero ambitions also. The Fund considers Natural Capital (including biodiversity and nature loss) to be a systemic risk and human rights to become an increasingly material risk for investors. The Sensitive/Topical Activities theme targets companies in Partner Fund portfolios that have high ESG risk profiles or are involved in significant controversies. This theme aims to ensure that LGPSC adequately addresses ESG risks and issues arising from Staffordshire Pension Fund and other Partner Fund's holdings. It will prioritise high-conviction assets that either face one or more unaddressed egregious controversies or possess an ESG corporate management system that significantly lags peers. LGPSC have incorporated Natural Capital and Sensitive/Topical Activities to replace the previous themes of Plastic Pollution and Responsible Tax, respectively, as they believe these issues can be integrated within broader thematic approaches. For instance, continuing to address plastic pollution by engaging with petrochemical companies on sustainable plastic production. LGPSC continue to advocate for responsible taxation. LGPSC acknowledge that the spectrum of ESG risks is broad and continuously evolving. However, in agreement with Partner Funds, they will focus on these themes for a minimum of three years, while conducting annual reviews to accommodate necessary adjustments or changes.

2.78 See below detail on LGPSC's 2024-2027 Stewardship Priorities.

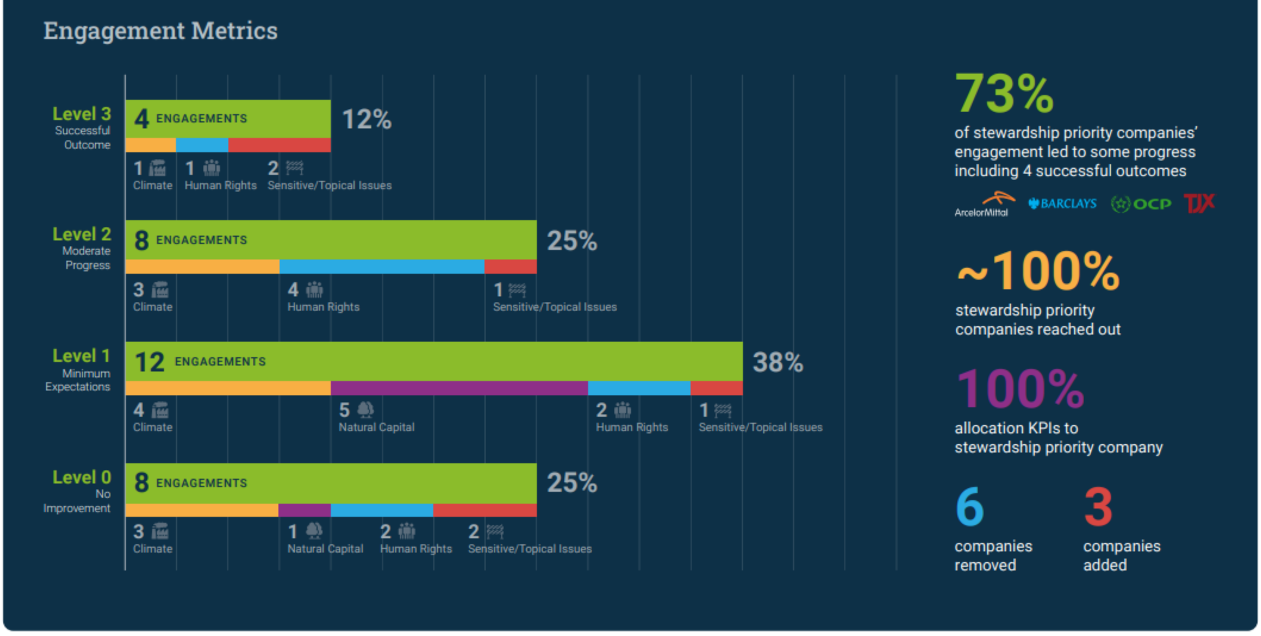
THEMES	Climate Change	Natural Capital	Human Rights	Sensitive / Topical Activites
CHALLENGES	Climate change risks are widespread and include physical, transitional, and market-pricing risks. Their impact is likely to affect future generations.	The poor management of risks related to nature can lead to significant systemic and macroeconomic threats.	Higher scrutiny is placed on social (S) factors; if mismanaged, they can have the potential to destroy company value, and they are increasingly perceived as a barometer for a company's culture.	Controversial activities engaged in by companies can significantly undermine shareholder value. Companies that fail to effectively manage ESG risks are more prone to facing controversies.
INVESTMENT RISK AND OPPORTUNITY	Effectively managing the risks of climate change and seizing new opportunities is crucial for protecting investments. An orderly transition aligned with the Paris Agreement is preferable for the economy, as it causes the least disruption.	Degradation of nature could reduce a company's ability to generate long-term value for shareholders through: – scarce resources – regulatory tightening – reputational damage New opportunities around Nature-based climate solutions.	Businesses and institutional investors have a responsibility to respect human rights as indicated in the UNGPs and the OECD Guidelines for Multinational enterprises. Litigations and claims can be brought against investors.	The share values of companies involved in systemic ESG scandals can suffer substantial declines. Those that severely violate international norms may face immediate risks, including the loss of their operational licenses, government intervention, and serious legal challenges. Poor ESG practices can serve as a sign of a company's vulnerability to scandals and corporate mismanagement.
NUMBER OF COMPANIES DIRECTLY TARGETED BY LGPSC	11	6	9	7
PARTNER ORGANISATIONS	IIGCC, PRI, CA100+, CDP, LAPFF, Share Action	PRI, IPDD, NA100, Planet Tracker	ICCR, PRI, Find it, Fix it and Prevent It, LAPFF	PRI, Investor Forum

2.79 To monitor and assess of the effectiveness of their stewardship efforts from 2024, LGPSC set KPIs and expected outcomes and allocated these to each engagement. From 2025, engagements will be biannually assessed, and progress on outcomes will be reported back to Partner Funds and LGPSC governance committees. LGPSC also report on the outcomes of stewardship activities in their public reports. See below LGPSC's Stewardship Effectiveness Matrix.

	Climate	Natural Capital	Human Rights	Sensitive / Topical Activites
LEVEL 3: SUCCESSFUL OUTCOME	• Company demonstrate alignment with LGPSC net zero strategy.	• Company undertook a nature impacts and dependencies assessment and has published an ambition to align with the GBF. • Company has disclosed robust petrochemical strategy underpinned by credible targets.	• Company demonstrates full alignment with UNGPs or Modern Slavery Act.	• Company has disclosed a plan for: – Addressing the alleged controversy. – Improve ESG practices at reasonable level.
LEVEL 2: MODERATE PROGRESS	• Progress observed in the Climate Action 100+ Benchmark Framework, CDP. • Companies improving on TPI management quality ladder. • Companies are partly aligned with LGPSC net zero strategy.	• Progress on undertaking a nature impacts and dependencies assessment or on publishing an ambition to align with the GBF. • Progress on developing a robust petrochemical strategy underpinned by credible targets.	• Partial progress observed by Find it, Fix it and Prevent it, Corporate Human Rights Benchmark and LAPFF research.	• Company has disclosed a plan for: – Partly addressing the alleged controversy including acknowledgment of the controversy. – Partly improve ESG practices at reasonable level.
LEVEL 1: MINIMUM EXPECTATIONS	• Companies disclosing data to facilitate carbon performance assessment if relevant.	• Evidence of constructive meeting with companies.	• Companies responded to engagement request.	• Companies responded to engagement request.
LEVEL 0: NO IMPROVEMENT	• No progress has been made.	• No progress made.	• No progress has been made.	• No progress have been made.

2.80 In 2024, LGPSC continued improving an in-house tracking database to monitor the number of engagements, and the progress made against the engagement objective(s), by adding direct references to the Stewardship Priority List. LGPSC tracks both corporate engagement and advocacy.

FIGURE 13: PROGRESS AGAINST THE 2024-2027 STEWARDSHIP STRATEGY



2.81 Individual investment managers, LAPFF and LGPSC are all active participants in a variety of industry initiatives on behalf of the Fund, which help shape sustainable corporate and investor practice. LGPSC see collaboration with peer investors via industry initiatives as essential, as it gives more leverage in engagement. Below in paragraph 2.82 is a list of organisations and initiatives that LGPSC is an active member of. This includes a brief assessment of the initiative's effectiveness and the outcomes achieved in 2024. LGPSC have reviewed their ongoing participation in these initiatives to ensure that they maximise resources effectively and align with the priorities of Staffordshire Pension Fund and other Partner Funds

2.82 Participation in Industry Dialogue;

ORGANISATION/INITIATIVE NAME	ABOUT THE ORGANISATION/ INITIATIVE	EFFICIENCY AND OUTCOMES
30% CLUB INVESTOR GROUP	A global network to unite efforts in delivering greater diversity and inclusion in the companies they invest in around the world. LGPSC has been a member since its inception.	As we focus on Europe now, plans may extend to Canada. UK group members can opt-in to support international engagements.
BVCA	UK trade body for private equity.	The BVCA organises ESG-related roundtables and events promoting ESG in the asset class.
CA100+	Engagement collaboration with more than 600 investors. Engaging with 168 companies that are responsible for roughly 80% of global corporate greenhouse gas (GHG) emissions. LGPSC Head of Stewardship is a member of the Mining and Metals Sector Group.	CA100+'s key company engagement priorities are the implementation of strong governance frameworks, garnering commitments to reduce GHG emissions throughout the value chain, the provision of enhanced disclosure and the implementation of transition plans.
CDP	CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.	We signed up to the CDP's 2023/24 Science-Based Targets (SBTi) Campaign. The SBTi's goal is to accelerate companies worldwide in their support of the global economy, aiming to halve emissions by 2030 and achieve net zero by 2050.
CROSS-POOL RI GROUP WITHIN LGPS	Collaboration group operating across LGPS pools and funds.	A cross-fund group set up to advise UK local pension schemes on responsible investment and infrastructure.
IGCN	ICGN advances the standards of corporate governance and investor stewardship worldwide, pursuing long-term value creation and contributing to the development of sustainable economies, societies, and the environment.	ICGN's work programme is delivered around three core activities: Influencing public policy and professional practice on global standards of corporate governance and investor stewardship, convening events to share knowledge, build networks and collaborate across capital markets. Guiding stewardship and corporate governance.

ORGANISATION/INITIATIVE NAME	ABOUT THE ORGANISATION/ INITIATIVE	EFFICIENCY AND OUTCOMES
IIGCC IIGCC The Institutional Investors Group on Climate Change	Influential asset owner and asset manager group. Useful for climate change research and policy influence. LGPSC is part of the following working groups: UK Policy, Steel, Mining, and Proxy Voting Group.	IIGCC's corporate engagement and policy engagement programmes add considerable value to LGPSC's work on climate change. IIGCC engaged broadly with stakeholders in the lead-up to COP29.
INVESTOR ALLIANCE FOR HUMAN RIGHTS INVESTOR ALLIANCE FOR HUMAN RIGHTS AN INITIATIVE OF ICCR	An initiative focusing on investor responsibility to respect human rights, corporate engagement that drives responsible business conduct, and standard-setting activities that promote robust business and human rights policies.	In 2024, the initiative continued to collaborate with investors and civil society organisations to mobilise collective and coordinated investor leverage, thereby embedding and promoting corporate responsibility to respect human rights.
LAPFF Local Authority Pension Fund Forum	Engagement with companies in the UK and abroad, assisting LGPS funds with sustainable and ethical investment challenges.	LAPFF conducts engagements that are complimentary to LGPSC's stewardship theme engagements.
NATURE ACTION 100 Nature Action 100	A global investor engagement initiative focused on driving greater corporate ambition and action to reverse nature and biodiversity loss.	The initiative engages with companies in key sectors that are systemically important in reversing nature and biodiversity loss by 2030.
PRI PRI Principles for Responsible Investment	Largest RI-related organisation globally. Helps with research, policy influence and collaborative engagement.	In the latest PRI assessment report and were awarded five stars, the maximum score in five out of six pillars.
INVESTMENT ASSOCIATION THE INVESTMENT ASSOCIATION	The Investment Association is a trade body representing UK investment managers.	The group continued to work on: supporting the development of climate-related disclosure, improving how firms communicate sustainability matters, supporting the Race to Zero and the Net Zero Asset Managers Initiative.
INVESTOR FORUM THE INVESTOR FORUM	High-quality collaborative engagement platform set up by institutional investors in UK equities. LGPSC has been a member since the inception of our Company.	In 2024, LGPSC continued to utilise the resources made available by the Investor Forum for the benefit of its members.
THE LOCAL GOVERNMENT PENSION SCHEME ADVISORY BOARD Local Government Pensions SAB England and Wales	LGPSC is a member of the RI Advisory Group of SAB. Discussions are held on RI-relevant policies and standards that will have direct or indirect implications for LGPS funds and pools.	Discussions during 2024 have centred around themes such as impact investing, plans to introduce mandatory TFCD reporting and the discussion around fiduciary duty for LGPS funds.

ORGANISATION/INITIATIVE NAME	ABOUT THE ORGANISATION/ INITIATIVE	EFFICIENCY AND OUTCOMES
TPI Transition Pathway Initiative	The TPI Centre's analysis considers corporate climate governance and carbon emissions. LGPSC's, Head of Responsible Investment and Stewardship, represents LGPSC on the TPI Limited board, contributing to the governance and oversight of this important initiative.	LGPSC uses the TPI dataset directly to inform engagement and voting on behalf of Partner Funds. TPI has also reported on sovereign climate-related opportunities and risks (a previously under-researched asset class in respect of climate).
UKSIF UKSIF UK Sustainable Investment and Finance Association	UKSIF focuses on sustainable finance and supporting the investment community in implementing RI best practices. LGPSC is part of the Policy Committee.	The group has provided stakeholder feedback to the FCA on SDR and the labelling regime. UKFSIF responded to more than 10 consultations, including a number relating to the SDR. They broadened their focus in 2024 with submissions on planning policy, the UK's Industrial Strategy, and the government's pensions investment review.

2.83 LGPSC also respond to various national and international industry consultations on behalf of its Partner Funds, ensuring participation in wider industry initiatives and regulation.

Collaborative engagement and industry consultation example

A collaborative engagement with IPDD, an initiative to coordinate a public policy dialogue aimed at halting deforestation. LGPSC signed a letter to Brazilian ministers requesting they ratify the Escazú Agreement. The Agreement is the first legally binding treaty on environmental rights for the Latin American and Caribbean region. Ratification of the Escazú Agreement will help support a level playing field for responsible business conduct, sustainable economic development, and stable business relationships with community stakeholders in Brazil.

Outcome. LGPSC attended a call with CVM, the Brazilian Securities and Exchange Commission, to discuss the Brazilian Green Taxonomy, developments around the sustainability reporting roadmap, and the development of the local carbon market in Brazil. LGPSC attended a call with B3, the Brazilian stock exchange, to understand their position on the sustainability requirements of issuers. They also participated in a call with the Brazilian National Development Bank to understand their approach to addressing deforestation.

2.84 Identification and mitigation of market and ESG systemic risks are a quintessential duty performed by the representatives of the Fund. These risks are embedded within the terms of reference of the Pensions Committee, appointment of the Investment Consultant and Actuary, and also reflect the Fund's active engagement with its stakeholders through employer networks. As ever, diversification of the portfolio across asset classes, managers and geographies is one of the main ways the Fund mitigates against risk.

Market risks

2.85 **Investment in equities**. A large proportion of the Fund is invested in equities, which are expected to provide better returns than government bonds over the long term. The risk with this strategy is that equity values are volatile and can fall significantly in the short term, and could fail to outperform bonds in the long term. This risk is managed through diversification of investments and reliance on the funding strategy, which monitors the 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 exposure to equities which, over time, are expected to deliver better financial returns.

2.86 **Interest rates**. Changes in interest rates will affect 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 having a Pension Fund. To mitigate the risk of capital loss from interest rate changes, the Fund's strategic asset allocation allows scope to adjust the fixed income exposure, should it be necessary

2.87 **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.

2.88 **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 of this is closely tied to regular monitoring. Investments through the LGPSC are also held with external managers. These managers, however, are not directly employed by the Fund; therefore, the Fund does not have the same control over monitoring their performance.

2.89 Investment risk is managed through diversification and through a large proportion of the Fund being invested in liquid investments. The Fund invests across various asset classes, including equities, fixed income, property, infrastructure and cash. Additionally, it invests across managers and styles, as well as geographical areas such as the UK and globally. Furthermore it ensures that 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).

2.90 The Pensions Committee receives an annual report from the Fund's independent performance measurer, Northern Trust, to show both performance and risk, where risk is measured as the variability of returns, against equity or other benchmarks. The Pensions Panel receives reports that monitor such risks on a quarterly basis. Below is an excerpt of the reporting received in March 2025.

RISK STATISTICS	1 Yr	3 Yrs	5 Yrs
Return	3.99	8.81	16.57
Index Return	5.46	8.13	14.76
Standard Deviation	10.62	11.58	12.06
Tracking Error	2.11	2.01	2.44
Information Ratio	-0.69	0.34	0.74
Sharpe Ratio	-0.13	0.47	1.20
Treynor Ratio	-1.35	5.24	14.07

2.91 If it were felt that the manager was taking excessive risk, this would be discussed during the regular meetings with investment managers and/or LGPSC.

Systemic Risks

2.92 **Climate Change.**
The Fund has received annual Climate Reports from LGPSC since 2021, which has allowed for the publication of annual TCFD reports and a Climate Change Strategy. The Climate Change Strategy includes a series of climate objectives to reduce the carbon intensity of the Fund. The Report then recommends areas for the Fund to improve its resilience to climate change. All these documents are published annually which is possible due to the detailed information included in the Fund's annual Climate Report provided by LGPSC. The Staffordshire Pension Fund 2025 Climate Related Disclosures Report, which also serves as the Fund's TCFD Report is available at the following link. Staffordshire Pension Fund - Responsible Investment & Stewardship (staffspf.org.uk).

2.93 Staffordshire Pension Fund is exposed to macroeconomic risks and can benefit from growth opportunities arising from the energy transition. In the near term, climate-related risks are concentrated in real assets and energy-intensive sectors. Over the longer term, no sector will be immune to the transition and the earth's rapidly changing climate. The Climate Related Disclosures 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.

2.94 As part of the Fund's SAA review work undertaken by the Fund's investment consultant, Hymans Robertson, in preparation for the 2022 actuarial valuation, modelling was undertaken to assess the potential decarbonisation path for the Fund. The output from this was used to help design the initial objectives contained in the Fund's Climate Change Strategy and built into the Fund's new SAA. As shown in paragraph 2.25, positive allocations to climate friendly asset classes have been taking place over the past few years, especially as the Fund has been moving away from listed equities towards private market investments.

2.95 The Fund's Climate Change Strategy contains objectives to be net zero by 2050 and a series of interim objectives for 2030, which have been updated during 2024/25 as detailed in paragraph 2.29 above.

2.96 LGPSC have published a cross-asset class Net Zero Strategy based on a twin-track approach for public and private markets.

Pooled Assets

Portfolio Target: Net zero (scope 1 & 2 CO_2e) financed emissions by 2050 or sooner

Listed Equities & Corporate Bonds

Asset-class Targets

Emission-reduction Targets

50% reduction in (scope 1 & 2 CO_2e) financed emissions in 2030

Reduction of (scope 1 & 2 CO_2e) financed emissions per £m invested:

50% in 2030	60% in 2035	80% in 2040	90% in 2045	100% by 2050 or sooner

Footprinting Targets

Track relevant scope-3-category emissions of top 20 companies by scope 3 financed emissions in 2024

Alignment and Engagement Targets

Engagement with external managers on LGPS Central's net zero strategy and stewardship programme:
100% in 2023

Engagement threshold targets for companies from "material sectors":

	Listed equities & corporate bonds	Active equities	Passive equities	Corporate bonds
2025	80%	85%	75%	85%
2030	90%	90%	90%	90%

Portfolio coverage targets for companies from material sectors:

	Active equities	Passive equities	Corporate bonds
2030	50%	60%	50%
2035	75%	80%	75%
2040	100%	100%	100%

Sovereign Debt & Private Markets

Asset-class Targets

Emission-reduction Targets

Net zero (scope 1, 2 & Scope 3, category 13 CO_2e) financed emissions by 2050 or sooner for direct property investments based on a "whole-building and operational approach"

Footprinting Targets

Carbon footprints for all assets in 2024 using:

estimated scope 1 & 2 CO_2e emissions data for sovereign debt	estimated scope 1 & 2 CO_2e emissions for private market assets

Carbon footprints for all assets in 2025 using:

estimated scope 1 & 2 CO_2e emissions data for sovereign debt	estimated and actual scope 1 & 2 CO_2e emissions for private market assets

Alignment and Engagement Targets

Engagement with external managers on climate targets and data:
100% in 2023

2.97 The Fund works collaboratively with LAPFF, LGPSC and other Partner Funds on systemic market risks, such as climate change. LGPSC has been an active member of Climate Action 100+ (CA100+) since its inception. CA100+ engages 169 of the largest corporate greenhouse gas emitters to reduce emissions, improve governance, and strengthen climate-related financial disclosures.

2.98 To ensure that LGPSC remains at the forefront of RI&S regulations, they have developed a Regulatory Risk Radar (the Radar) in 2024. The monitoring tool categorises risk into three tiers and captures:

1) New UK regulatory proposals or changes.
2) Innovative government or industry-led initiatives poised to influence future regulation.
3) Significant UK government policy changes in the real economy associated with RI&S.

The Radar is meticulously updated at least quarterly, facilitating monthly discussions within the RI&S team, and is shared with the Risk and Compliance Team each quarter. The Radar provides essential insights of LGPSC's preparedness for regulatory change.

Regulatory compliance example

In 2024 LGPSC created an inter-departmental working group to analyse and ensure LGPSC practices complied with the anti-greenwashing rule, which was enacted on 31 May 2024. The group held a virtual workshop with Eversheds to discuss the Sustainability Disclosure Requirements (SDR) implications. Among the activities undertaken by the group, LGPSC ensured:

• Amending the Investment Committee terms of reference to include greenwashing risk oversight.
• Balanced imagery is used in external reports.
• Delivery of several workshops to colleagues.
• Reporting annually on compliance with the anti-greenwashing rule.
• Updating of the Legal and Regulatory Aspects of Client Publications Policy to include guidance on the anti-greenwashing rule

2.99 **Biodiversity Loss**

Nature loss can have devastating effects, including a decline in the supply of essential goods and services such as food and clean water. This loss is connected to the inadequate protection of biodiversity, which refers to the variety of all plant and animal life on Earth. It is estimated that more than half of global GDP depends on nature and its services, making the degradation of natural capital a systemic risk to the worldwide economy. Nature provides critical ecosystem services such as food production, climate change mitigation, soil regeneration, flood protection, and water purification. The total economic value of these services is estimated to be between $125 trillion and $140 trillion per year, more than 1.5 times the global GDP. Both LAPFF and LGPSC participate in collaborative initiatives on biodiversity and natural capital is one of the 4 engagement themes for LGPSC until 2027.

2.100 **Human Rights**
The long-term legitimacy of sectors and markets relies, in part, on ensuring that operations and products maintain their "social license to operate." Businesses and institutional investors have a responsibility to respect human rights, as outlined in the UN Guiding Principles on Business and Human Rights (UNGPs) and the OECD Guidelines for Multinational Enterprises. Companies have multi-stakeholder impacts that extend to employees, contract workers, supply chain workers, customers, and communities. Geopolitical risks stemming from conflicts have led to heightened awareness among investors regarding human rights issues.

Human Right Systemic risk example

LGPSC is a member of the "Find It, Fix It and Prevent It" initiative and proudly joined the Investor Alliance. LGPSC is a new lead engager for a company within the "Find It, Fix It, and Prevent It" program, which mainly targets companies working in the construction sector. LGPSC has expanded its modern slavery stewardship to include its UK Direct Property Fund, which is managed in partnership with DTZ Investors. The UK construction sector presents an increased incidence of modern slavery. Following a six-month engagement between LGPSC and DTZ Investors, which concluded in Q2 2024, DTZ Investors has enhanced its due diligence processes for building contractors to a level beyond the general compliance standards of the UK Modern Slavery Act. It includes whistleblowing mechanisms, a more substantial commitment to preventing modern slavery within the supply chain (including agents and subcontractors), rigorous due diligence checks, and prompt reporting on breaches. DTZ Investors now exemplifies best practices in managing modern slavery risk. Its comprehensive due diligence and monitoring processes cover over 70 UK building contractors and have over GBP 7 billion of assets under management.

Effectiveness

2.101 The Fund believes its approach to market-wide and systemic risks is appropriate and effective. Maximising its influence through collaborative working with like-minded investors, as detailed further under Principal 10 below.

2.102 The modelling carried out by the Fund's Investment Consultant and changes made to the SAA mean that Fund believes it is well placed to limit the risks and maximise the opportunities which arise from systemic risks such as Climate change. Many market-wide risk scenarios are modelled by the Funds Investment Consultant, Hymans Robertson, and an SAA that best copes with these is selected. The diversification of investments across the risk spectrum, geographies and asset types is also a key mitigation against risk.

2.103 The quarterly reviews of the risk register involve senior officers from the Investments, Funding, Systems, Communication and Administration teams, in addition to members of the Pensions Board. This gives a wide variety of inputs into the meetings and helps ensure diversity of thought to make sure all areas of risks are covered. All the high-level objectives are checked at each meeting and amended if felt necessary.

2.104 In 2024, LGPSC began assessing and reporting to Partner Funds on the value of LGPSC's participation in industry dialogues and memberships. The assessment considers their short-term and long-term objectives linked to advocacy efforts and aim to deliver as per the tables below.

Short-term objective

- Increase leverage in engagement (A).
- Accessing data, research, tools and opportunities available (B).
- Provide learning and progression opportunities to analysts (C).
- Foster collaboration among the RI&S industry (D).

Long-term objective

- Support LGPSC's investment beliefs (i.e., long-termism).
- To identify and respond to market-wide and systemic risks to promote a well-functioning financial system (UK Stewardship Code - Principle 4).

TYPE	CLIMATE	HUMAN RIGHTS	NATURAL CAPITAL	STRATEGY	TOTAL	A	B	C	D
MEMBER	3	2	2	10	17				
AOC				✓		✓			✓
BVCA				✓			✓		
CDP	✓					✓	✓	✓	✓
CROSS-POOL RI GROUP WITHIN LGPS				✓		✓	✓	✓	✓
ESG DISCLOSURE				✓			✓		✓
FINANCE SECTOR DEFORESTATION ACTION (FSDA)			✓				✓	✓	
IIGCC AUDIT AND ACCOUNTS WORKING GROUP	✓						✓	✓	✓
INSTITUTIONAL INVESTORS GROUP ON CLIMATE CHANGE (IIGCC)	✓					✓	✓	✓	✓
INTERNATIONAL CORPORATE GOVERNANCE NETWORK (ICGN)				✓		✓	✓	✓	✓
INVESTMENT ASSOCIATION				✓		✓	✓		
INVESTOR ALLIANCE FOR HUMAN RIGHTS (IAHR)		✓				✓	✓		✓
INVESTOR FORUM				✓		✓	✓	✓	
LOCAL AUTHORITY PENSION FUND FORUM (LAPFF)				✓			✓		
PLANET TRACKER PETROCHEMICAL WORKING GROUP			✓				✓	✓	✓
PRI				✓		✓	✓	✓	✓

TYPE	CLIMATE	HUMAN RIGHTS	NATURAL CAPITAL	STRATEGY	TOTAL	A	B	C	D
UK SUSTAINABLE INVESTMENT AND FINANCE ASSOCIATION				✓		✓	✓	✓	✓
VOTES AGAINST SLAVERY (VAS)		✓					✓		✓
MEMBER/BOARD SEAT	1		1	1	3				
INVESTOR POLICY DIALOGUE ON DEFORESTATION (IPDD)			✓			✓	✓	✓	✓
THE LOCAL GOVERNMENT PENSION SCHEME ADVISORY BOARD				✓		✓	✓		✓
TRANSITION PATHWAY INITIATIVE	✓					✓	✓		✓
OBSERVER					1				
WORLD BENCHMARK ALLIANCE			✓	✓		✓	✓		
MEMBER/LEAD (OR CO-LEAD)	2	1	1		4				
CA100+	✓					✓	✓	✓	✓
FIND IT, FIX IT, PREVENT IT		✓				✓	✓	✓	✓
NATURE ACTION 100			✓			✓	✓	✓	✓
SHAREACTION	✓					✓	✓	✓	✓

Principle 5
Signatories review their policies, assure their processes, and assess the effectiveness of their activities.

2.105 The 2024/25 Annual Stewardship Report has been reviewed by the Fund's Pensions Committee, RI&S Staff at LGPSC and several Senior Fund Officers. This review and challenge have given the Fund confidence that its reporting is fair, accurate and balanced and most importantly informative, in that it imparts critical information on the Fund's approach to stewardship to its stakeholders.

2.106 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&S and the stewardship of assets, and ensure that these key themes are incorporated throughout the Fund's investment process. A major review of investment beliefs took place in 2019, which included additional information on RI&S and stewardship.

2.107 The Pensions Panel receive a quarterly RI&S report, which includes the LGPSC and LAPFF quarterly engagement reports as appendices. Other investment managers also produce quarterly investment reports that include RI&S information, which are routinely received by the Fund. The

Fund's investment managers also provide RI&S policy documents, which are publicly available on their websites, (e.g. L&G ESG Impact Report).

2.108 For the reports that the Fund produces, it aims to ensure that they are clear and understandable for the Pensions Committee, Pensions Panel and the wider public, whilst still containing sufficient detail and coverage of the subjects involved. The use of "just in time training" presentations at Pensions Committee and Pensions Panel meetings by LGPSC, investment managers, Hymans Robertson and other service providers, are used to aid Members' understanding of the topics under discussion to ensure robust decision making for the Fund. An example of this is CEM Benchmarking, the Fund's Benchmarking provider, presenting to the Pensions Committee December 2024, explaining how benchmarking is calculated and presented. This helped Elected Members abilities to make informed decisions based on the benchmarking information presented to them at the meeting.

2.109 The Fund receives an annual Climate Related Disclosure Report from LGPSC, which assesses the Fund's carbon footprint and other climate related metrics and contains Climate Scenario Analysis and a Climate Priority List. 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.

2.110 LGPSC carry out an AAF controls audit of their investment operations annually. The reports to date have been unqualified, with only one exception within one of the two reports in 2024/25? The RI&S team at LGPSC collaborates closely with their Enterprise Risk Team to manage the Responsible Investment Risk Register. This register evaluates business risks, controls, actions, and mitigations related to responsible investment, with a net risk position agreed upon and reported to the Operational Risk and Compliance Committee. It also includes an ESG analysis to identify companies profiting from controversial weapons business activities. Additionally, the Investment team at LGPSC maintains a departmental risk register that encompasses RI&S-related risks. Net risk levels are determined after considering existing controls and any outstanding actions.

2.111 In 2024, LGPSC undertook a comprehensive review of their RI&S Policy to ensure alignment with the LGPSC Investment Risk Policy framework and to clearly differentiate the scope and purpose of the two documents. The new RI&S Policy outlines the expectations for RI&S across all activities at LGPSC. In addition, the RI&S Framework will provide detailed processes necessary to meet these expectations across investments. Additionally, the Framework makes direct reference to external reporting, such as Climate and the Stewardship Code reports.

2.112 An LGPSC Partner Fund quarterly responsible investment working group allows for information-sharing and debate on LGPSC's provision of RI&S services. Officers from the 8 Partner Funds, including Staffordshire, meet to discuss RI&S matters, key topics, and suggest future areas of focus for the LGPSC RI&S team. The performance of the LGPSC RI&S team is also reviewed regularly by this group. LGPSC seeks Partner Fund views when identifying and revising Stewardship Themes and holds an Annual Responsible Investment Summit, with external speakers, to facilitate a deeper debate on key topics (climate change; human rights etc). Members of the LGPSC RI&S team regularly present to the Pensions Committee and Pensions Panel and provide information and training to stakeholders to help further their knowledge on topics being discussed at those meetings.

2.113 The RI&S team at LGPSC annually review EOS's services to ensure that the stewardship provider meets the contract terms. This review is documented and approved by the Investment Committee each year. EOS present to all LGPSC Partner Funds, at the quarterly RI&S meetings. The summary of the 2024 review of Eos is provided below:

KPI AREA	KPI REVIEW
GLOBAL ENGAGEMENT	Engaged with 687 companies with regional and thematic breakdowns.
ENGAGEMENT QUALITY	110 objectives were linked to engagement with 687 companies. During the period, 45% of objectives were completed.
VOTING COVERAGE	EOS voted on 5,558 ballots during the period under review. EOS overrode 8% of ISS voting recommendations and 2% of their voting policy recommendations. We found this voting discretion acceptable as EOS extensively consults with ISS on their voting benchmarks and sets up their voting policy in consultation with clients. Less than 0.5% of votes were not executed, due to share-blocking market provisions and delays in generating the ballots. A discrepancy was found for one account due to ballots being received late on the ISS platform.
CLIENT SERVICE	Most queries to EOS were dealt with within 48 hours. EOS has also assisted LGPSC with delivering engagement and voting data for the Partner Funds' stewardship code submission. From June 2024, the RI&S Team received an update on the status of outstanding queries every three weeks.
COMPLAINT HANDLING	No complaints.
CLIENT SERVICE MEETING	Several meetings were held before, during and after voting season 2024, relating to the planning of the voting season.
REPORTING PUNCTUALITY	Reports have been delivered on schedule.
REPORTING QUALITY	Overall, quality has been good.
TEAM STABILITY	Since October 2023, the team has been relatively stable. Only 2% of EOS and Federated Hermes personnel left the firm.

2.114 With regards to the improvement in the Fund's stewardship of assets, the carbon metrics in the 2024 (fifth) Climate Risk Management Report produced by LGPSC showed a 62% reduction in the Fund's carbon footprint since 2020 and positive development against other metrics. Achieving most of its climate objectives set in 2022, for 2030. LGPSC supply the Fund with a Climate Related Disclosures Report annually, which provides a useful update on the Fund's progress in reducing emissions and also serves as the Funds annual TCFD report.

2.115 The Fund's first Climate Change Strategy, approved in 2022, committed to a three-year review in 2025, and this included reviewing the appropriateness of the original 2030 Climate Objectives to take advantage of improvements in climate data reporting. During 2024 the Fund worked with Hymans and LGPSC on setting new climate objectives (See paragraph 2.29). Improvements in data availability since 2020 mean that the Fund can now set an emissions reduction objective for listed corporate bonds and introduce further objectives on green revenues and net-zero pathway alignment. A net-zero pathway alignment objective is expected to become a requirement of TCFD reporting in the future. The Weighted Average Carbon Intensity (WACI) was used as the Fund's main carbon emissions metric in 2022. In the 2024 review this was changed to Normalised Financed Emissions, as this is considered to be a more accurate reflection of the Fund's carbon footprint. Comparison of these two metrics shows a similar magnitude of reduction since 2020 for the Fund's listed equity portfolio. Consideration was also given to including Scope 3 emissions in the Fund's carbon emission reduction but after discussion with Hymans and LGPSC, it was considered to be too early to these in the Fund's 2030 Climate Objectives, as much of the data is still estimated and there is a potential for double counting.

2.116 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 reports for Pension Fund investments and governance gave 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 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.

3.0 Staffordshire Pension Fund is a defined benefit local government pension scheme. It is a statutory public service scheme with the scheme's benefits and terms set out in regulations passed through parliament. Scheme membership is automatic for nearly all eligible employees or before the age of 75, with the ability to opt out.The Staffordshire Pension Fund administers the Local Government Pension Scheme (LGPS) for over 540 employers and more than 124,000 scheme members in the Staffordshire area. As at 31 March 2025, the Staffordshire Pension Fund had:

- 35,023 active scheme members
- 42,510 deferred scheme members
- 47,100 retired scheme members and spouse/dependant scheme members

The average age of all Fund members is 55 years. For active scheme members (those currently paying into the scheme), the average age is 46. Both figures remain unchanged from the previous year.

3.2 At 31 March 2025 the Fund had net assets with a value totalling £7.7bn. Employers include:

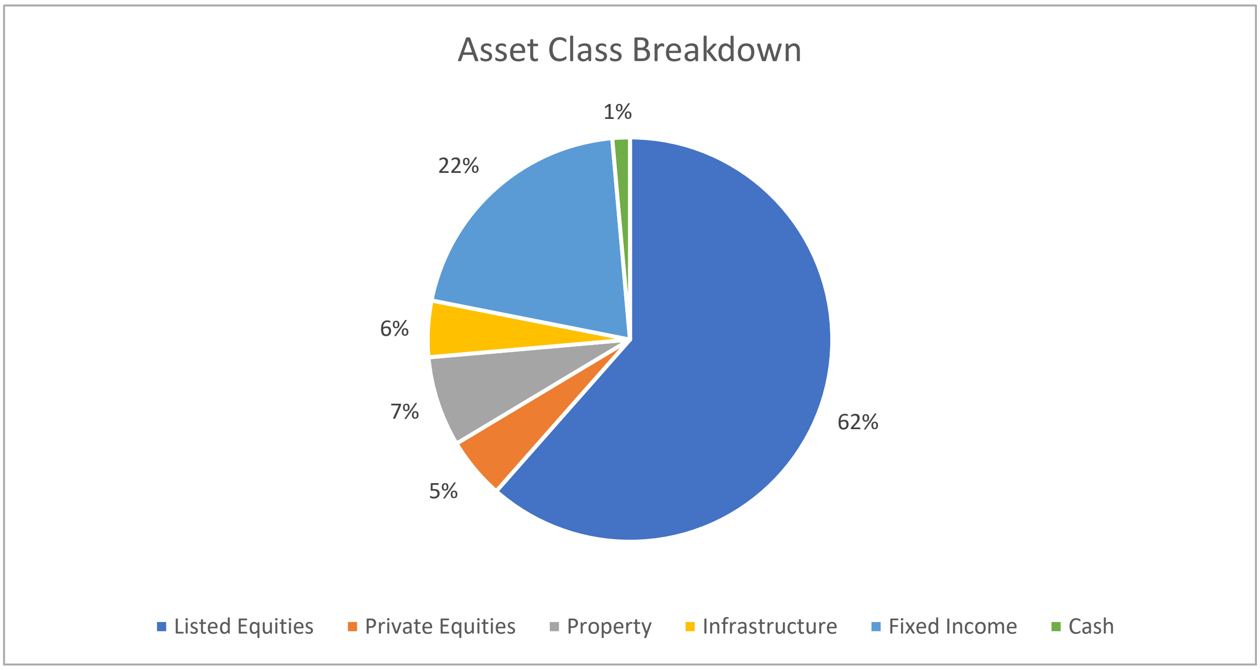
- *local councils*
- *universities, academies*
- *town and parish councils*
- *housing associations*
- *charities*

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.

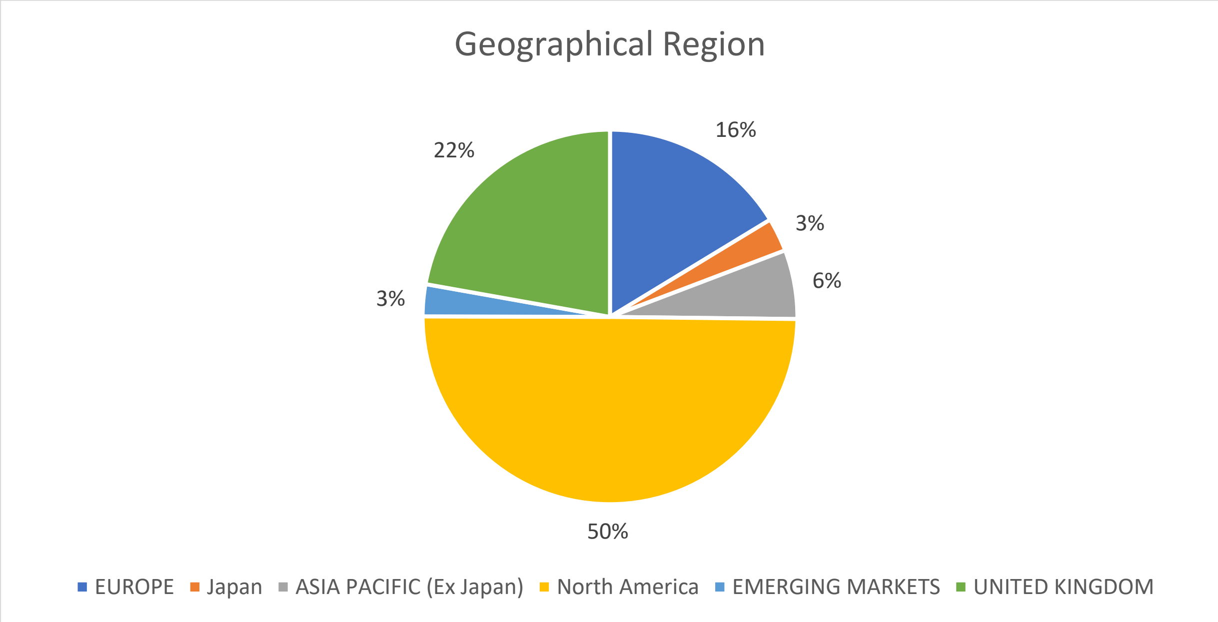
3.3 The investment horizon of the Staffordshire Pension Fund is long-term, given the ongoing nature of the Fund. As per the Funding Strategy Statement, the Actuary assumes a 20 year time horizon for local authority and academy employers and 15 years for Colleges and Universities, when setting contribution levels, and an investment strategy with the required likelihood of success. This is due to the maturity of each type of employer and therefore, assets are invested with a long-term perspective. This is evidenced by the high weighting to risk assets (e.g., equities were 59.5% at 31 March 2025).

3.4 The Pensions Committee approved the introduction of a separate investment strategy for the Fund's 'orphaned liabilities' at its meeting in September 2024. Orphaned liabilities are attributed to scheme employers who no longer have any active scheme members for which contributions are payable and are therefore deemed to have exited the Fund. The introduction of a separate investment strategy for orphaned liabilities allows the Fund to better match these liabilities with lower risk assets The implementation of the separate investment strategy began in 2025/26.

3.5 Breakdown of asset classes by % at 31 March 2025:



3.6 Breakdown of assets by region at 31 March 2025:



3.7 As per the graphs shown above, the Fund's assets are well-diversified, both by asset type and geographical location. This helps to reduce investment risk and the volatility of returns, whilst still providing a sufficient level of returns to ensure that all scheme members' defined benefit payments can be met. It also helps to balance the contribution rates required from the employing authorities, keeping them stable and affordable. Contributions paid by scheme members are set nationally based on a percentage of pay, depending on the level of salary. As such, neither the benefits received by scheme members, nor the contributions paid by individual scheme members are impacted by the investment returns. Hence, the focus on contribution rates paid by the employers, the cost of which is ultimately born by local taxpayers.

3.8 Staffordshire Pension Fund has a Communication Policy Statement (available on the Pension Fund website [Staffordshire Pension Fund - Policies (staffspf.org.uk)]), which details how the Fund will communicate with its scheme 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 scheme members to access their pension 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 stakeholders of the Fund, especially employers, to express any opinions on the Fund and discuss with officers any issues or priorities they may have. There have been no ESG issues raised by employers over recent years during these meetings.

3.9 The amount of engagement with the online 'My Pensions Portal' is monitored to see the level of uptake of the offering and give an idea as to the number of scheme members who are not accessing their data in that way.
As is shown below, the uptake varies between types of scheme members. Targeted communication campaigns are being used to help encourage scheme members to access the portal.

Communication and engagement summary

Engagement with online portals	Percentage as at 31 March 2025
% of active scheme members registered	51.4%
% of deferred scheme members registered	32.0%
% of pensioner and survivor scheme members	27.0%
% total of all scheme members registered for self-service	34.7%
% of all registered users that have logged onto the service in the last 12 months	63.0%

3.10
The table below gives a summary of the number of each type of communication undertaken in 2024-25.

Communication

Number of scheme member events held in the year (total of in-person and online)	4
Number of employer engagement events held in the year (in-person and online)	6
Number of times a communication (i.e. newsletter) has been issued to:	
a) Active scheme members	1
b) Deferred scheme members	1
c) Pensioners	1

3.11 The Fund is subject to the Freedom of Information Act (FOI). 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&S 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 it investments and specific RI&S themes. These are also carefully considered by Officers and responded to where appropriate, fully informing the correspondent of the policies and procedure the Fund has in place in relation to its investments. In 2024/25 the Fund received FOI requests regarding climate change integration into modelling and arms, military and defence company investments held. The Fund has increased the information and policies routinely put in the public domain. It is hoped that by providing this, stakeholders will have the information they require, reducing the need for FOI requests.

3.12 The Fund has also received requests via Councillors and protest groups, for divestment from assets of a certain class of assets, including those concerned with geopolitical issues such as the Israel-Palestine conflict. All requests for divestment are responded to by detailing the Fund's policy of engagement rather than divestment and referring the requestor to the Fund's RI&S section of the website for details of its approach to RI&S along with links to the quarterly RI&S report within Pensions Panel papers. The Fund has also produced a statement on investment in companies operating in Conflict Affected High Risk Areas (CAHRAs) which is available on the Fund's RI&S website pages. Staffordshire Pension Fund - Responsible Investment & Stewardship (staffspf.org.uk)

3.13 The Pension Fund Actuary assesses the funding level of the Staffordshire Pension Fund every 3 years in line with regulations. The most recent fully completed 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 at 31 March 2022 were valued at £6,833 million, which 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 strategy also detailed in the FSS.

3.14 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.

3.15 The Pensions Committee receive training on various RI&S matters and how stewardship is integrated into the Fund's investment process. This allows them to give greater scrutiny to the investment process and provide further assurance. A knowledge assessment is carried out annually for the Pensions Committee and Pension Board, to guide areas where further knowledge needs to be developed. The 2024 training needs analysis highlighted Investment Performance and Risk Management, and Committee Role and Pensions Legislation as the areas in which Elected Members felt they had less knowledge, so training sessions on these areas were provided in July and November 2024 by Hymans Robertson, LGPSC and Officers. The July 2024 session included a session on Stewardship and Engagement presented by LGPSC detailing the work they do on behalf of the Fund. During 2024/25 the Pensions Committee were given access to Hymans Robertson's online training portal Aspire, which includes training on responsible investment. This allowed Elected Members to complete the training at their own pace at a time convenient to them. They were also advised of specific modules which may be useful to complete, ahead of Committee meetings based on the items on the agenda.

3.16 Staffordshire Pension Fund's Annual Report and Accounts including information on the RI&S activity undertaken by the Fund in the year, is available publicly on the Pension Fund website. Staffordshire Pension Fund - Reports and accounts (staffspf.org.uk)

3.17 The Fund receives quarterly reports from all its managers which cover the performance of the investments they manage, RI&S, and voting. Details of these are provided in the quarterly RI&S report to the Pensions Panel. This is on the open agenda so can be accessed by any interested stakeholders.

Principle 7

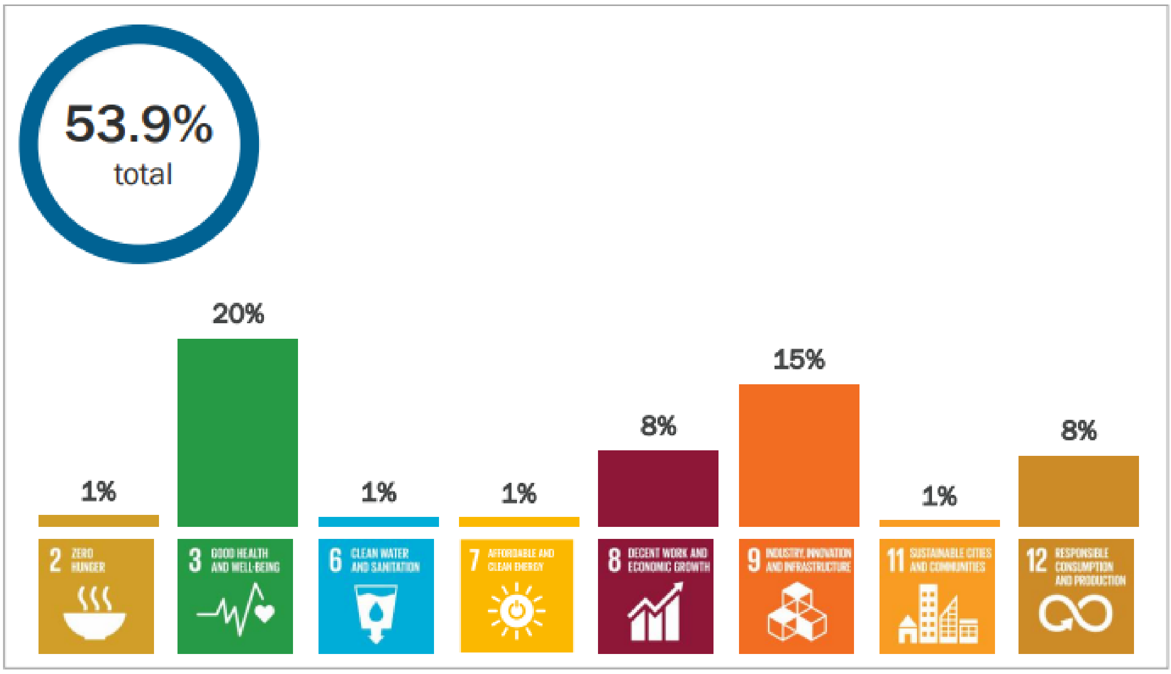
Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

3.18 The Fund ensures that investment managers (and with LGPSC), are aligned with its long-term interests on all issues including RI&S considerations. This is done through regular meetings, dialogue and by requesting and viewing the applicable policies relating to RI&S.

3.19 The Fund requires that all its investment managers produce an RI&S 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 PRI, including those within LGPSC 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 Sustainable Development Goals (SDG's) (shown below). Although the Fund is not required to report against alignment to SDGs, it has found that alignment with the SDGs to be a helpful metric to assess investment manages' convictions against RI&S. The SDGs can also provide useful context, particularly in the infrastructure asset class where the Fund has begun to invest in recent years.

3.20 **Sustainable Development Goals**

3.21 A useful example of a manager reporting on the UNSDG's during 2024/25 was from one of the Fund's active equity investment managers Impax. Impax investments focus on a move to a more sustainable economy, resulting in meaningful exposure to the SDGs as a by-product. Impax's 2024 sustainability report provides the Fund with a summary on the sustainability contribution of the Fund. This allows the Fund to clearly see the sustainability contributions the investment is making. See below extract from their reporting the chart below summarises portfolio company exposure to the UN SDGs for the portfolio;



3.22 In the Fund's annual 2024 Climate Related Disclosures Report from LGPSC, carbon related metrics, consistent with the requirements of TCFD reporting are included, allowing this report to also serve as the Funds TCFD Report. The Climate Report received in 2023 also included Climate Scenario Analysis which assessed the Fund's current and target asset allocation against a series of three temperature scenarios (1.5°C rapid transition, 1.6°C orderly transition and 4°C failed transition) and over three time periods 5, 15 and 40 years. It showed that a 1.6°C orderly transition scenario is most likely to give the best outcomes for the Fund under both asset allocations modelled. The failed transition showed as the most negative for Fund returns, so supports the view that the Fund should be targeting an orderly transition to net-zero. This aligns with the Fund's engagement objectives implemented via the partners outlined in this report. Going forward this will be provided by the Fund's actuary as part of the triennial valuation report, as climate scenarios are assessed as part of the valuation modelling.

3.23 The Fund publishes an annual 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.

3.24 The Fund will continue to work closely with its investment adviser, Hymans Robertson 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.*

The Fund also continues to work closely with LGPSC to ensure climate-related considerations are embedded across pooled investment products.

3.25 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/LGPSC 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.

3.26 The Fund has requested its Actuary, Hymans Robertson, to 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 and will do for the 2025 valuation.

3.27 The Fund is a Partner Fund of the LGPSC, and LGPSC is an important partner to the Fund on matters of RI&S and Stewardship, through collaboration, stewardship of assets and stewardship advice. LGPSC's approach to responsible investment is primarily achieved through RI&S integration within their investment activities. They believe this framework allows them to effectively identify, assess, manage, and report on ESG risks and opportunities across investments.

3.28 ESG integration involves incorporating ESG issues into LGPSC's manager appointments and monitoring, which enhances their ability to manage risks and generate returns. Stewardship refers to using influence to maximise long-term value. At LGPSC, this includes engagement, voting, and advocacy. Transparency is characterised by regular disclosures to stakeholders, utilising industry-standard disclosure frameworks. The steps for ESG integration differ for each asset; however, ESG integration is consistently applied throughout the entire investment lifecycle.

3.29 Bespoke RI&S procedures are proposed for each asset class and/or investment strategy in which LGPSC invests. These documents, currently referred to as the Responsible Investment Integrated Status (RIIS), detail the due diligence process that must be followed and the RI&S standards that must be achieved when a product is launched within that asset class. This includes how ESG performance will be monitored and the frequency of dialogue with appointed managers. Each asset class-specific RIIS procedure is co-sponsored by the Head of RI&S and the relevant Investment Director within LGPSC. By requiring co-sponsorship of the RIIS proposal, LGPSC ensure buy-in from all relevant teams and integration of the RIIS procedure into the investment processes and decision-making.

3.30

ACTIVE EQUITIES-
LGPSC has several investment beliefs specific to active equities which guide the integration of ESG within this asset class. These beliefs include, amongst others, that ESG risk is not always effectively priced (both in developed and emerging markets), the extent to which ESG factors apply to a particular stock or sector varies, and that engagement with companies is an active part of portfolio management. LGPSC place a high value on the manager selection process to ensure that these beliefs are followed by the manager. Post-investment, monitoring in active equities is primarily achieved by analysing the portfolios in Bloomberg using ESG risk ratings, inspecting managers' responses to quarterly data requests, and questioning managers during quarterly calls on specific stocks and voting and engagement activities. LGPSC expect managers to be able to justify any new positions with a detailed analysis of the ESG risks and opportunities facing that company.

3.31

PASSIVE EQUITIES-

For passive and factor-based equity funds, LGPSC place a greater emphasis on stewardship and voting as the main tool for ESG integration. This reflects the belief that while index tracking funds can mitigate idiosyncratic ESG risks through diversification, long-term systemic ESG risks cannot be eliminated through diversification. As a result, long-term investors should utilise thematic stewardship to mitigate long-term market risks and positively influence corporate practices. Reflecting this, LGPSC focuses its engagement and voting activity on four Stewardship Themes which are agreed with Partner Funds (see paragraph 2.77 above).

3.32

FIXED INCOME-

LGPSC 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. LGPSC reflect this belief in their selection process for fixed income mandates. During the selection of LGPSC's Multi Asset Credit Fund, in which the Fund invests, they asked managers to provide three examples each pertaining to a different type of issuer to ensure that responsible investment was being fully incorporated into all aspects of the portfolio. LGPSC monitor managers ongoing integration of ESG considerations during quarterly review meetings, where they discuss specific issuers.

3.33

PRIVATE MARKET ASSETS (e.g. private equity)-

Within Private Markets, responsible investment is integrated into due diligence on a five-pillar scoring framework that covers; policy, people, process, performance, and transparency & collaboration. A more rigorous due diligence assessment is conducted if a fund is considered high risk due to its sector or geographical location. The findings of the due diligence report are considered as part of the Private Markets Investment Committee approval process. Following the appointment, LGPSC request that the manager report on material ESG incidents. For co-investments an RI&S risks report which is bespoke to the investment is produced.

3.34 LGPSC has developed a red, amber, yellow, green (RAYG) rating for manager monitoring, of which RI&S 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 the requirement). They score managers on four components of their RI&S approach:

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

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

LGPSC Public Markets Manager scores Q4 2024

3.35

LGPSC Private markets fund selection, appointment and monitoring example

Fund/General Partner selection within LGSC is a multi-stage process, requiring Investment Committee approval at both stages.

• Preliminary Investment Recommendation: The private markets team reviews potential funds that meet the geographic and strategic requirements. The team then scores the funds based on multiple categories, including responsible investment. Regarding responsible investment, funds are graded on a scale of 0 to 4. Responsible investment accounts for 16% of the overall score at this stage. The team will then propose to the Investment Committee the recommended funds to proceed to the due diligence stage, highlighting areas of focus. The Investment Committee will then issue a go/no-go decision.

• Due Diligence: An assessment of the RI&S approach of managers is conducted by the RI&S team from LGPSC at the due diligence stage. They have an in-house due diligence framework which they follow to ensure a thorough and consistent approach. Issues identified during the due diligence process will be included in the full due diligence report and raised at the LGPSC Investment Committee for further discussion, including how the issues will be addressed. The score also acts as a baseline for ongoing dialogue with the General Partner (GP) and as input to the benchmarking exercise.

- Investment monitoring: RI&S monitoring is integrated into LGPSC's general investment process to ensure ESG considerations are systematically addressed. This enhances their asset governance and fosters accountability. LGPSC engage with General Partners to address ESG issues early, collaboratively developing risk mitigation strategies. This proactive approach aligns with their and our stewardship responsibilities and promotes sustainable investment practices. LGPSC's commitment to ESG excellence is reflected in their monitoring processes, which they continually refine to ensure they remain effective and aligned with LGPSC's investment principles

3.36 The Fund has delegated voting and day to day engagement with investee companies to its investment managers. LGPSC Limited and the investment managers' agreements set out how RI&S factors are considered.

3.37 For non-listed investments such as private equity and private debt, RI&S integration is concentrated in the due diligence monitoring process. The "fund of funds" limited partnership structure of some of these investments also adds a further layer of complexity and distance from underlying companies. When reviewing potential investment products offered by LGPSC or external managers, Hymans Robertson, the Fund's Investment consultants, comment on the ESG consideration of the products. For private markets this includes industry-specific considerations, such as existing ESG frameworks and guidance for private equity, possibly not being suitable for venture-stage companies, as they were developed for more established industries. Hence, integrating responsible investment practices and reporting can be more difficult in venture capital than in other areas of private equity investing.

3.38 Private market RI&S is an area which is rapidly developing. The Fund now regularly receives RI&S reports from many of its private market managers. In the coming years, and along with market trends, the Fund will look to work with LGPSC to increase the RI&S integration of private market assets (i.e. non-estimated carbon emission data, which is not currently widely available).

3.39 In 2024, over 800 engagements were undertaken by private equity, private credit and infrastructure managers on LGPSC's portfolio (approximately 25% PE, 44% PC, 31% Infra) the objective being value growth and value retention. The main topics engaged on were Science Based Targets Initiative (SBTi) validation targets, climate change risk metrics, health and safety, and corporate governance. Engagement methods included: board representation, webinars, surveys, meetings (companies, borrowers, sponsors), and participation in industry associations.

3.40 Fixed income manager monitoring engagement undertaken by LGPSC's external managers in 2024 has been comprehensive. Several of these managers hold sizeable positions in their highest conviction portfolio holdings, giving them direct access to company management, which has been used effectively to drive company change in the past. On any occasion where the level of engagement disclosure was unsatisfactory, or where the link between an engagement and subsequent investment decision-making was not clear, fund managers were marked down during LGPSC's RAYG rating review, and LGPSC discussed its concerns in the quarterly meetings with the managers.

3.41

LGPSC Manager procurement for a new fixed income mandate example

In Q1 2024, LGPSC initiated a search for a specialist manager to oversee a new Buy and Maintain Sterling Investment Grade Credit Evergreen Sub-Fund. As part of the product's investment case, LGPSC emphasised characteristics that align with their RI&S framework. The strategy's long-term perspective necessitates the consideration of ESG matters by the manager. LGPSC also explored incorporating a formal secondary target based on sustainability and requested examples of sustainable portfolios as part of the procurement. They concluded that a formal target would lead managers to employ negative screens, a method misaligned with their approach due to the reduced investable universe. The manager selection process consisted of three stages: a questionnaire, a presentation, and a due diligence visit. RI&S accounted for 20% of the questionnaire score and 10% of the presentation score. The RI&S team created questions, reviewed responses, attended presentations, provided scoring input, and identified issues for due diligence. The RI&S team had access to all manager data, including model portfolios and analyst reports. Two managers progressed to the due diligence stage, which involved on-site visits with RI&S breakout sessions. During these sessions, managers were required to show evidence of how they integrate ESG and stewardship into their daily operations. The findings were summarised in a report and given a final score, which was equally weighted with eight other factors. RI&S is an integral part of the investment oversight RAYG rating, which is updated quarterly. Regular meetings are held with external managers by LGPSC, with additional RI-specific meetings arranged, as necessary. These meetings cover changes to topics identified at procurement and assesses the manager's ESG integration and stewardship activities to explain their investment decisions.

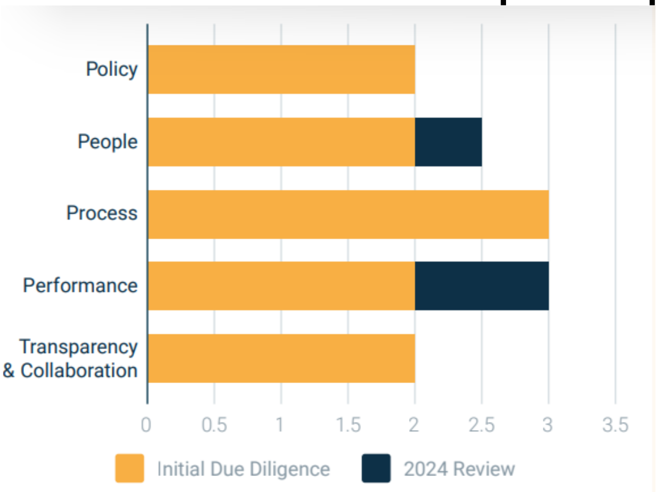
3.42 The monitoring of ESG issues within LGPSC's private market investments is integrated into the general monitoring process that is established internally. From time to time, they conduct deep dive reviews of the practices of their fund managers. The frequency of the review is approximately 3 years, or more frequently, depending on the risk level. LGPSC have observed a general improvement in the private equity managers that have undergone a review since their initial due diligence. The most notable improvements have been in the people and process pillars. Within these pillars, they have identified several key trends. General Partners (GPs) are rapidly expanding their RI&S resources, with many managers hiring dedicated ESG professionals, establishing ESG working groups, and engaging external advisors to provide RI&S training for all staff. Additionally, they have seen improvements in RI&S due diligence and stewardship processes, including enhanced ESG monitoring and reporting. This has led to a rise in the number of GPs collecting ESG data from their portfolio companies. Transparency has also improved, with more GPs providing annual ESG reports and material incident reporting to LPs. As such, LGPSC will continue to engage with their private equity managers to drive further progress.

3.43

Manager Monitoring in Private Markets undertaken by LGPSC example

In 2024, LGPSC reviewed a private equity manager within their 2018 Private Equity fund (in which the Fund is invested) This manager was found to have improved from the initial due diligence with respect to its performance against the five-pillar scoring framework. The figure below illustrates the scores achieved during the initial due diligence and the subsequent review.

RI&S Improvements between initial due diligence and the most recent review of a private equity manager



Improvements were observed in the pillars of people, performance and transparency & collaboration. Following an acquisition, the manager now benefits from a global, group-level sustainability team that operates across the manager's various asset classes, which contributed to the manager's improved people pillar score. During the review, the manager demonstrated how ESG considerations had influenced investment decisions, highlighting both accepted opportunities, and how ESG factors had contributed to the final decision, and those rejected due to ESG concerns. While previously identified as a weakness, LGPSC observed improvements in the manager's transparency and collaboration. This is partially attributable to notable enhancements in annual sustainability reporting and increased participation in sustainability-focused collaboration groups such as the Carbon Disclosure Project and the ESG Data Convergence Initiative.

Principle 8
Signatories monitor and hold to account managers and/or service providers.

3.44 As a predominantly externally managed fund, Staffordshire Pension Fund expects its managers to ensure that RI&S matters are incorporated into every aspect of the investment process and to engage with issuers to enhance value. However, it is understood 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 LGPSC (as it will in the future), to ensure that managers are upholding their fiduciary duty to protect long-term shareholder interest. Most of 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 assures of the ability and ambition of these managers to carry out stewardship duties at best practice level. As of 31 March 2025, each of the Fund's equity managers was a signatory to the Principles for Responsible Investment (PRI), 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. This aligns with the Fund's commitment to promoting best practice in corporate governance, which it deems to be consistent with maximising long term investment returns. The Fund monitors its managers and service providers against its governance policies, the responsible investment expectations set out in the Fund's Climate Change Strategy, the PRI's responsible investment commitment, and the LGPSC's Responsible Investment framework.

3.45 Investment managers are monitored by the Pensions Panel, with quarterly performance and RI&S information reported for each directly held investment manager and LGPSC. The Fund aims to meet directly held investment managers regularly with Fund Officers. The Fund employs the services of an investment consultant, Hymans Robertson, and two independent investment advisers, who, along with Officers of the Fund, closely monitor the performance of the Fund's managers. The Investment Consultant and Independent Investment Advisers attend Pensions Panel meetings and assist the Panel in the questioning of the managers and LGPSC. The Investment Consultant's objectives were reviewed at the Pensions Panel meeting in March 2025 and include, as an objective, to *'Continue to develop the Committee and Panel's policies and beliefs, including those in relation to Responsible Investment and ensure that any advice provided is consistent with such'*.

3.46 Any issues with investment management companies are discussed during the Pensions Panel meetings by Elected Members, Officers and Advisers. Issues can then be addressed directly with investment managers and ultimately contracts can be terminated if it is felt necessary. Investment managers appointed via LGPSC are monitored by them and reported to the Fund. Partner Funds can raise and issues in the monthly LGPSC Investment Working Group meetings. The Fund is also an active participant in the monthly LGPSC Practitioners Advisory Forum, which enables the Fund to ensure LGPSC delivers in line with the Fund's expectations. In 2024/25 Staffordshire acted as the Chair for the Investment Working Group meetings. An example of an issue raised during an LGPSC Investment Working Group meeting was the length of time three-year reviews of LGPSC products have taken to be completed. This was noted by LGPSC and is being reviewed.

3.47 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 those companies with material corporate governance failings whom they have been engaging.

3.48 For investments made through LGPSC, LGPSC monitor engagement undertaken by the external managers and reverts back to the Fund through the channels above (paragraph 3.46). 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 are expected to use effectively to drive positive company change. Starting in 2024, LGPSC has expanded its stewardship monitoring requirements for all external managers. These managers are now required to provide evidence regarding the number of companies they engage with, the specific ESG engagements targeted, as well as business strategy concerns. They must also share examples of their escalation strategies, define what they consider to be stewardship success, and provide evidence of their escalation policies.

3.49

LGPS change of RAYG rating example

In Q2 of 2024, the LGPSC RI&S Team took the decision to downgrade one of the Fixed Income managers from "Yellow" to "Amber". This downgrade reflected long-term concerns that the manager, despite being able to discuss ESG risks associated with its holdings, was not integrating these factors into its decision-making process. This was evidenced by the presence of several investments with high exposure to ESG risk coupled with limited efforts to mitigate that risk through stewardship. This decision was further supported by LGPSC's findings following their three-year review of the manager, which took place in Q3 2024. This consisted of a deep dive into the managers' RI&S processes, which aimed to ensure that the appointed manager's ESG integration approach is consistent with the LGPSC RI&S Framework and is tracking industry best practice.

Outcome. The LGPSC RI&S Team's assessment of the manager was promptly shared with the Investment Team, who were also undertaking a formal review of the manager's overall performance. ESG considerations, including the manager's response to the concerns raised, will help inform the nature of LGPSC's relationship with the manager.

4.0 Engagement

Principle 9
Signatories engage with issuers to maintain or enhance the value of assets.

4.0 As a predominantly externally managed fund most engagement is carried out by investment managers or by partner organisations, including LAPFF, LGPSC and EOS at Federated Hermes (the stewardship provider to LGPSC). LGPSC may participate in collaborative engagement initiatives if it believes they could yield better results. LGPSC only join these collaborative efforts when the engagement objectives align fully with the goals of their engagement program. The Fund expects directly held investment managers and LGPSC to report on engagement and voting carried out on behalf of the Fund, on a quarterly basis. LAPFF also report to the Fund quarterly on the engagements they have carried out. As a member of LAPFF, the Fund is able to participate in their quarterly meetings and annual Responsible Investment Conference, providing direct dialogue with LAPFF regarding engagements.

4.1 During due diligence processes and regular meetings with investment managers and via the LGPSC working groups, the Fund ensures that managers are engaging with companies on topics of material significance. The Fund regularly contacts managers and LGPSC, following news articles, FOI requests or developments concerning investment managers or underlying companies, for comment as appropriate.

4.2 In 2024, LGPSC undertook 323 engagements, run either collaboratively or directly. 22% of the engagements were directly led, and 77% were conducted collaboratively. The majority of these engagements were composed of letters sent to companies.

4.3 During 2024, EOS engaged with 721 companies on 3,439 issues pertaining to environment, social, governance, strategy, risk and communication on behalf of the Fund. EOS takes a holistic approach to engagement and typically engages with companies on multiple topics simultaneously. Over 26% of engagements centred around governance issues, and 40% involved discussions on environmental issues. Progress against objectives set for the engagements is also reported to the Fund, via LGPSC, from EOS.

4.4 LAPFF conducts engagements with companies on behalf of its member LGPS Funds. In 2024, LAPFF engaged 340 companies, sent over 385 correspondences, attended 83 meetings and 6 AGMs across a spectrum of material ESG issues. In these engagements, LAPFF saw 118 instances of improvement or change in progress.

4.5 It is not feasible for LGPSC to engage all companies they hold through their ACS portfolios (currently c2,900 companies are held across all equity portfolios), even with the assistance of a high-calibre external stewardship specialist. Identifying core themes that are material to their investment objectives and time horizon, and that are perceived to be of relevance to stakeholders, helps prioritise and direct engagement. In collaboration with Partner Funds, they have continued to focus on four core engagement themes. Given that engagement requires perseverance and patience, it is expected that the new themes will be pursued over a three-year horizon. For 2024/25, these were.

- Climate Change
- Natural Capital
- Human Rights
- Sensitive/Topical Activities

Engagement examples

4.6

EOS Engagement Example
EOS has been engaging with Nationwide Building Society since 2020 on the topic of climate scenario analysis. The company recognised the importance of scenario analysis in understanding the physical and transitional impacts to its mortgage portfolio. Encouragingly Nationwide's TCFD report contains extensive disclosures on climate risks to the mortgage portfolio
Outcome. At a meeting in August 2024, the company confirmed that it has expanded its climate scenario testing approach for its loan book, with its process now covering its social landlord and residential mortgage portfolio (which is most of its loan book). The company currently uses two risk scenarios for its modelling work, covering moderate and high-risk scenarios. It stated that the results of this analysis indicated that there were currently no material risks to the portfolio, due to its low-risk business model and projected credit losses not exceeding its materiality threshold of £50m annually. The company will continue to evolve its approach as more data and guidance become available. The company has met the engagement objective.

4.7 LGPSC engaged 661 companies on climate-related risks, with progress measured on 341 specific objectives.

4.8

Climate Change Engagement Example

To foster a constructive engagement with Shell PLC and ensure alignment between its net zero policy and the 1.5°C climate goal, LGPSC held a meeting with the Chair of the Board in September 2024. This followed their decision to vote against Shell's Energy Transition Strategy at the company's 2024 AGM. During the meeting, LGPSC explored several key issues, including the relationship between Shell's gas business expansion and the anticipated disclosure of medium-term climate targets, as well as the company's confidence in its assumptions about the future of global gas markets.

Outcome. LGPSC also clarified Shell's long-term business strategy and key future dates. This marks significant progress towards achieving the short-term objective of this engagement: to establish an effective engagement relationship with the company. Whilst LGPSC have established an active dialogue with the company, they expect further clarity on how Shell's net-zero commitment is resilient to economic scenarios, especially in relation to global liquified natural gas demand over the next few decades. LGPSC will discuss their thoughts with the external managers and continue to engage with the company on aligning its decarbonisation strategy with the goals of the Paris Agreement.

4.9

Climate Change Engagement Example

LAPFF has engaged with National Grid on climate issues for over a decade, consistently advocating for clearer disclosure on capital expenditure and its role in supporting the energy transition. The Forum also pushed for greater transparency around the company's lobbying activities.

Outcome. This sustained engagement led to significant developments. In May, National Grid announced a £60 billion capital investment plan through 2029, with 85% earmarked for green investment. LAPFF supported the plan at the July AGM, recognising the need for shareholder funding to drive decarbonisation.

Following this, National Grid released an updated Climate Transition Plan aligned with the Transition Plan Taskforce guidance. It includes near-term targets under the Science Based Target Initiative (SBTi) 1.5°C pathway, expanded Scope 3 emissions analysis, and integration of emissions goals into business planning and governance. The company also published its Principles of a Fair Transition, acknowledging the need to support communities and vulnerable customers as infrastructure expands. It builds on the view that energy networks enable the connection of new renewable energy sources and clean technologies

In response to LAPFF's concerns about lobbying transparency, National Grid published a detailed Trade Association Review in March, identifying 31 aligned and 4 partly aligned organisations. While LAPFF welcomed this progress, it continues to engage the company on unresolved issues, including its gas distribution strategy in North America and further alignment of lobbying practices.

4.10 LGPSC engaged 295 companies on Natural Capital, directly and collaboratively through Nature Action 100, with progress on 97 specific objectives. LGPSC expects companies to undertake nature impacts and dependencies assessments and publish an ambition to align with the Global Biodiversity Framework.

4.11

Natural Capital Engagement Example

In the run-up to the UN-led Plastics Treaty negotiations, LGPSC co-signed a letter drafted by Planet Tracker to 22 companies, including Repsol, requesting petrochemical companies take stronger actions towards plastics circularity. The statement outlines five expectations for companies, including the disclosure of strategies and setting targets to transition to sustainable plastic production. Following the company's AGM, LGPSC wrote to them detailing their rationale for voting against their Energy Transition Strategy and requested a call to discuss the petrochemical statement.

Outcome. LGPSC met with Repsol to discuss its approach to petrochemical production, encouraging the development of a credible strategy to transition away from fossil-based plastics and hazardous chemicals due to the associated financial risks. Repsol confirmed it is considering a sustainable petrochemicals strategy and currently has one production volume target in place. The company was receptive to investor concerns and shared plans to include its first TNFD disclosures in its upcoming annual report. LGPSC is arranging a follow-up meeting to continue discussions on the company's petrochemical strategy and TNFD reporting.

4.12

Natural Capital Engagement Example

LAPFF has been engaging with Chipotle on water stewardship since 2019, with a focus on identifying water stress within its supply chain. In 2022, Chipotle completed a water risk assessment at the ingredient level, and in 2024, LAPFF met with the company ahead of its sustainability report release to review progress. LAPFF raised concerns about the lack of measurable and time-bound targets and followed up with a letter outlining expectations and peer best practices.

Outcome. Chipotle subsequently published a sustainability report including a goal to support water stewardship in priority regions and improved disclosures on water usage in high-stress areas. However, LAPFF found the goal lacked specificity, measurability, and accountability. Engagement is ongoing, to encourage the development of more robust and ambitious water-related targets.

4.13 LGPSC engaged 601 companies on a range of 670 broader human rights risks. Progress was seen in 250 cases against specific objectives.

4.14

Natural Capital Engagement Example

LGPSC co-signed a public investor letter, calling on Amazon to recognise the GMB union in the UK and to cease all anti-union communications in Coventry. There have been reports of activity by Amazon in response to workers organising at its Coventry facility in the UK in protest over local practices that were deemed anti-union practices. Amazon has refused to recognise the GMB union voluntarily. Recently, the GMB union have filed an inducement claim, which includes allegations that Amazon has used a range of anti-union communications, including QR codes generating emails to the union's membership department requesting membership cancellation, anti-union seminars and displaying anti-union messages on billboards.

Outcome. The GMB narrowly lost its bid for union recognition at the Amazon warehouse in Coventry. The GMB has submitted a complaint to Britain's labour law regulator, outlining the anti-unionisation tactics that Amazon has employed. LGPSC will continue to monitor the situation's progress

4.15 LGPSC engaged 51 companies on 21 sensitive/topical activities related objectives, with progress on 6 specific objectives. They expect companies to disclose a plan for addressing any alleged controversy and to improve ESG practices to a reasonable level.

4.16

Natural Capital Engagement Example

Following a methane explosion in a coal mine in Kazakhstan in 2023, which resulted in 46 fatalities, LGPSC sent the company a letter raising their concerns. In the letter, they outlined several concerns, including: (1) the limited availability of published data relating to lessons learned from Arcelor Mittal's past incidents. LGPSC proposed targeted efforts aimed at enhancing safety protocols and mitigating potential risks, (2) a lack of adequate emergency response plans and post-incident medical care protocols. Additional info on this would be welcomed, (3) lack of effective implementation of the Health & Safety (H&S) Policy within the operations in Kazakhstan, (4) a decrease in incentives relating to the H&S component in the company's executive pay package. LGPSC met with the company to discuss their concerns.

Outcome. In October 2024, the company published the recommendations of an independent H&S audit and the action plan. In a call with the company, they confirmed that H&S safety data will be audited from 2024 by E&Y, and the company agreed on compensation packages with 80/90% of families affected by the disaster in Kazakhstan.

4.17

LGPSC External Manager Engagement Example

Baillie Gifford has engaged with Deere & Company for over four years, to raise awareness about biodiversity loss, encourage the development of impactful products, and advocate for improved environmental disclosure. Initial discussions focused on raising awareness but evolved into deeper conversations about the role of Deere's precision agriculture tools and its efforts to expand mechanisation in emerging markets. The manager learned about Deere's trials with cover crops to enhance biodiversity and soil health and discussed opportunities in carbon markets and sustainable farming.

Outcome. In 2024, Baillie Gifford encouraged Deere to improve its climate-related financial disclosures, drawing on insights from nature-related reporting frameworks. As a result of this engagement, Deere progressed from limited awareness of biodiversity issues to integrating them into its ESG strategy. Since 2020, biodiversity has become a managed topic within the company, and by 2021, Deere began reporting on biodiversity-related impacts, such as reduced chemical use through its See & Spray technology. Most recently, Deere announced plans to undertake a Carbon Disclosure Project (CDP) assessment of its biodiversity risks and opportunities, marking a significant step in its environmental transparency.

Principle 10

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

4.18 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 increases 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&S report.

4.19 As part of the LGPSC investment pool the Fund works collaboratively with the other Partner Funds and LGPSC on engagement. This increases the influence the Fund can have and the resources available. LGPSC has a dedicated RI&S team and has partnered with EOS as a Stewardship provider. This exceeds the resource and expertise the Fund itself could dedicate to RI&S individually. A list of collaborations LGPSC is involved in is included in paragraph 2.82.

4.20 LGPSC leverage opportunities to collaborate on various issues across their stewardship themes including Human Rights and Climate change, such as the Modern Slavery Act engagement with FTSE 350 companies and engaging technology companies with respect to human rights. They will also actively participate in the PRI's "Advance", stewardship initiative for human rights and social issues.

4.21

Climate Change Engagement Example

Through CA100+, LGPSC engaged with BHP Group regarding the accelerated closure of the Mt Arthur thermal coal mine, now scheduled for 2030 instead of 2045, affecting around 2,200 employees. BHP outlined its *Tomorrow, Together Initiative*, aimed at supporting workers with retraining and redeployment, though specific costs remain undisclosed beyond standard rehabilitation expenses. LGPSC sought clarity on the initiative's progress and the company's commitment to a responsible transition, including consultations with employees and agency-managed contract workers. While BHP referred to its Just Transition disclosures, LGPSC found them lacking in detail outside of rehabilitation provisions.

Outcome. The company acknowledged the rationale behind public disclosures, omitting specific Tomorrow, Together Initiative metrics. LGPSC plan to re-engage with the company on further disclosures regarding their approach to a Just Transition.

4.22

LGPSC Human Rights Engagement Example

LGPSC is a member of the Votes Against Slavery initiative led by Rathbones Group. Companies are informed about investors' concerns regarding their lack of disclosure on modern slavery via a letter requesting engagement. Companies are also notified that failure to comply could result in a lack of support for their annual report and accounts. Ahead of the AGM season, those companies were notified about investors' expectations.

Outcome. In 2024, the initiative targeted 32 FTSE 350 companies and 126 Alternative Investment Market (AIM) listed companies. All 32 FTSE 350 companies are now either fully compliant with S54 of Modern slavery Act (which requires publication of steps taken to prevent modern slavery by companies over a certain size) or have committed to making changes to their reporting, and 92 AIM listed companies are now either fully compliant with S54 or have committed to making changes to their reporting.

4.23 The Fund has been a member of LAPFF since April 2013 and intends to continue that relationship indefinitely. LGPSC and all the other LGPSC Partner Funds are also members of LAPFF. 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.

4.24 LAPFF has various approaches to engagements depending on the topic and engagement. In some cases, LAPFF signs a significant number of collaborative engagement letters to gain leverage with other investors on an issue. This approach allows LAPFF less individual impact but aims to raise awareness and collective pressure on the companies involved. In other cases, LAPFF engages in a very targeted way with specific companies intensively over a long period of time to try to obtain concrete change and outcomes. This latter approach necessarily means that there will be fewer companies engaged, however, LAPFF undertakes this approach where it feels it has a particular relationship with a company – as in the mining and human rights engagements – to influence company culture and thinking, and to press for improved ESG outcomes.

4.25

LAPFF Human Rights Engagement Example

LAPFF is actively involved in the PRI Advance Human Rights Collaborative Investor Initiative, leading the engagement on the Vale investor group and participating in the Anglo-American group.

Outcome. In Q1 2025, LAPFF co-led the Vale group alongside Regia, focusing on employee and community feedback, grievance mechanisms, and governance. The group plans to engage further based on Vale's upcoming Customer Perceptions Survey. For Anglo American, the group raised concerns about human rights due diligence amid corporate restructuring and submitted written questions to the company. This collaboration reflects a coordinated investor effort to improve human rights governance in the mining sector.

4.26

LAPFF Climate Change Engagement Example

LAPFF continues to participate in Asia Research and Engagement's (ARE) Energy Transition Platform to help accelerate the shift to a low-carbon economy in Asia. This collaborative initiative targets high-emitting companies in the region, including power generation and banking sectors, encouraging them to align with the Paris Agreement by reducing reliance on coal and fossil fuels. LAPFF's engagement focuses on assessing companies' readiness and commitment to transition, promoting transparent climate risk reporting, and advocating for strong governance to oversee energy transition strategies. Notable companies engaged include Huaneng Power, DBS Bank Ltd, CIMB Group, United Overseas Bank (UOB), and Kasikorn Bank.

Outcome. Whilst progress with the power generators was limited, improvements were more pronounced in the finance industry. Including at UOB, where the company has adopted a no deforestation, no peat, and no exploitation (NDPE) commitment following continued engagement on the issue since 2023.

Principle 11
Signatories, where necessary, escalate stewardship activities to influence issuers.

4.27 The Pension Fund operates a policy of engagement with the 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, and LGPSC. The individual managers and LGPSC have their own policies for escalation of stewardship activities, which are published on their websites, alongside their statements of adherence to the UK Stewardship Code. See paragraph 4.36 for the LGPSC escalation strategy. 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' and LGPSC's escalation guidelines. The Fund may also be eligible to participate in certain individual and class action securities litigation, should this be deemed appropriate.

4.28 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.

4.29

LAPFF Engagement Escalation Example

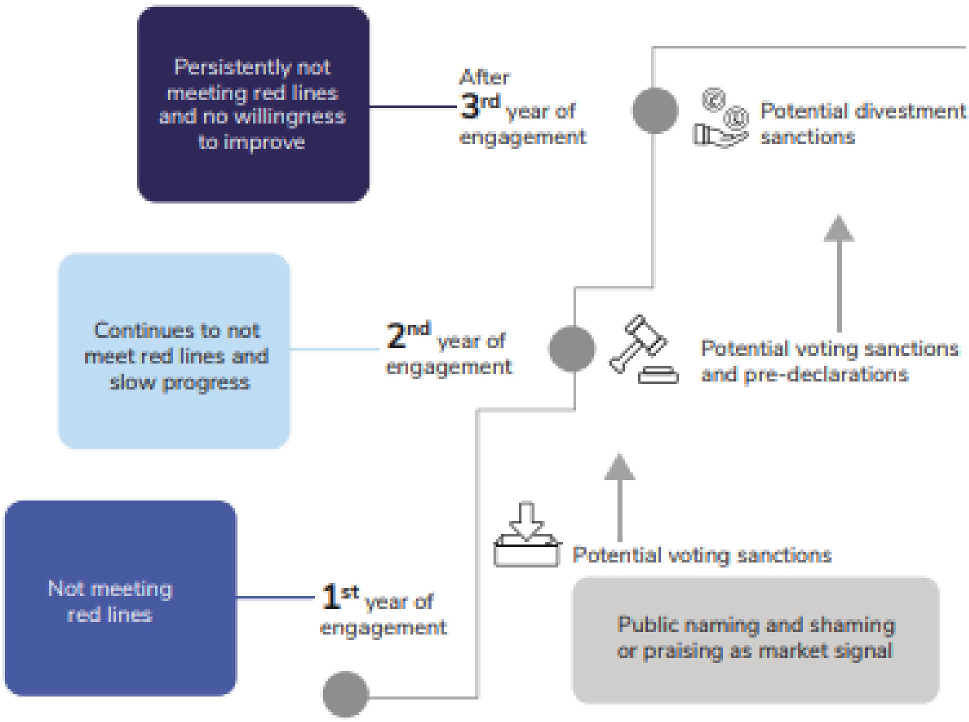
LAPFF engaged Constellation Brands as the lead investor under the Valuing Water Finance Initiative (VWFI), urging the company to set time-bound, science-based goals to address water scarcity across its value chain. The focus was on areas where water is most material, particularly within the supply chain. Following a lack of progress, a LAPFF member fund filed a shareholder resolution in January 2024 requesting a report on reducing supply chain water usage. LAPFF issued a voting alert in Q2 to support the resolution.

Outcome. At the July AGM, over 35% of shareholders voted in favour, despite Board opposition—marking a significant first-time result. While the company has made progress in managing water risks in direct operations, it has yet to demonstrate effective supply chain risk management, which could impact shareholder value.

4.30 During meetings with investment managers the Fund takes the opportunity to raise any concerns within portfolios. This included companies or sectors with topical news flows.

4.31 A large percentage of the Fund is invested passively via Legal and General Investment Management (LGIM). Detailed quarterly engagement reports are received from LGIM, as with other managers LGIM have had success with the use escalate steps in engagement, including voting. LGIM's engagement escalation process is show in the graphic below.

Qualitative engagement: Escalation process



Source: L&G, as at June 2024. Subject to change.

4.32

Escalation with Manager Example

LGIM collaborated with Shareholder Commons to bring a Shareholder resolutions at Walmart, urging the company to adopt wage policies aligned with living wage standards. Walmart, as the largest US employer, was specifically targeted due to its significant reliance on hourly-paid staff and its minimum wage of $14/hour, which falls below the US living wage benchmark. LGIM has engaged Walmart over several years, requesting a policy and time-bound plan to pay a living wage. Walmart's current approach is rated as 'embryonic' by the Platform for Living Wage Financials.

Outcome. A shareholder resolution was co-filed at Walmart's June 2024 AGM , asking the company to align wage policies with fiduciary duties and basic family needs. Only 4.4% of shareholders supported the resolution, with 0.5% abstaining, following a negative recommendation from proxy adviser, ISS. LGIM acknowledged the low support, attributed partly to Walmart's shareholder structure, and committed to reviewing its strategy and continuing engagement.

4.33 This year, LGPSC introduced an advisory investment oversight agreement for its Partner Funds passive holding with LGIM. The oversight arrangements mean that LGPSC can manage the voting activity on Partner Fund's LGIM holdings and align this with LGPSC's own voting policies. This provides greater influence from a stewardship perspective, and a greater chance for escalation.

4.34 LGPSC informs the Fund of its own individual escalations of engagements, though its regular quarterly reporting and regular meetings with the Fund. Email updates are also received from the RI&S team on any topical issues with investment companies held.

4.35 LGPSC will often use escalation tactics to enhance the chances of achieving long-term engagement outcomes. Examples of how they might escalate include, but are not limited to:

- Additional meetings with the management or the directors of an investee company
- Escalating the dialogue from the executive to the board of directors or from one board member to the Chair and/or a more amenable board member, in line with LGPSC's escalation strategy (detailed below)
- Collaboration with fellow investors and/or with partnership organisations
- Public statements

- Voting against management, e.g., against the annual report, the appointment of directors or the auditors
- Co-filing shareholder resolutions
- Attendance and raising questions at the AGM.

LGPSC Human Rights Engagement Example

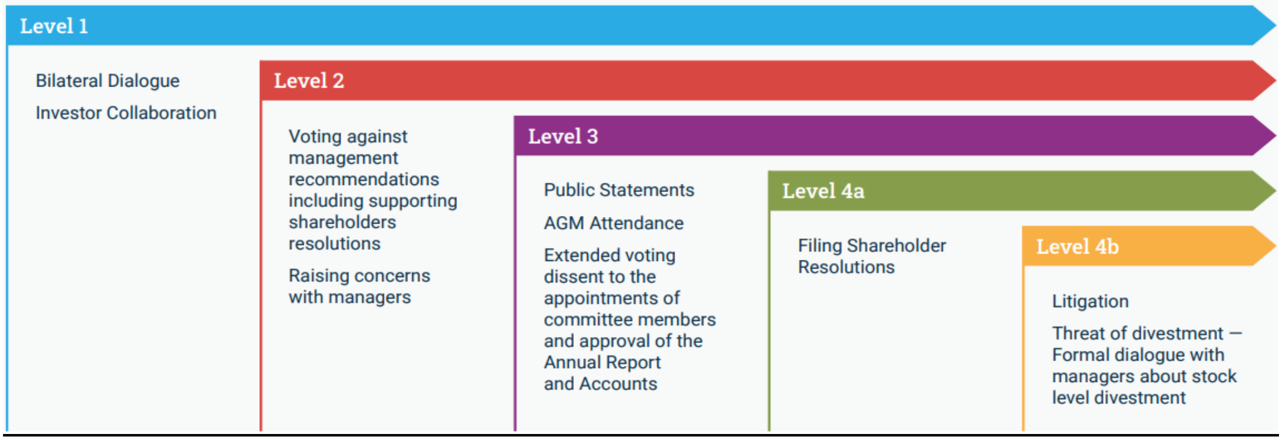
Since 2023 LGPSC has been engaging with a telecommunications company on the adoption of the UN Guiding Principles on Business and Human Rights (UNGPs) across its business operations. Unlike its competitors, the company does not undertake human rights due diligence and its approach to human rights is not integrated into the terms of reference of any of its governance committees. LGPSC met with the company to discuss their concerns and provided a detailed review of the company's human rights approach compared with the practices adopted by its competitors. LGPSC were not able to secure a follow-up meeting with the company. The company deems its own human rights approach to be satisfactory (although not compliant with the UNGPs).

Outcome. LGPSC escalated their concerns by voting against the chair at the AGM due to inadequate engagement progress and wrote to the company informing them of the rationale for doing so. They will continue to work with LAPFF and the investment manager holding the stock, to escalate the concerns.

4.36 LGPSC refreshed their escalation strategy in 2023, and this was presented to their Investment Committee in early 2024. The key changes related to providing increased granularity about the process, specifically to make explicit:

- Level 2: raising concerns with investment managers
- Level 3: escalating voting concerns
- Level 4b: the threat of divestment.

LGPSC's 2024 Escalation Strategy.



Exercising rights and responsibilities

Principle 12

Signatories actively exercise their rights and responsibilities.

5.1 The Pensions Panel receives regular updates from investment managers and LGPSC on details of votes cast on corporate resolutions and the reasoning behind those votes, as part of a quarterly RI&S report. Any points of interest are also highlighted. The Fund also publishes a report on the voting activities carried out by investment 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).

5.2 For non-listed equity assets, exercising of rights is done via engagement with the Fund's investment managers, have whole delegation of the day-to-day management of the interaction with underlying assets. This is becoming of increasing importance with the move away from listed equities towards private markets. For private market investments via LGPSC, LGPSC 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 LGPSC, the exercising of voting rights in relation to the Fund's investments is carried out via LGPSC but reported to Partner Funds via quarterly RI&S focussed meetings and reports.

5.4 As discussed in paragraph 4.33, the introduction by LGPSC of an advisory investment oversight agreement for Partner Fund LGIM holdings has allowed the introduction of pass-through voting. This allows LGPSC to direct the votes on pooled fund investments held by Partner Funds, a significant development in maximising the influence of LGPSC Partner Funds.

5.5 Investment managers' RI&S, stewardship and governance policies are obtained on appointment. 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&S report each quarter. Finally, a summary of voting carried out by equity managers is included in the Fund's Annual report and Accounts, as well as quarterly reporting of the number of votes cast to the Pensions Panel.

5.6 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 empowers 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&S topics. In 2024, 132 voting alerts were received from LAPFF.

5.7 In the 12 months to 31 March 2024 the Fund voted on a total of 195,265 resolutions through its various equity investment managers, voting with management on 177,071 resolutions, against management/abstaining on 40,383.

5.8 LGPSC views voting as a core component of their stewardship efforts. Taking a long-term perspective, on all voting activities undertaken and aiming to:

- Safeguard the long-term economic interests of their stakeholders through the application of prudence and high levels of integrity.
- Ensure that boards of directors consistently act in the best interests of shareholders while championing the long-term success of the organisations they represent.
- Harness the potential of ESG (Environmental, Social, and Governance) factors—both risks and opportunities—to drive value creation across diverse companies and sectors.

LGPSC take a principles-based approach to voting and are guided by their established Voting Principles, which Staffordshire Pension Fund has contributed to. Broadly they expect companies to:

- Uphold rigorous standards of good governance concerning board composition and oversight.
- Communicate transparently with shareholders, fostering trust and engagement.
- Ensure executive remuneration is competitively set and aligned to shareholder value.
- Protect shareholder rights and prioritise alignment with shareholder interests.

- Credible and resilient ESG strategies are embedded in management strategies.

5.9 To send a signal to investee companies, LGPSC votes all its shares - whether externally or internally managed, according to their Voting Policy. While the ultimate voting decision rests with LGPSC, they have a procedure through which they capture information and recommendations from their external fund managers. LGPSC actively uses voting rights and engagement to support the management strategies of invested companies. This is done through direct, collaborative, or externally facilitated engagement via EOS at Federated Hermes. The approach emphasises strong governance as key to managing risks and seizing opportunities in a changing business environment. Voting focuses on critical environmental and social issues, including climate change, natural capital, and human rights. LGPSC firmly believe that companies with exemplary governance endure risks more effectively and capitalise on opportunities in a rapidly evolving business landscape. LGPSC maintains transparency by publishing voting outcomes in Stewardship Updates, which are issued three times a year, their Annual Stewardship Report and at regular meetings with Partner Funds and governance committees.

5.10 LGPSC have set up a structure whereby EOS at Federated Hermes provide them with voting recommendations based on their voting principles, which are input on the ISS voting platform before 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. This process gives them confidence that votes are cast according to the LGPSC Voting Principles, they also monitor votes against expected recommendations. In addition, when LGPSC engage with a company and LAPFF issues a voting alert which falls outside EOS' main engagement, LGPSC often consult ISS research directly.

5.11 For LGPSC, conducting comprehensive research on every proxy vote across the ACS equity funds is not feasible, as they annually vote over 3,000 meetings. Every year LGPSC compile a "Voting Watch List," which is discussed with Partner Funds and approved by LGPSC's Investment Committee and Executive Committee. The RI&S team prioritises companies for voting when there is material exposure in the LGPSC investment portfolio, and the companies are identified as having significant exposure to one or more stewardship priority issues and assessed as having inadequate company management responses to address these risks. The list includes ACS' top holdings based on market value and active risk contribution, which refers to companies that show the greatest upward divergence between the equity fund's investment weight holdings and the index weight benchmark. Additionally, LGPSC include companies identified in the Funds Climate Stewardship Reports and the sustainability reports. LGPSC will carefully review their voting decisions for these companies prior to company meetings, especially Annual General Meetings (AGMs). Although attending meetings in person may not be feasible, LGPSC are dedicated to participating virtually and engaging with the companies prior to their AGMs. The Voting Watch List is shared with EOS and external managers ahead of the voting season to ensure more detailed analysis is received on these companies.

5.12 LGPSC will seek ad-hoc interactions/meetings with EOS regarding core engagements, where either they or EOS would like further input from the other ahead of a vote. LGPSC also aim to gather insights and recommendations from active equity fund managers regarding their key holdings and any contentious voting issues, as well as influence managers' broader voting practices on significant topics such as climate risk management. LGPSC and managers share voting principal changes and discuss companies on the LGPSC voting watch list. The RI&S team may also reach out on an ad-hoc basis to request insights on contentious issues related to core holdings or key engagements.

5.13 The Fund and LGPSC both manage securities lending programmes. This is where any stocks on loan can be recalled executing shareholder voting rights, if the issue is considered to be sufficiently material, with due consideration to the transaction costs and loss of income involved. In 2023, LGPSC revised its stock-lending approach to focus on voting rights management. Instead of blanket restrictions at the start of voting season, it now restricts lending based on voting provisions in a securities' primary jurisdiction (e.g., U.S. securities by their record date). This change aims to maximise voting impact, especially for critical engagements escalated via shareholder resolutions or board member votes. The policy applies to LGPSC's Voting List.

5.14 The Fund does not have its own voting policy but instead delegates the voting decision to the investment manager, including LGPSC. The investment managers are better placed to make this decision as they have the detailed information on the individual companies and have the analysts to evaluate them. This also allows the investment managers to use voting as an escalation to the engagement, which they also carry out with underlying companies on behalf of the Fund.

5.15 Voting alerts are received from both LAPFF and LGPSC (via EOS). Where appropriate, these are then passed on to the relevant investment managers and in most cases, LGPSC took a similar view to LAPFF. Any difference in view is explained to the Fund by LGPSC, with the opportunity to seek further clarifications on LGPSC's voting intention.

5.16 Details of proxy votes are reported to the Pensions Panel every quarter in the RI&S report. This report details all votes cast by each of the Fund's investment managers, including through LGPSC, and is received from the individual managers in their quarterly investment/ESG reports, which contain greater detail on votes cast.

5.17 An example of one of the Fund's equity managers, LGIM's, quarterly voting report from its Q3 2024 Quarterly Engagement report is included below:

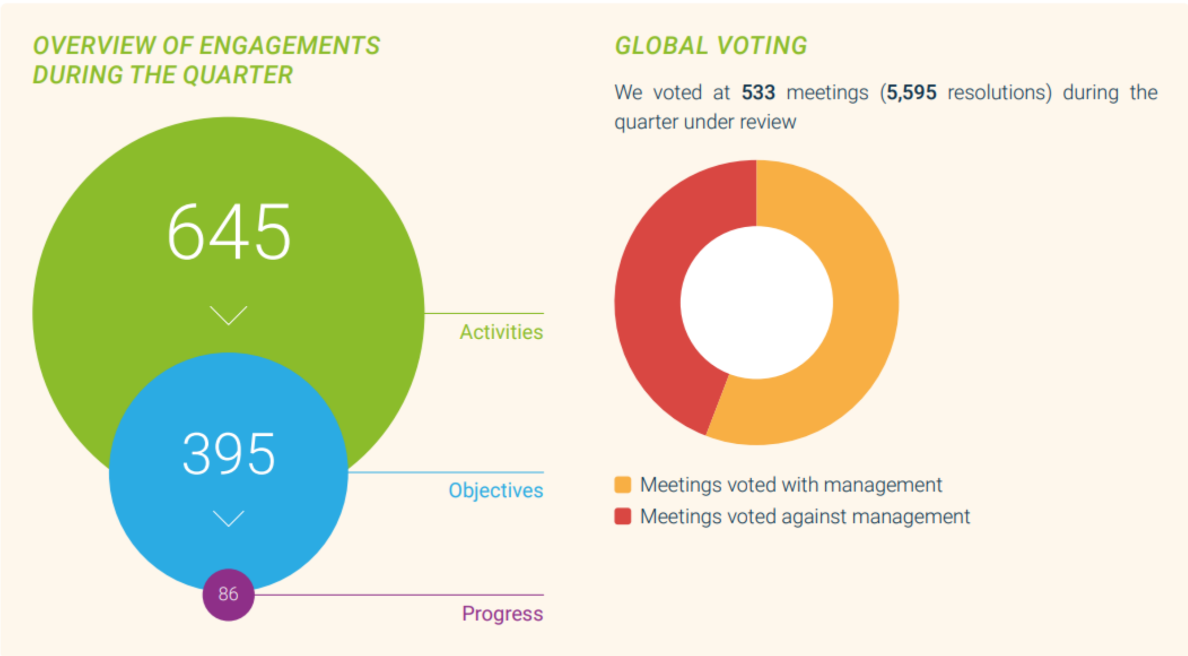
Global - Q3 2024 voting summary

Management-proposed resolutions:						
Proposal category	**Total for**	**Total against**	**Total abstentions**	**For %**	**Against %**	**Abstain %**
Management (Total)	**11534**	**3234**	**81**	**78%**	**22%**	**1%**
Routine Business	1953	113	0	95%	5%	0%
Director Election	3948	1277	80	74%	24%	2%
Compensation	749	950	0	44%	56%	0%
Director Related	954	166	1	85%	15%	0%
Capitalization	1566	152	0	91%	9%	0%
Strategic Transactions	468	135	0	78%	22%	0%
Company Articles	367	73	0	83%	17%	0%
Miscellaneous	138	32	0	81%	19%	0%
Audit Related	808	127	0	86%	14%	0%
Non-Routine Business	330	52	0	86%	14%	0%
Takeover Related	150	10	0	93%	6%	0%
No Research	23	128	0	14%	81%	0%
E&S Blended	9	0	0	100%	0%	0%
Social	59	16	0	79%	21%	0%
Mutual Funds	10	0	0	100%	0%	0%
Environmental	2	3	0	40%	60%	0%

5.18 LGIM's quarterly ESG report also includes details of significant votes as per the below example, again from Q3 2024 report.

Company name	AeroVironment, Inc.*
ISIN	008073108
Market Cap	US$5.7 billion (Source: ISS, 07 October 2024)
Sector	Aerospace and defence
Issue identified	Governance: joint chair/CEO. The roles of chair and CEO are substantially different, requiring distinctly different skills and experience. Therefore, LGIM expects the two roles to be separated. This division of responsibilities ensures that a single individual does not have unfettered powers of decision-making at the head of the company, thereby securing a proper balance of authority and responsibility on the board.
Summary of the resolution	1a - Elect Director Wahid Nawabi. AGM – 27 September 2024.
How LGIM voted	Against resolution 1a (i.e. against management recommendation).
Rationale for the vote decision	LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight concerns.
Outcome	97.1% voted in favour of resolution 1a.
Why is this vote 'significant'?	This vote is significant as it relates to a key expectation of our corporate governance and responsible investment policy, that we expect the roles of chair and CEO to be separated. In our policy, we state that we will vote against the re-election of any director who holds both the chair and CEO positions.

5.19 An example of LGPSC's quarterly voting statistics and engagement activity from their Q1 2025 report is included below:



5.20 An example of LGPSC's annual voting statistics from their annual stewardship report is included below:

In 2024 EOS attended 8 AGMs: Siemens Energy AG, Mizuho Financial Group, Sika Group, Royal Bank of Canada, The Toronto Dominion Bank, Standard Chartered Plc, BNP Paribas SA, and Bayerische Motoren Werke AG.

2024 Voting Statistics

Voted at **3,377** MEETINGS and on **41,455** RESOLUTIONS

Supported **51.6%** (632) OF SHAREHOLDER PROPOSALS

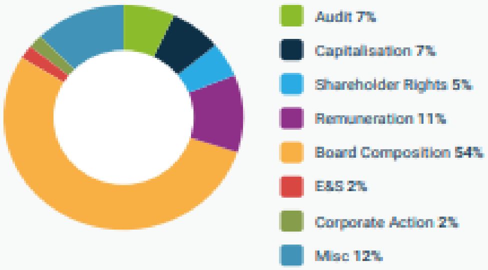
We voted against management recommendation on one or more resolutions at **66.03%** OF MEETINGS and our dissent level was **14.02%**

(i.e. number of times we voted contrary to management recommendations).

FIGURE 55: OVERVIEW OF 2024 VOTING ACTIVITY

NO OF RESOLUTIONS VOTED FOR	34,994	84.4%
AGAINST/WITHHELD	5,950	14.4%
ABSTAIN	352	0.8%
OTHER	159	0.4%

FIGURE 56: NUMBER OF RESOLUTIONS VOTED ON BY TYPE



5.21 An example of the reasoning behind one of LGPSC's votes from 2023 is given below:

LGPSC Human Rights Voting Rationale Example -TJX

LGPSC supported a shareholder proposal calling for a third-party assessment of TJX's supply chain due diligence, particularly regarding forced, child, and prison labour. They believe shareholders would benefit from disclosures of Tier 1 and Tier 2 suppliers for TJX's private label products and auditing metrics to track progress They also voted against:

- The advisory vote on executive compensation, and
- The re-election of the Chair of the Compensation Committee.

Concerns included a lack of transparency in supply chain practices, executive pay levels being significantly above peers (8% increase, 1.23× peer median) and Insufficient justification for the compensation structure.

Outcome. The shareholder proposal did not pass but received 19% support. Votes against the Compensation Committee Chair and executive pay received 2.8% and 8.7% dissent, respectively. LGPSC communicated its concerns in writing to the company, which acknowledged the feedback and committed to sharing it with the Chair and Board.

5.22 The Fund does not invest directly in fixed income, but rather through LGPSC funds, who employ fixed income managers, or Passively via LGIM, with LGPSC oversight. As such the terms and conditions are managed by LGPSC, who meet with the managers to understand their engagement and regularly get reporting on the engagements they have carried out.

5.23

Fixed Income Engagement Example

One of the underlying managers in the LGPSC Global Active Investment Grade Corporate Bond Multi Manager Fund, Neuberger Berman (NB) engaged with the utilities company, Thames Water. This was to address concerns over environmental performance discussing covered key topics such as wastewater discharge, the Thames Tideway Tunnel project, and storm overflow impacts. In addition to governance and financial stability concerns, including the recapitalisation plan ahead of the new regulatory period and its significant increase in capital investments. The Thames Tideway Tunnel is designed to reduce sewage discharge into rivers. Expected to be completed by 2025, the tunnel will capture 95% of sewage by volume, reducing annual sewage discharge durations by 50% across the Thames Valley by 2030 and by 80% in sensitive catchments

Outcome. The managers ESG view of Thames Water modestly improved due to additional transparency, including a live storm discharge map and updates on the Thames Tideway Tunnel. However, despite some environmental progress, the company continued to underperform peers and lacked a viable recapitalisation strategy. Due to ongoing risk concerns, the manager exited the investment before the July 2024 Draft Determination.

5.24

Private Markets Engagement Example

Permira, one of the managers in one of LGPSC's Private Equity funds, engaged with Golden Goose with the aim to develop an ESG strategy with a focus on environmental sustainability. As a consumer-facing business, sustainability is crucial for customers and regulators and can also be important for investors seeking to protect and enhance value. Permira has supported the management team at Golden Goose as they have built and developed the sustainability programme. As a result, the company hired a Chief Sustainability Officer, elevated sustainability to the Board agenda, developed a well-established sustainability strategy and published annual sustainability reports. Golden Goose unveiled its Forward Agenda, a set of sustainability goals it aims.

Outcome. Tangible actions arising from the sustainability strategy include a setting validated Science-Based Targets to reduce scope 1 & 2 greenhouse gas emissions (GHG) emissions by 70% and scope 3 emissions per pair of shoes by 40% by the end of 2030. Five 'Forward Stores' to be created which offer repair, remake, resell and recycling services for any brand of trainer, supporting customer retention and the circular economy. They also announced the creation of the Yatay Lab in Erba (Como, Italy), a co-action platform committed to the research and development of circular materials and products that seek to be scalable and sharable. Golden Goose achieved Management level (B score) in its first Carbon Disclosure Project (CDP) Climate Change assessment for taking meaningful actions on climate issues.

5.25

Private Markets Engagement Example

KRR, a manager in one of LGPSC's infrastructure funds, engaged with Vantage Towers (the second largest telecom tower company in Europe) to manage material ESG issues. Vantage Towers is at a strategic inflection point due to transitioning ownership from Vodaphone, which brings risks and value creation opportunities. Other key risks including maintaining high health and safety standards and increasing exposure to climate hazards, such as flooding and wildfires. Opportunities include increasing market share, providing low carbon climate resilient infrastructure (a competitive advantage) and the opportunity to improve public transparency.

Outcome. Vantage Towers has continued their commitment to having a mature ESG programme. With KRR's support they have continued developing a mature ESG governance structure. They have also committed to a net zero target by 2040 (Scopes 1–3), focusing on renewable energy sourcing, prioritised Scope 3 emissions measurement and a decarbonisation plan baselined in 2024 and have strict health and safety policies with strict rules and performance tracking.

5.26

Private Markets Engagement Example

Blackrock one of LGPSC's Private Credit managers, has engaged with Evondos to provide continued support to the Company to help enable their sustainability agenda and progress, including understanding its decarbonisation opportunities and net zero target setting approaches. The manager initiated a 6-week net zero target setting engagement program with their climate partner ERM. The company completed a C-suite workshop with Deputy CEO, CFO, Head of Marketing, Head of Operations and Procurement. The work uncovered that the largest emissions reduction opportunity was in switching from new aluminium, plastic, and rubber to recycled versions of the materials. The company formed a target setting working group and are investigating material sourcing and product design for new product model.

Outcome. Paris aligned target setting is expected in the first half of 2025. The manager is currently in discussions with the CFO to include a margin ratchet linked to its decarbonisation roadmap

If you have any comments on this 2024/25 Stewardship Report or require any more information on the subjects contained within it, please contact:

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