

2023/24 Annual Stewardship Report

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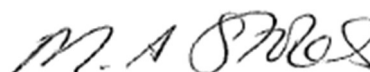
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1.0 Foreword

- 1.1 The Staffordshire Pension Fund ("the Fund") recognises its role as one of promoting best practice in responsible investment and engagement (RI&E) and stewardship, which is consistent with seeking improved long-term investment returns.
- 1.2 The Fund defines the concept of stewardship in line with the FRC, in that *"Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society."*
- 1.3 The Fund was accepted as a signatory of the Financial Reporting Council's ("FRC") 2020 UK Stewardship Code in August 2023.
- 1.4 The Fund's Investment Strategy Statement ("ISS") states as an investment belief that RI&E can enhance long term investment performance across all asset classes and should be integrated into all investment processes.
- 1.5 The Fund's ISS also states that financial markets could be materially affected by climate change and that responsible investors should proactively manage this risk through stewardship activities in partnership with like-minded investors where feasible.
- 1.6 The Fund 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 January 2023 – 31 March 2024, as agreed with the FRC in October 2023, to allow the Fund to change to April to March as a reporting year.



Mike Sutherland
Chair of Pensions Committee



Melanie Stokes
Assistant Director for Treasury and
Pensions

2.0 Purpose and governance

Principle 1.

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

Staffordshire Pension Fund

- 2.1 Staffordshire Pension Fund ("The Fund") is a Local Government Pension Scheme (LGPS) with over 119,000 members and 520 employers. The Fund's investments are currently valued at over £7.5bn (at 31 March 2024). 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 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") who are legally responsible for the Fund. The Fund Officers sit within the Finance directorate of the County Council.
- 2.3 SCC declared a climate emergency in 2019 and aim to achieve net zero emissions by 2050 across every aspect of their service provision and estate. 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.



- 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 review 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 its investment advisers, Hymans Robertson. A full SAA review was carried out alongside asset liability monitoring (ALM) work in preparation for the Actuarial Valuation at 31 March 2022, and was developed with reference to the Fund's objectives, investment beliefs and climate change strategy.
- 2.8 The SAA is reviewed and approved by the Pensions Committee every three-years as part of the triennial actuarial valuation process, and to take account of developments in investment markets. The SAA is monitored more frequently at quarterly meetings of the Pensions Panel
- 2.9 The Pensions Committee and Pensions Panel seeks to ensure that as far as possible, RI&E factors are incorporated into the investment process across all asset classes.
- 2.10 To assist them doing this, the Fund endorses the 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&E issues into their investment process.
- 2.11 As at March 2024, all the Fund's active equity managers (including those within the LGPS Central Limited Multi Manager Active Global Equity Fund) were signed up to PRI.
- 2.12 The Fund defines RI&E 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 on 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 LGPS Central Limited.

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 a consultation exercise with Councillor Members, the investment beliefs were updated in 2019 to incorporate beliefs about RI&E. In subsequent years, the Fund ensures the investment beliefs are delivering against its purpose and consider 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 targets for carbon reductions by 2030. This is publicly available on the Pension Fund Website [Staffordshire Pension Fund - Responsible Investment & Engagement \(staffspf.org.uk\)](https://staffspf.org.uk) and has presented to and approved by members of 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&E report. The RI&E report is a publicly available document and includes details of voting and examples of engagement carried out by investment managers on the Fund's behalf. The quarterly RI&E report also includes the most recent engagement work undertaken by LAPFF and the asset pooling company, LGPS Central, on behalf of the Fund.

- 2.17 All of the Fund's policies, including those relating to RI&E are publicly available on the Fund's website, [Staffordshire Pension Fund - Responsible Investment & Engagement \(staffspf.org.uk\)](https://staffspf.org.uk). The Fund communicates with its members and stakeholder in a variety of different ways and welcomes feedback, see paragraph 3.8.
- 2.18 During 2023 and Q1 of 2024, members of the Fund's decision-making bodies, the Pensions Committee and Pensions Panel, have attended several training sessions on RI&E and climate change. 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. LGPS Central is a member of the 30% Club which it also reflects in its voting principles, on behalf of the Fund. Females represent 63% 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.*

To further strengthen its approach a new set of Equality Diversity and Inclusion principles and objectives, along with an associated action plan were adopted in 2021. Progress against the action plan is reported annually to Corporate Overview and Scrutiny and Cabinet each year

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

- Publishing a new Gender Pay Gap and Workforce Profile;
- Translation and Interpretation service which allows communities to receive information in different languages, during 2023 1,044 service requests were fulfilled and with the provision of support for 26 different languages;
- Supporting people who face barriers to employment by offering work placements through its "Open Door" scheme;

- Introduced a Workforce Race Equality Standard Champions programme;
 - Introduced a new 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 members, as it acts as a catalyst for retaining and attracting talent. The Council's own mean gender pay gap has also continued to fall to 6.4% 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 Directorate, in which the Pension Fund officers sit, disabled staff make up 5% of the workforce, 5.3% are from other ethnic groups and 3% are LGBT+.
- 2.21 During 2023 and 2024 the Fund worked with Hymans Robertson on implementing its SAA changes, following the 2022 actuarial valuation and SAA review. A large proportion of this work involved ensuring RI&E factors and climate change were incorporated into the SAA (see paragraph 2.27 below).
- 2.22 In 2023 and 2024, the Fund has continued to receive an annual Climate Risk Management Report from LGPS Central. Part of the Climate Risk Management Report's purpose is to assess how RI&E and climate change are incorporated into the governance arrangements of the Fund.
- 2.23 As well as the production of a Climate Change Strategy, the 2023 Climate Risk Management Report enabled the Fund to produce a Climate Stewardship Plan. The Climate Stewardship Plan's aim is to focus the Fund's engagement on the investment managers and underlying investments that can have the most impact on reducing the Fund's climate risk, and is used by the Fund as a working document to help guide discussions.
- 2.24 Progress made against the Climate Stewardship Plan was reported quarterly to the Pensions Panel in 2023 and Q1 2024, as part of the RI&E report. This included examples of the dialogue with, and engagement by, the Fund's investment managers.
- 2.25 Although the 2024 Climate Risk Management Report did not include a Climate Stewardship Plan, the Fund, along with LGPS Central, established a three-year stewardship plan encompassing climate change, natural capital, human rights and sensitive topics (e.g. controversies).
- 2.26 As a result of the receipt of the Fund's Climate Risk Management Reports, the Fund was able to continue to publish an annual Taskforce on Climate-related Financial Disclosures (TCFD). This report is likely to become mandatory for the LGPS soon and makes climate disclosures under four

recommended elements: Governance, Strategy, Risk management and Metrics and targets.

- 2.27 The Fund's commitment to integrating RI&E into its SAA can be evidenced by the recent reallocation of capital, as shown below.
- In September 2023 c£300m was invested into the LGPS Central All World Equity Climate Multi Factor Fund, a factor-based investment fund with a low carbon benchmark.
 - In October 2023, the benchmark for the LGPS Central Limited Global Multi Factor Equity Index Fund, to which the Fund has c£300m invested, was amended to include a low carbon benchmark at the Funds request.

Effectiveness

- 2.28 The performance of the Fund in the 12 months to 31 March 2024 shows an annual return on investments of 12.41%, well over the 2022 actuarial assumption of 4.4% per annum. Returns over longer periods are also well in excess of the actuarial assumption, showing a return of (all to 31 March 2024) 7.33% over three years, 8.15% over five years and 7.98% since inception (taken to be 31 March 1995 for performance reporting).
- 2.29 The performance of the Fund and its asset allocation has been effective in allowing it to continue to meet its main objective of paying pensions liabilities as they fall due for payment.
- 2.30 In the 2024 Climate Risk Management Report (based on the September 2023 asset data) it showed that the Fund has already met its climate target for 2023 of reducing WACI by 50-60% versus 2020 levels, achieving a 55.8% reduction versus 2020 levels. Positive progress had also been made against all other targets. 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.

Principle 2

Signatories' governance, resources, and incentives support stewardship.

- 2.31 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.

2.32 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.*

2.33 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 a number of 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.

2.34 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.

2.35 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.

2.36 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 Investment Accounting Technicians with a wealth of investment and public finance experience.

- 2.37 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&E or any other returns and remuneration. However, objectives set for the Fund's Investment officers incorporate RI&E within them.
- 2.38 The Pensions Committee Terms of reference include
- *Ensuring the responsible investment, corporate governance and voting policies of the Fund are delivered effectively.*
- 2.39 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).
- 2.40 The Fund has adopted a training policy for Members and Officers in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) Knowledge and Skills Framework. The training addresses 8 areas of knowledge and the policy is available at www.staffspf.org.uk.
- *Pensions legislation and guidance;*
 - *Pension Governance;*
 - *Funding strategy and actuarial methods;*
 - *Pensions administration and communications;*
 - *Pensions financial strategy, management, accounting, reporting and audit standards;*
 - *Investment strategy, asset allocation, pooling, performance and risk management;*
 - *Financial markets and products; and*
 - *Pension services procurement, contract management and relationship management.*
- 2.41 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 Equities (Financial markets and products) and Performance measurement and analysis (Investment strategy, asset allocation, pooling, performance and risk management).

- 2.42 This training helps inform and incentivise the Pensions Committee and Pensions Panel in their efforts to incorporate appropriate material RI&E 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.
- 2.43 The County Council's internal audit team carried out audits of the Fund's governance arrangements for 2023/24. Substantial assurance (highest possible) was given for this audit. A Responsible Investment, Climate Change & Engagement audit was also carried out in 2023, this again received a substantial assurance.
- 2.44 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 by the Fund's asset pool, LGPS Central. Details of proxy voting and engagement with underlying companies is detailed in the quarterly reports the Fund's investment managers and LGPS Central produce for the Fund. This voting is summarised in a quarterly RI&E report to the Pensions Panel.
- 2.45 Links to the Fund's individual investment manager and LGPS Central's RI&E policies, as well as details on the UK Stewardship Code and the PRI are available at the Staffordshire Pension Fund website at [Staffordshire Pension Fund - Responsible Investment & Engagement \(staffspf.org.uk\)](https://staffspf.org.uk).
- 2.46 The Fund has been a member of the Local Authority Pension Fund Forum (LAPFF) since 1 April 2013. LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting social responsibility and high standards of corporate governance at the companies in which they invest. Formed in 1990, the Forum brings together most local authority pension funds and their pooling companies, with combined assets of over £350 billion. The Pensions Panel receives a copy of the LAPFF quarterly engagement report as part of its meeting papers. LGPS Central is also a member of LAPFF, alongside all its 8 Partner Funds.
- 2.47 LGPS Central has an RI&E team composed of an Investment Director, Head of Stewardship, ESG Integration Manager, Net Zero Manager, Senior Stewardship Analyst and two Responsible Investment analysts. Their RI&E team members come from diverse academic backgrounds and specialisms including economics, investment management, politics, sustainability, and have followed a number of career pathways before arriving at responsible investment such as compliance, international affairs, risk management, fund management, credit analysis, sustainability and consultancy. The Fund consider this diversity of skills, knowledge and experience to be a strength, and welcome this diversity and breadth of perspectives. The team leverages

a strong network among peer investors both in the UK and globally, as well as investee companies, industry associations, relevant regulatory bodies, and civil society.

- 2.48 The Fund, as a Partner Fund and shareholder of LGPS Central, contributes in the review of LGPS Central's RI&E 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 LGPS Central's approach to responsible investment is described in detail at paragraph 2.105.
- 2.49 LGPS Central ensure RI&E is integrated into all their investment products through a Responsible Investment Integrated Status (RIIS) process. This is described in detail at paragraph 3.29.
- 2.50 The LGPS Central RI&E Team leverages a strong network among peer investors both in the UK and globally, as well as investee companies, industry associations and relevant regulatory bodies.
- 2.51 LGPS Central's RI&E team report to the Chief Investment Officer and work in close collaboration across multiple internal teams on;
- the approach to RI&E when new funds are conceived and set up;
 - the selection and monitoring of fund managers;
 - engagement and voting, as relevant to the asset class; and
 - RI&E performance assessment and reporting.
- 2.52 LGPS Central have produced Climate Risk Management Reports for the Fund and assisted with the production of the Fund's TCFD reports, Climate Stewardship Plan, Climate Change Strategy and UK Stewardship Code compliance. As well as providing Elected Members and Officers with training on RI&E Implementation and stewardship, such as at the September 2023 Pensions Committee where LGPS Central updated members of the committee on the acquisition of additional Environmental, Social and Governance ("ESG") data and tool to further develop analysis and reporting capabilities to support the Fund.
- 2.53 LGPS Central 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 LGPS Central's voting principles.
- 2.54 Following a comprehensive due diligence process by LGPS Central, EOS were selected as their beliefs aligned well with LGPS Central's and Partner Fund beliefs, namely that dialogue with companies on ESG factors is essential to build a global financial system that delivers improved long-term returns for investors, as well as more sustainable outcomes for society. The EOS team provides access to global companies based on a diverse set of

skills, experience, languages, connections, and cultural understanding. EOS also engages regulators, industry bodies and other standard setters to help shape capital markets and the environment in which companies and investors can operate more sustainably.

- 2.55 Hymans Robertson are investment advisers to the Staffordshire Pension Fund and support the Fund with investment advice, attendance at Pension Committee and Panel meetings, training for Members, and advice on RI&E issues. Hymans Robertson have a dedicated Responsible Investment team and a wealth of experience in incorporation of RI&E factors into investment advice for LGPS Funds.
- 2.56 Hymans Robertson have delivered training to Pensions Committee Members on Responsible Investment and Engagement, Strategic Asset Allocation, equity investment and performance measurement at the training sessions in July and November 2023.
- 2.57 The Fund also employs an independent adviser, Carolan Dobson, who provides challenge and an independent perspective on investments and RI&E matters. For example, during March 2024 Pensions Panel meeting, she raised a query requesting further breakdown of voting data from equity managers to allow the distinction between votes against management and abstentions to be drawn. She attends Pensions Committee and Pensions Panel meetings.
- 2.58 The Fund believes that its current governance arrangements are effective in delivering the Fund's purpose, but the Fund is strengthening its governance resources regarding independent investment advice to the Pensions Panel. Historically, the Fund has had 2 independent investment advisers, however since the retirement of an independent investment adviser in 2020, the Fund has only employed one. The Fund was part way through the procurement process to recruit a second independent adviser at 31 March 2024, with the aim to have someone in place by June 2024. This recruitment aims to strengthen the external advice received and provide further challenge to the main independent adviser, Hymans Robertson, which will support the Fund's stewardship activities. Providing advice on corporate governance, including RI&E has been included as a key part of the specification for this role.

Principle 3

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

- 2.59 The Staffordshire Pension Fund has a public Conflicts of interest Policy; [Conflicts of Interest Policy September 2022 \(staffspf.org.uk\)](https://staffspf.org.uk/Conflicts%20of%20Interest%20Policy%20September%202022). 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 Members, Pensions Panel Members, Local Pension Board Members, 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.
- 2.60 As a predominantly externally managed Fund, the Fund expects its investment managers to have effective policies addressing potential conflicts of interest. Investment managers are assessed on potential conflicts of interest and their written policies at the evaluation and appointment stage, which also applies to managers selected by LGPS Central. Conflict of interest policies are available on managers' websites for public scrutiny, and it is expected that the policy should be subject to regular review.
- 2.61 With respect to conflicts of interest within the Fund, Pension Panel, Pensions Committee and Pensions Board Members are required to make declarations of interest at the public section of each quarterly meeting. If a Member declares that they are conflicted, then the context would determine the action that would be taken i.e. if they declare that they have an interest that is either personal or financial to an item on the agenda, then they may be asked to leave the room and/or be excluded from voting.
- 2.62 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 members during the period 1 January 2023 to 31 March 2024.
[Declarations of interest at Pensions Committee, 1 January 2023 - 31 March 2024 - Staffordshire County Council \(moderngov.co.uk\)](https://moderngov.co.uk/Declarations%20of%20interest%20at%20Pensions%20Committee%2C%201%20January%202023%20-%2031%20March%202024%20-%20Staffordshire%20County%20Council)
- 2.63 LGPS Central'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. While this policy is intended to ensure compliance with FCA rules (SYSC 4 & 10) and regulations around conflicts management and requirements under MIFID II, the policy is also designed to ensure fair outcomes for clients and to ensure that LGPS Central fulfils its stewardship responsibilities to its clients in terms of how their assets are managed.

- 2.64 LGPS Central's Conflict of Interest Policy is signed off by the Investment Committee, Executive Committee and Board. The policy is reviewed annually, and any changes are approved through the same governance process.

- 2.65 LGPS Central operates a 'one for eight' RI&E service model. This ensures that they deliver a consistent level of service to all eight Partner Funds and that no conflicts arise in terms of the level of support they get from the RI&E Team. As an example, LGPS Central provided Climate Risk Management Reports to all eight Partner Funds for the first time in 2020. Since then, Climate Risk Management Report annual provision has followed the same delivery order. This is to ensure consistency and fairness among Partner Funds and to avoid some receiving reports six months apart or others over 12 months apart.

- 2.66 LGPS Central employees, including senior management and members of the executive committee, are required to complete conflicts management training on an annual basis and confirm their adherence to its standards. This training includes guidance on what constitutes a conflict of interest. The conflicts policy is also contained within the LGPS Central Compliance Manual, which is readily available to all staff.

- 2.67 When LGPS Central appoints external investment managers, a thorough due diligence process is undertaken. This includes consideration of the external managers process and procedures around the management of conflicts of interest. LGPS Central expects their managers to have robust controls and procedures in place around conflict management and to demonstrate commitment to managing conflicts fairly.

- 2.68 LGPS Central only manages client (Partner Fund) assets, all their active portfolios are managed externally, and its staff are not remunerated through a bonus scheme. These factors are key mitigants in terms of conflict risk.

- 2.69 EOS at Federated Hermes - LGPS Central'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. The policy details several potential conflict areas including:

- Potential conflicts arising from Federated Hermes Limited's ownership of EOS
- Potential conflicts between Federated Hermes Limited's and EOS' clients
- Personal relationship between engagers and senior staff members in engaged companies
- Potential stock lending and short selling positions at Federated Hermes Limited

How these conflicts are managed and monitored, the review process, and examples of how the issues are approached in practice, are discussed in EOS's Conflicts Policy document. EOS conflicts are maintained in a Federated Hermes group Conflicts of Interest Policy and Conflicts of Interest Register. As part of the policy, employees report any potential conflicts to the compliance team to be assessed and, when necessary, the register is updated. The Conflicts of Interest Register is reviewed by senior management on a regular basis.

2.70 EOS at Federated Hermes appoints and oversees LGPS Central's proxy voting research provision. However, they expect their proxy voting providers to be transparent about conflicts of interest and to implement measures to ensure they manage these conflicts such as, conflicts management policies and conflicts registers. Conflicts of interest can arise during the voting season. This can for instance be the case where a proxy voting provider also provides other services to corporates or possibly in some circumstances where they engage with and provide voting recommendations in relation to a pension scheme's sponsor company. LGPS Central'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' ownership structure The Investment Committee at LGPS Central annually approves the due diligence undertaken on EOS by the RI&E team to ensure good governance and alignment with the LGPS Central RI&E Framework and legal obligations as an FCA entity.

Conflicts of interest Example

Officers from the Staffordshire Pension Fund observed the due diligence meetings for the appointment of a fourth Global Active Equity Managers for the LGPS Central Global Active Equities strategy in 2023. This is something Partner Funds are invited to do to ensure transparency of the process. All LGPS Central colleagues involved in the evaluation of tenders were required to complete a conflict-of-interest declaration. The declaration asks colleagues to provide details of any conflicts of interest with any of the potential managers for assessment by the compliance team. The approach taken is that conflict may arise particularly in the form of existing business relationships and previous periods of employment with the investment managers on the shortlist. As long as these conflicts are declared and recorded, they can be managed

Outcome. As one of the managers shortlisted was a manager who Staffordshire had a standing relationship with, this potential conflict was flagged and Staffordshire officers did not observe that particular managers due diligence meeting.

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

Principle 4

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

- 2.72 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.

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.

- 2.73 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.
- 2.74 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.

- 2.75 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.
- 2.76 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 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.
- 2.77 In identifying and managing ESG risks, the Fund's stewardship partners are:

Organisation	Remit
	The Fund is a 1/8th owner of LGPS Central Ltd which has identified four stewardship themes that are the primary focus of engagement. These themes are viewed as likely to be material to the Fund's investment objectives and time horizon, likely to have broader market impact, and to be of relevance to stakeholders. See further detail immediately below. During 2023 and Q1 2024, LGPS Central has been directly involved in more than 850 engagements across these themes. A selection of engagement cases is provided under Principles 9-11 below
	EOS at Federated Hermes is contracted by LGPS Central Ltd to expand the scope of the engagement programme, especially to reach non-UK companies. In 2023 and Q1 2024, EOS engaged with 1785 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 2023 and Q1 2024 were linked to one or more of the UN Sustainable Development Goals (SDGs).
	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 2023, LAPFF engaged with over 565 companies through more than 80 meetings across a spectrum of material ESG issues.

2.78 In partnership with Staffordshire Pension Fund and other Partner Funds, LGPS Central reviews its stewardship priorities every three years. In 2023 the LGPS Central's core Stewardship Themes were climate change, plastic pollution, responsible tax behaviour and human rights. Along with an assessment and a review of the material ESG risks associated with their investment portfolio, stewardship priorities are chosen based on the following parameters:

- Economic relevance
- Ability to leverage collaboration
- Stakeholder interest

Identifying core themes that are material to the Partner Funds' investment objectives and time horizon, that are likely to have broader market impact, and that are perceived to be of relevance to stakeholders, helps LGPS Central prioritise and direct engagement. LGPS Central fully acknowledge that the spectrum of ESG risks is broad and constantly evolving. However, in agreement with the LGPS Central pool partners, they consider it appropriate to pursue these themes over a three-year horizon, at a minimum, while conducting annual reviews to allow for necessary adjustments or changes. This helps the Fund and LGPS Central to build strong knowledge on each theme, seek or build collaborations with other investors, identify and express consistent expectations to companies on theme-relevant risks and opportunities, and measure the progress of engagements. Furthermore, LGPS Central take the view that engagement on a theme needs to happen at multiple levels in parallel: company-level, industry level, and policy-level. With their long-term investment horizon, they take a whole-of-market outlook and changing the "rules of the game" through industry and policy dialogue is as important, if not more important, than individual company behaviour. Below, in paragraph 2.79 a detailed overview of engagement activity and progress for each Stewardship Theme is given. In addition, information is given (again paragraph 2.79) on the annual review of Stewardship Themes that was carried out during Q4 of 2023. All engagements are tracked, according to theme, in a Measuring

Progress document, which is presented to Partner Funds in Responsible Investment Working Group Sessions. This document sets out the engagement strategy, objectives, and measures of success for each engagement. In 2023 the LGPS Central RI&E team also reviewed its Escalation Strategy. The key changes to the Escalation Strategy are the introduction of engagement with managers, dissent vote to board members beyond the Chair, (i.e. Chair to other members of the Board) and the introduction of a more nuanced approach to stock level divestment which reflects better the relationship between LGPS Central and its investment managers in terms of stock selection and portfolio construction. This policy also influences the next steps with LGPS Central engagements (see paragraph 4.27).

- 2.79 A deep dive review of the stewardship priorities was undertaken in 2023. In the next three years, LGPS Central stewardship priorities will be Climate Change, Natural Capital, Human Rights and Portfolio-led engagements (i.e. sensitive/topical activities). See below LGPS Central's 2024-2027 Stewardship Priorities.

THEMES	 Climate Change	 Natural Capital	 Human Rights	 Sensitive / Topical Activities
CHALLENGES	Climate change risks are endemic and span from physical, transitional to market-pricing risks. Its impact is likely to be transgenerational.	The mismanagement of nature-related risks poses potentially serious systemic and macroeconomic risks.	Higher scrutiny is placed on social (S) factors since if mismanaged, they can have the potential to destroy companies' value and they are increasingly perceived as a barometer for a company's culture.	Controversial activities that companies are involved in can have the potential to destroy shareholder value. Companies that have an inadequate approach to the management of ESG risks are more likely to be at risk of controversies.
INVESTMENT RISK AND OPPORTUNITY	Managing climate-change risks and capturing new opportunities can be crucial to protecting investments. A Paris Orderly Transition pathway is preferable for the economy, as it is the least disruptive.	Degradation of nature could reduce companies' ability to generate long-term value for shareholders through: i. scarce resources ii. regulatory tightening iii. reputational damage New opportunities around Nature-based climate solutions.	Businesses and institutional investors have a responsibility to respect human rights as indicated in the UN Guiding Principles on Business and Human Rights (UNGPs) and the OECD Guidelines for Multinational enterprises. Litigations and claims can be brought against investors.	The share values of companies that are involved in systemic ESG scandals are likely to be severely impaired. Companies in severe breach of international norms can be exposed to imminent removal of their license to operate, government intervention, and severe litigations. Laggard ESG practices can act as a proxy indicator for companies' vulnerability to potential scandals and corporate mismanagement.
NUMBER OF COMPANIES DIRECTLY TARGETED BY LGPSC	13	6	8	6
PARTNER ORGANISATIONS	IIGCC, CA100+, CDP, LAPFF, Share Action	PRI, IPDD, Nature Action 100, AsYouSow	ICCR, PRI, Find it, Fix it and Prevent It, LAPFF	PRI, Investor Forum

2.80 The review also included an overhaul of LGPS Central's approach to monitoring and assessing of the effectiveness of their stewardship efforts. From 2024, KPIs and expected outcomes are allocated to each engagement. Engagements are biannually assessed and progress on outcomes is reported back to Partner Funds and LGPS Central governance committees. LGPS Central also report on the outcomes of their stewardship activities in their public annual and quarterly Stewardship reports. See below LGPS Central's Stewardship Effectiveness Matrix;

MEASURES OF SUCCESS	 Climate	 Natural Capital	 Human Rights	 Sensitive / Topical Activities
LEVEL 3: SUCCESSFUL OUTCOME	Companies demonstrate alignment with LGPSC Net Zero Strategy	To be determined	Company demonstrates full alignment with UNGPs or Modern Slavery Act	- Company has disclosed a plan for: - Addressing this alleged controversy - Improving ESG practices at reasonable level
LEVEL 2: MODERATE PROGRESS	- Progress observed in the Climate Action 100+ Benchmark Framework or/ and CDP - Companies improving on TPI management quality ladder - Companies are partly aligned with LGPSC Net Zero Strategy	Evidence of constructive meeting with companies	Partial progress observed by Find it, Fix and Prevent it, Corporate Human Rights Benchmark and LAPFF research	- Company has disclosed a plan for: - Partially addressing the alleged controversy including acknowledgment of the controversy - Improving ESG practices to a reasonable level
LEVEL 1: MINIMUM EXPECTATIONS	Companies disclosing data to facilitate carbon performance assessment where relevant	Evidence of constructive dialogue with companies*	Companies responded to engagement request	Companies responded to engagement request
LEVEL 0: NO IMPROVEMENT	No progress has been made	No progress has been made	No progress has been made	No progress has been made

2.81 Individual investment managers, LAPFF and LGPS Central are all active participants in a variety of industry initiatives on behalf of the Fund, which help shape sustainable corporate and investor practice. LGPS Central see collaboration with peer investors via industry initiatives as vital, which gives more leverage in engagement. Below in paragraph 2.82 is a list of organisations and initiatives that LGPS Central is an active member of. This includes a brief assessment of the efficiency of the initiative and outcomes achieved during 2023. Their ongoing participation in these initiatives will be reviewed in 2024 to ensure that they maximise the effectiveness of LGPS Central resources and to ensure alignment with Partner Funds priorities.

2.82 Participation in Industry Dialogue;

ORGANISATION/ INITIATIVE NAME	ABOUT THE ORGANISATION/INITIATIVE	EFFICIENCY AND OUTCOMES
30% CLUB INVESTOR GROUP 	The 30% Club investor group was initially a UK group. The group have set up a global group to unite efforts to deliver greater diversity and inclusion in the companies they invest in around the world. LGPSC has been a member since its inception.	This forum allows investor to discuss, learn and coordinate engagement among investors. In 2023 the group supported the rollout of the tool by the Women in Finance Climate Action Group focusing on gender equity and net zero. In 2023 the representation of women on FTSE 350 Boards has increased beyond the 40% target. At Executive level, there was reasonable progress at both FTSE 100 and FTSE 250 (35.2% representation at FTSE 100, and 33.9% at FTSE 250).
BVCA 	UK trade body for private equity.	This forum is very useful for deal flow information. It also runs training courses which helps build knowledge. The BVCA also organises ESG related roundtables and events.
CA100+ 	Engagement collaboration of more than 700 investors with a combined \$68 trillion assets under management. Engaging 170 companies on climate risk that are responsible for 80% of global corporate GHG emissions. LGPSC Head of Stewardship is a member of the Mining and Metals Sector Group.	In 2023 CA100+ evolved the Net Zero Company Benchmark, providing further guidance on how investors can participate to the initiative and updated to the focus list. CA100+ 's key company engagement priorities are: implementation of strong governance framework, commitment to reduce GHG emissions throughout the value chain, provision of enhance disclosure and 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.	In 2023 we signed up to the CDP's Science-Based Targets (SBTi) Campaign. The SBTi's goal is to accelerate companies across the world to support the global economy to halve emissions before 2030 and achieve net-zero before 2050.
CROSS-POOL RI GROUP WITHIN LGPS	Collaboration group operating across LGPS pools and funds.	A cross-fund group set up for advising UK local pension schemes on responsible investment and infrastructure.

ICGN 	ICGN advances the standards of corporate governance and investor stewardship worldwide in pursuit of long-term value creation, contributing to 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. - Providing guidance on stewardship and corporate governance.
IIGCC 	Influential asset owner and asset manager group. Useful for climate change research and policy influence. LGPSC is part of 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 COP28.
INVESTOR ALLIANCE FOR HUMAN RIGHTS 	An initiative focusing on the investor responsibility to respect human rights, corporate engagements that drive responsible business conduct, and standard-setting activities that push for robust business and human rights policies.	In 2023, the initiative continued to work with investors and civil society organizations to mobilize collective and coordinated investor leverage to embed and promote the corporate responsibility to respect human rights.
LAPFF 	Engagement with companies in the UK and abroad, assisting LGPS funds with sustainable and ethical investment challenges.	LAPFF conducts engagements that are complementary to LGPSC's stewardship theme engagements.
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 	Largest RI-related organisation globally. Helps with research, policy influence and collaborative engagement.	LGPSC has been a member since its inception. We report on LGPSC's active participation in PRI through submission of an annual report. We also participate through membership of PRI Working Groups and collaborative engagements. By working with PRI and other investors we can increase our impact and engage with a broader set of companies on a broader set of issues. In 2023, we received our summary PRI assessment report and were awarded five stars, the maximum score in five out of six pillars.
INVESTMENT ASSOCIATION 	The Investment Association is a trade body representing UK investment managers.	In 2023, the group continued to work on: supporting the development of climate-related disclosure, improving how firms communicate sustainability matters, supporting Race to Zero and the Net Zero Asset Managers.

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 2023 LGPSC continued to participate in an Investor Forum coordinated working group focused on Investing in the Defence Industry. LGPSC and the Investor Forum collaborate for the consultation responses on the review of Corporate Governance Code and FCA Premium Listings.
THE LOCAL GOVERNMENT PENSION SCHEME ADVISORY BOARD 	LGPSC is a member of an RI Advisory Group to SAB. Discussions are held on RI relevant policies and standards that will have direct or indirect implications for LGPS funds and pools.	Discussions during 2023 have centred around themes such as impact investing, DLUHC's plan to introduce mandatory TFCO reporting and the Economic Activity of Public Bodies (Overseas Matters) Bill.
TPI 	TPI is a research and data centre focussing on company policies and performances including the collaboration with CA100+ Benchmark Framework. The TPI Centre's analysis considers corporate climate governance and carbon emissions. LGPSC's Director of Responsible Investment represents LGPSC on the TPI Limited board contributing to the governance and oversight of this important initiative.	LGPSC uses TPI dataset directly to inform engagement and voting on behalf of Partner Funds. TPI has recently reported on the progress made by food producers on their journey towards net zero, a critical sector in terms of the transition. TPI has also reported on sovereign climate related opportunities and risks (a previously under researched asset class in respect of climate).
UKSIF 	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. In addition, the group provided feedback to parliament on the green taxonomy and the ISSB standards.

- 2.83 LGPS Central also respond to various national and international industry consultations on behalf of it's Partner Funds, ensuring participation in wider industry initiatives and regulation.

Collaborative engagement and industry consultation example

Collaborative engagement on Microfibre pollution. LGPS Central participated in a collaborative engagement that won the Environmental Finance Sustainable Investment Award for 'ESG engagement initiative of the year, EMEA' in 2023. The engagement focused on preventing marine microfibre pollution. Alongside 30 institutional investors, LGPS Central engaged with manufacturers and policymakers to introduce technological solutions to prevent synthetic microfibres from entering the marine environment. Microfibre pollution poses a significant threat to biodiversity and human health. Companies who do not effectively manage microfibre pollution will face reputational risks and litigation risks.

Outcome. LGPS Central co-signed a letter to DEFRA supporting recommendations to mandate the installation of microfibre filters in new washing machines by 2025.

- 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 significant proportion of the Fund is invested in equities, although this is reducing as an output of the latest SAA review. equities are expected to provide better returns than fixed income assets over the long term. The risk with this strategy is that equity values fall significantly in the short-term and they fail to outperform fixed-income assets in the long term. This risk is managed through reliance on the funding strategy which monitors the positive cash flows of the Fund and the long-term covenant of the main employing bodies. This then allows the Fund to take a long-term investment perspective and maintain a high exposure to equities which, over time are expected to deliver better financial returns.
- 2.86 **Interest rates.** Changes in interest rates will impact the level of the Fund's liabilities and the value of the Fund's investment in fixed income. Little can be done in relation to the change in liabilities; this is a fundamental part of the Fund. To mitigate the risk of capital loss on fixed income assets from interest rate changes, the Fund's SAA allows scope to adjust the exposure to fixed income, should it be necessary.
- 2.87 **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 **Pension Fund investment managers underperform their target Benchmarks.** The majority of the Fund is invested through external investment managers; this risk is partially managed by keeping a substantial share of the Fund invested passively and by ensuring that the active managers have complementary styles. Each manager, either via the Fund or LGPS Central, has an investment management agreement in place which sets out the relevant investment benchmark, investment performance target, asset allocation ranges and any investment restrictions. This constrains the investment managers from deviating significantly from the intended approach, while permitting sufficient flexibility to allow the manager to reach their investment performance target. All this is allied to

regular monitoring. Investments made through LGPS Central are also managed by external managers. These managers are not directly employed by the Fund therefore the Fund does not have the same control over monitoring their performance. However, the Fund works closely with LGPS Central in monitoring investment manager performance.

2.89 Investment risk is managed through diversification and through a large proportion of the Fund being invested in liquid investments. The Fund invests across asset classes e.g., equities, fixed income, property, private equity, private debt, infrastructure and cash; also, across managers and styles, geographical areas e.g. UK, Overseas, Emerging Markets; and lastly through ensuring managers maintain a diversified portfolio of investments within their mandate. Foreign currency risk is not currently hedged but the Fund has detailed its approach to this risk in a Currency Hedging Policy which is available on the Fund's website. [Staffordshire Pension Fund - Currency Hedging Policy \(staffspf.org.uk\)](https://staffspf.org.uk/Currency-Hedging-Policy).

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 benchmarks. The Pensions Panel receives reports which monitor such risks quarterly. Below is an excerpt of the reporting received in December 2023;

RISK STATISTICS	1 Yr	3 Yrs	5 Yrs
Return	11.02	9.43	8.19
Index Return	11.12	9.51	8.26
Standard Deviation	8.86	11.41	13.24
Tracking Error	0.03	0.05	0.06
Information Ratio	-3.43	-1.51	-1.19
Sharpe Ratio	0.99	0.76	0.56
Treynor Ratio	8.79	8.68	7.37

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

Systemic Risks

2.92 **Climate Change.** The Fund has received Climate Risk Management Reports from LGPS Central 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 targets to reduce the carbon intensity of the Fund. All these documents are published annually which is possible due to the detailed information included in the Fund's annual Climate Risk Management Report provided by LGPS Central. Climate change is a risk for asset owners that cannot be fully diversified, almost all asset classes, sectors, and regions are likely to be affected by the physical, policy or market-related consequences of climate change over the long term. The Climate Risk Management Report benchmarks the Fund's carbon intensity

annually, analyses climate related risks and opportunities and considers the financial consequences for the Fund given plausible climate change scenarios. The Report then recommends areas for the Fund to improve its resilience to climate change.

- 2.93 As part of the Fund's SAA review work undertaken by the Fund's advisers Hymans Robertson, in preparation for the 2022 triennial valuation, modelling was undertaken to assess the potential decarbonisation path for the Fund. The output from this was used to help design the initial targets contained in the Fund's Climate Change Strategy and built into the Fund's new SAA. As shown in paragraph 2.27, positive allocations to climate friendly asset classes have been taking place over the past few years which will likely only continue, especially as the Fund is moving away from listed equities towards private market investments.
- 2.94 The Fund works collaboratively with LAPFF, LGPS Central and other Partner Funds on systemic market risks, such as climate change. LGPS Central has been an active member of Climate Action 100+ (CA100+) since inception. CA100+ engages 170 companies across the globe that are responsible for 80% of industrial carbon emissions globally. The project has been ramped up through a benchmarking tool asking companies to set an explicit target of net-zero emissions by 2050, and to provide verification through short and medium targets, as well as decarbonisation strategies.
- 2.95 **Biodiversity Loss** both LAPFF and LGPS central participate in collaborative initiatives on biodiversity. Natural capital is one of the 4 engagement themes for LGPS central for the next three years.

Effectiveness

- 2.96 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.
- 2.97 The modelling carried out by the Fund's Advisers 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 and an SAA which best is shown to best cope with these is selected. The diversification of investments across the risk spectrum, geographies and asset type is also a key mitigation against risk.
- 2.98 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. However, a full review of all the high-level objectives is planned in 2024/25 to ensure they are still appropriate and that no areas are not covered.

Principle 5

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

- 2.99 The 2023/24 Annual Stewardship Report has been reviewed by the Fund's Pensions Committee, RI&E Staff at LGPS Central and several Senior Fund Officers. This review and challenge have given 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.
- 2.100 The Fund's ISS is reviewed annually by the Pensions Panel, including the Fund's investment beliefs, as detailed in Principle 1, before submission to the Pensions Committee for formal approval. The investment beliefs include specific beliefs relating to RI&E and the stewardship of assets and ensures that these key themes are incorporated throughout the Fund's investment process. A major review of the investment beliefs took place in 2019 where additional information on RI&E and stewardship was included.
- 2.101 The Pensions Panel receive a quarterly RI&E report, which includes the LGPS Central and LAPFF quarterly engagement reports as appendices. Other investment managers also produce quarterly investment reports which include RI&E information, and these are routinely received by the Fund. The Fund's investment managers also provide RI&E policy documents, which are publicly available on their websites, (e.g. [LGIM ESG Impact Report](#)) and the Fund provides a link to a selection of these from its own website ([Staffordshire Pension Fund - Responsible Investment & Engagement \(staffspf.org.uk\)](https://staffspf.org.uk)), ensuring that reporting is accessible to stakeholders. For the reports that the Fund produces, it aims to ensure that all reports are clear and understandable for the Pensions Committee, Panel Members and the wider public, whilst still containing sufficient detail and coverage of the subjects involved. Presentations at Pensions Committee and Pensions Panel meetings by LGPS Central, investment managers, 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 a Northern Trust, the Fund's performance measurer, presenting to the Pensions Committee training session in November 2023, explaining how performance of investments is calculated and presented. This helped elected members abilities to make informed decisions based on the performance information presented to them at meetings.

- 2.102 The Fund receives an annual Climate Risk Management Report from LGPS Central, which assesses the Fund's carbon footprint and other climate related metrics and contains Climate Scenario Analysis and a Climate Stewardship Plan. This report includes recommendations on how the Fund could improve its policies and processes in relation to climate change, many of which have been achieved or significant progress has been made on achieving.
- 2.103 LGPS Central carry out an AAF controls audit of investment operations annually. The controls testing has included assessment of the accuracy of RI&E data implementation in relation to LGPS Central's Voting Policy, voting implementation, and accuracy of voting data. In addition to the AAF controls work, LGPS Central carries out quarterly internal quality controls of engagement and voting data before it is shared with Partner Funds through regular Stewardship Updates. During 2023/24, LGPS Central rolled out mandatory training for all new hires on RI&E and provided periodic training to colleagues. In addition, they strengthened the governance procedures around their watchlist management. The watchlist identifies companies in the portfolio exposed to controversies, including controversies associated with the UN Global Compact.
- 2.104 LGPS Central's key stewardship themes for engagement were identified collaboratively with the Partner Funds and allow focus on the most pressing issues to the Partner Funds. In 2023 LGPS Central in collaboration with the 8 Partner Funds reviewed and update of the key engagement themes to as below.
- Climate Change
 - Natural Capital
 - Sensitive and Topical Activities and
 - Human Rights.
- 2.105 An LGPS Central Partner Fund Quarterly Responsible Investment and Engagement working group allows for information-sharing and debate on LGPS Central's provision of RI&E services. Officers from the 8 Partner Funds, including Staffordshire, meet to discuss RI&E matters, discuss key topics, and suggest future areas of focus for the LGPS Central RI&E team. The performance of the LGPS Central RI&E team is also reviewed regularly by this group. LGPS Central seeks Partner Fund views when identifying and revising Stewardship Themes and holds an Annual Responsible Investment Summits to facilitate a deeper debate on key topics (climate change; net zero alignment etc). Members of the LGPS central RI&E team regularly present to the Pensions Committee and Panel and provide information and training to elected members and officers to help further their knowledge on topics being discussed at those meetings.
- 2.106 With regards to the improvement in Stewardship of assets, the Carbon metrics in the 2023 (fourth) Climate Risk Management Report produced by

LGPS Central showed a 55% reduction in the Fund's carbon footprint since 2020 and positive development against other metrics. The Climate Risk Management Report is supplied annually, which provides a useful update on the Fund's progress in reducing emissions and includes the required data for the Fund to also be able to produce its annual TCFD report.

- 2.107 In the Fund's Climate Change Strategy, first published in 2022, four objectives have been set with a target date of 2030 to assist the Fund in achieving its aim of being carbon net zero by 2050. The Fund plans to review its Climate Change Strategy every 3 years, and report progress against the targets set annually. The 3 yearly reviews will look at improving targets as more reliable climate data becomes available (e.g. Scope 3 emissions) and incorporating further asset classes into the targets as more information becomes widely available on alternative asset classes.
- 2.108 Staffordshire Pension Fund is subject to audit annually by its external auditors and regular audits by its internal auditors. The latest external audit report raised no material issues with the Fund's Statement of Accounts. The latest internal audit report for Pension Fund investments gave a substantial assurance (the highest available). Governance of the Pension Fund is also monitored by the Local Pensions Board, who, amongst other things, help ensure that the Staffordshire Pension Fund is managed and administered effectively and efficiently, 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. The scheme's benefits and terms are set out in regulations passed through parliament. Membership is automatic for nearly all eligible employees taken on or before the age of 75, but they can opt out.
- 3.1 The Staffordshire Pension Fund administers the Local Government Pension Scheme (LGPS) for over 500 employers and over 119,000 members in the Staffordshire area. At 31 March 2024 Staffordshire Pension Fund had 34,413 Active members, 42,815 Deferred members, 42,248 Retired members and spouse/Dependant members. The average age of all Fund

members is 55 years. For active members (those currently paying into the scheme) this is 46.

3.2 At 31 March 2024 the Fund had net assets with a value totalling £7.5bn. Employers include:

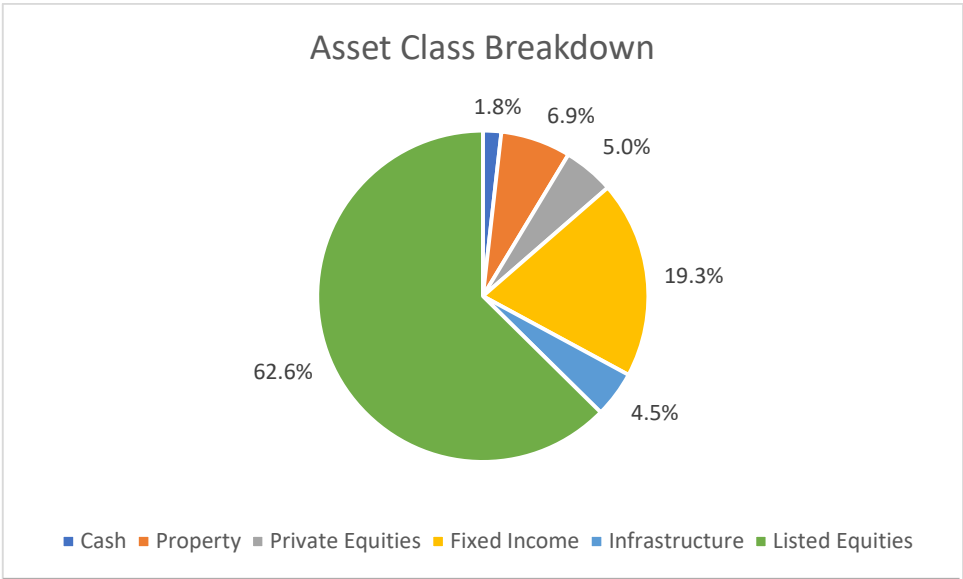
- *local councils*
- *universities, academies*
- *town and parish councils*
- *housing associations*
- *charities*

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.

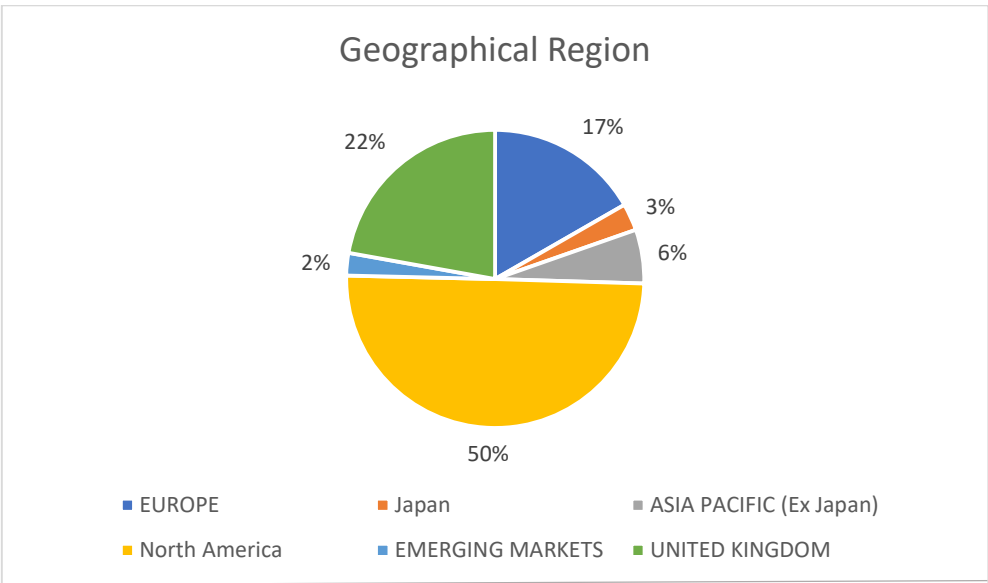
3.3 The investment horizon of the Staffordshire Pension Fund is long term, given the ongoing nature of the Fund. As per the Funding strategy statement, the actuary assumes a 20 year time horizon for local authority and academy employers and 15 years for Colleges and Universities, when setting contribution levels and an investment strategy with the required likelihood of success. This is due to the maturity of each type of employer group. Therefore, assets are invested with a long-term perspective. This is evidenced by the high weighting to equities (62.6% at 31 March 2024).

3.4 Consideration is currently being given to introducing multiple investment strategies by the Actuary, Investment Consultants and Fund Officers. This would be to better manage the mismatch between assets and liabilities by better matching a portion of Fund assets to some of the Fund's liabilities. Currently there is one investment strategy, which is appropriate for the liability profile of the whole Fund.

3.5 Breakdown of asset classes by % at 31 March 2024:



3.6 Breakdown of assets by region at 31 March 2024:



3.7 Fund assets are well-diversified, both by asset type and geographical location. This helps to reduce investment risk and volatility of returns, whilst still providing a sufficient level of returns to ensure that all 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 members, or the contributions paid by individual members are impacted by the investment returns. Hence the focus on

contribution rates paid by the employers, the cost of which are 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 \(staffspf.org.uk\)](https://staffspf.org.uk), which details how the Fund will communicate with its members, employers and other stakeholders. Methods of communication used are varied to suit the needs of the different stakeholders. These are regularly reviewed to ensure they are the most effective possible. Communication methods used include;

- *“My Pensions Portal” (allowing members to access their pensions membership records and produce their own pension quotes),*
- *the Pension Fund website,*
- *an annual newsletter,*
- *an annual AGM,*
- *Employer meetings,*
- *Emails,*
- *letters.*

The annual AGM in particular allows for stakeholders of the Fund, especially employers, to air any views on the Fund and discuss with officers any issues or priorities they have. There have been no ESG issues raised by employers over recent years during these meetings.

- 3.9 The level 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 members who are not accessing their data in that way. As is shown below the uptake varies between types of members. Targeted communication campaigns are being used to help encourage members to access the portal.

Communication and engagement summary

Engagement with online portals	Percentage as at 31 March 2024
% of active members registered	47.4%
% of deferred member registered	29.7%
% of pensioner and survivor members	25.4%
% total of all scheme members registered for self-service	31.5%
% of all registered users that have logged onto the service in the last 12 months	68.0%

3.10

The below table gives a summary of the number of each type of communication undertaken in 2023-24.

Communication

Number of scheme member events held in year (total of in-person and online)	3
Number of employer engagement events held in year (in-person and online)	5
Number of times a communication (i.e. newsletter) issued to:	
a) Active members	1
b) Deferred 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&E and particularly engagement or divestment requests. In addition to formal FOIs the Fund also receives emails and letters from scheme members, often via Councillors, regarding its investments and specific RI&E themes. These are also carefully considered by Officers and responded to, fully informing the correspondent of the policies and procedure the Fund has in place in relation to its investments. In 2023/24 the Fund received FOI no requests regarding the RI&E of its investments. This has coincided with an increase in information routinely put in the public domain and policies which have been put into place. It is hoped that this is providing stakeholders with the information they require, reducing the need for them to issue FOI requests. In previous years the Fund has received questions regarding the stewardship of its investments via this route. For example, the Fund has received FOI requests regarding investments in Fossil Fuels. These are responded to by detailing the Fund's policy of engagement rather than divestment and referring the requestor to the Fund's RI&E section of the website for details of its approach to RI&E along with links to the quarterly RI&E report within Pensions Panel papers.

3.12 The Pension Fund Actuary assesses the funding level of the Staffordshire Pension Fund every 3 years in line with regulations. The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was at 31 March 2022. This valuation revealed that the Fund's assets, which at 31 March 2022 were valued at £6,833 million, were sufficient to meet 120% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The

resulting surplus at the 2022 valuation was £1,137 million. Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure outlined in the FSS. Individual employers' contributions for the period 1 April 2023 to 31 March 2026 were set in accordance with the Fund's funding policy also detailed in the FSS.

- 3.13 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.
- 3.14 Pensions Committee members receive training on various RI&E matters and how stewardship is integrated into the Fund's investment process. This allows members to give greater scrutiny to the investment process and provide further assurance. A knowledge assessment is carried out annually for Pensions Committee and Board members, to guide areas where further knowledge needs to be developed. The 2023 training needs analysis highlighted performance measurement and procurement as areas in which members felt they have less knowledge, so training sessions on these areas were provided to members in July and November 2023 by Hymans Robertson, SCC Procurement Officers and Northern Trust. The performance session included how stewardship and responsible investment can impact on the performance of assets and the risks in investment. During 2023/24 all Pensions Committee members were given access to Hymans Robertson's online training portal Aspire, which includes training on responsible investment in its investments module. This allowed members to complete the training at their own pace at a time convenient to them. Members were advised of specific modules which may be useful to complete ahead of Committee meetings based on the items on the agenda.
- 3.15 Staffordshire Pension Fund's Annual Report and Accounts including information on the RI&E activity undertaken by the Fund in the year, is available publicly on the Pension Fund website. [Staffordshire Pension Fund - Reports and accounts \(staffspf.org.uk\)](https://staffspf.org.uk/reports-and-accounts)
- 3.16 An increase in FOI requests and calls for fossil fuel divestment in past years was an influence in the Fund deciding to produce a Climate Change Strategy, and to help clearly explain to all stakeholders the steps being taken to address the issue.
- 3.17 The Fund receives quarterly reports from all its managers which cover the performance of the investments they manage, RI&E, and voting. During 2023/24 the Fund's Climate Stewardship Plan facilitated the Fund's monitoring of managers engagement with companies which contribute most to the climate related risks and carbon footprint of the Fund. Progress against this was reported quarterly to the Pensions Panel. Following the receipt of the latest Climate Risk Management Report from LGPS Central,

which did not include a Climate Stewardship plan, it has been decided to instead focus on a more general stewardship policy, covering engagement on a wider variety of topics, rather than just climate focused engagement.

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 are aligned with its long-term interests on all issues including RI&E considerations. This is done through regular meetings and dialogue, and by requesting and viewing the applicable policies relating to RI&E.
- 3.19 The Fund requires that all its investment managers produce an RI&E report at least quarterly, detailing engagement, stewardship and voting with investee companies on behalf of the Fund. All the Fund's equity investment managers are signatories of the PRI, including those within LGPS Central equity products, as are most other investment managers across other asset classes. An increasing area of focus for investment managers recently is to report on their alignment with the 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 managers' convictions against RI&E. 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 is from one of the Fund's infrastructure investment managers Equitix. Equitix Fund VI invests predominantly in social infrastructure, renewable energy and environmental services. Equitix RI&E reporting provides the Fund with a summary on the sustainability contribution of the Fund, listing metrics, such as renewable electricity generation, number of smart meters installed and which UN Sustainable Development Goals these align with. This allows the Fund to clearly see the sustainability contributions the investment is making. See below extract from their reporting;

High Speed 1		Viridor Energy	
HS1 owns, operates and maintains the UK's only high-speed rail line, as well as stations along the route, between St Pancras International in London and the Channel Tunnel, connecting the UK to cities across Europe, including Paris, Brussels and Amsterdam.		Viridor Energy is a market leading developer, owner and operator of 11 energy recovery facilities (ERF) across the UK, diverting residual waste from landfill sites to generate heat and power.	
Sector	Rail Infrastructure	Sector	Energy from Waste
Location	UK	Location	UK
Global Sustainable Development Goal targets	Target 9.4: More sustainable infrastructure 	Global Sustainable Development Goal targets	Target 9.4: More sustainable infrastructure 
	Target 12.6: Sustainable practices 		Target 12.6: Sustainable practices 
Capacity	109km high speed rail line	Capacity	280 MW electricity generation 28 MWth heat generation
Internal Goals	Near term 1.5° Celsius target 	Internal Goals	Near term 1.5° Celsius target and net zero target 

- 3.22 In the Fund's annual Climate Risk Management Report from LGPS Central, carbon related metrics, consistent with the requirements of TCFD reporting are included, allowing annual publication of TCFD reports for the Fund. The Climate Risk Management 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.
- 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.*
- 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 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.
- 3.27 The Fund is a Partner Fund of the LGPS Central pool, and LGPS Central is an important partner to the Fund on matters of RI&E and Stewardship, through collaboration, stewardship of assets managed by the pool and stewardship advice. To ensure RI&E is fully considered in all investments LGPS Central have established an overarching KPI that 100% of product launches must receive Responsible Investment Integrated Status (RIIS).
- 3.28 RIIS is awarded to a product if responsible investment will be integrated into the day-to-day management of the product in a manner that meets standards agreed by LGPS Central's Investment Committee. The process is designed to give internal and external stakeholders comfort that responsible investment is being integrated with the breadth and quality required. The criteria for products to receive RIIS is formalised via an asset class specific RIIS Policy, which is reviewed and approved by the LGPS Central Investment Committee.
- 3.29 The RIIS policy establishes the due diligence process that must be followed and the responsible investment standards that must be achieved when a product is launched in that asset class. Each asset class specific RIIS policy is co-sponsored by the Director of RI&E and the relevant Investment Director for the asset class. By requiring co-sponsorship of the RIIS proposal, LGPS Central ensure that RI&E is integrated into investment processes and decision making. The responsible investment due diligence for subsequent fund/product launches is reviewed by the Investment Committee. Provided the Committee is satisfied that the fund manager meets LGPS Central's responsible investment expectations for the asset class, the due diligence will be approved, and the fund launched if all other aspects of due diligence are also signed off. Some examples are provided below of how LGPS Central incorporate RIIS requirements and how they differ depending on the fund and asset classes in question.

3.30

ACTIVE EQUITIES-

LGPS Central has several investment beliefs specific to active equities which guide their 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. LGPS Central, along with the Fund, place a lot of value on the manager selection process to ensure that these beliefs are being followed by the manager. Post-investment, monitoring in active equities is primarily achieved by LGPS Central analysing the portfolios in Bloomberg, inspecting managers' responses to quarterly data requests, and questioning managers during quarterly calls. LGPS Central 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 LGPS Central 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, LGPS Central focuses its engagement and voting activity on four Stewardship Themes which are agreed with Partner Funds (see paragraph 2.97 above).

3.32

FIXED INCOME-

LGPS Central believe that the extent to which, and the way ESG is integrated into fixed income investing, varies significantly by the type of issuer (corporate, sovereign, supranational, municipal, etc) and a one-size fits all approach is unlikely to be optimal. LGPS Central reflect this belief in their selection process for Fixed Income mandates. During the selection of LGPS Central'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. LGPS Central monitor managers ongoing integration of ESG considerations during quarterly review meetings, where they discuss specific issuers.

3.33

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 & disclosure. If a private market fund is considered high risk, either due to its sector or geographical location, a more rigorous due diligence assessment is conducted. The findings of the due diligence report are considered as part of the Private Markets Investment Committee approval process. Following appointment, LGPS Central request that the manager report on material ESG incidents. For co-investments an responsible investment risks report which is bespoke to the investment is produced.

- 3.34 An assessment of RI&E is a core part of LGPS Central's manager selection process. Proposals for product development are discussed and challenged at the Investment Committee and the Private Markets Investment Committee. The Director of RI&E is a voting member of the Investment Committee and Private Markets Investment Committee. These committees scrutinise investment proposals at a preliminary stage and authorise appropriate expenditure in connection with full due diligence. The responsible investment and Stewardship implications are first discussed and scrutinised during this initial preliminary review. If a proposal is approved, a due diligence report, including due diligence by the RI&E team, is presented to the Investment Committee or Private Markets Investment Committee for scrutiny and final approval.

3.35

Private equity manager selection example

The LGPS Central RI&E team worked closely with their private markets colleagues during the selection of five new private equity managers during 2023. During an initial screening of potential managers, the Private Markets team considered a range of factors including ESG integration and stewardship. The results of this preliminary responsible investment review contributed to the overall consideration of the potential manager, with findings provided in the Preliminary Investment Report. The RI&E team are provided with unrestricted access to the data room, containing data, policies and other documentation provided by the manager, allowing for a greater understanding of the ESG credentials of the managers. Following this, the RI&E team conducted an responsible investment focused due diligence meeting with each manager, providing an opportunity for the team to probe deeper into the responsible investment practices of the managers to identify and outline any relevant concerns. From this due diligence, the RI&E team provided written reports to the Private Markets team, highlighting the findings of the due diligence. These reports are ultimately incorporated into the Private Markets Investment Committee submission for consideration.

- 3.36 The Fund has delegated voting and day to day engagement with investee companies to its investment managers. LGPS Central Limited and investment manager's agreements set out how RI&E factors are considered within each portfolio.
- 3.37 For non-listed investments such as private equity and private debt, RI&E 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 LGPS central 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&E is an area which is rapidly developing. The Fund now regularly receives RI&E reports from many of its private market managers. In

coming years, and along with market trends, the Fund will look to increase the RI&E integration of private market assets (i.e. non-estimated carbon emission data, which is not currently widely available).

- 3.39 In 2023 over 800 engagements were undertaken by private equity, private credit and infrastructure managers on LGPS Central's portfolio (approximately 6% PE, 38% PC, 56% Infra). The objective being to ensure value growth and value retention. The main topics engaged on were Science Based Targets (SBT) 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. See an example summary of an engagement below;

Case Study (PC)	The manager discussed diverse hiring efforts and employee satisfaction across the firm, resulting in the company hiring a female CFO in March 2023. The manager also required the company to complete an annual ESG questionnaire, which ultimately allowed the company to comply with IFRS reporting standards. The manager is currently engaging with the company on a variety of ESG topics, such as converting to bio-diesel and using electricity at ports to power auxiliary power vs. burning dirty diesel etc. to get the company to strive toward more ESG friendly practices.
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- 3.40 LGPS Central has developed a red, amber, yellow, green (RAYG) rating for manager monitoring, of which RI&E is a core component. These ratings get updated each quarter based on the discussion at the manager meetings. The RAYG rating is split into four possible ratings: red (manager fails to convince, warrants formal review with potential manager exit), amber (manager warrants closer scrutiny with potential for going on "watch"), yellow (manager is fulfilling role but with minor areas of concern) and green (manager shows clear strengths tailored to requirement). They score managers on four components of their RI&E approach:
- *philosophy, people, and process*
 - *evidence of integration*
 - *engagement with portfolio companies*
 - *climate risk management.*

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

- 3.41 For active equity and fixed income funds, LGPS Central, with whom all listed investments will eventually be held, require external public market fund managers to complete a quarterly ESG questionnaire. Some disclosure items are "by exception" (for example alerting changes in ESG process, personnel, or portfolio positions) and others are mandatory. LGPS Central receives quarterly data from external fund managers on the number of engagements undertaken and the corresponding weights in the portfolio. They set expectations regarding the volume and quality of engagement and assess climate risk through metrics, including portfolio carbon footprint and greenhouse gas (GHG) data coverage.
- 3.42 The LGPS Central RI&E team attends quarterly monitoring meetings with external managers. The purpose of RI&E monitoring is to analyse the level

of ESG risk and climate risk embedded in the portfolio and to determine whether the manager is successfully integrating ESG considerations into investment decision-making in a manner consistent with the process described during the initial due diligence, including progress on their engagement activities. Monitoring is achieved through a combination of LGPS Central's own internal portfolio analysis, inspection of the manager's responses to quarterly data requests, and via dialogue at the quarterly meetings.

- 3.43 For private equity funds, LGPS Central are developing a new risk-based approach to monitoring private market investments. Data collected during the due diligence process will prescribe the depth and frequency of the monitoring allocated to a manager. The monitoring framework will eventually be extended to other asset classes. LGPS Central also set and track ESG-related KPIs for all their co-investments. KPIs are measured on an annual basis and revisited each year to ensure relevancy to company strategy and/or regulatory requirements. During the year, LGPS Central held meetings with most of their co-investment sponsors to discuss KPI's.

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&E 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 LGPS Central, to ensure that managers are upholding their fiduciary duty to protect long term shareholder interest. Most of the UK-based external managers for LGPS Central ACS funds across active equity and active fixed income are currently signatories to the UK Stewardship Code, which provides assurance of the ability and ambition of these managers to carry out stewardship duties at best practice level. As of 31 March 2024, 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 promote best practice in corporate governance which it considers to be consistent with maximising long term investment returns. The Fund monitors its managers and service providers against its governance policies, responsible investment expectations set in the Fund's Climate Change Strategy, PRI responsible investment commitment and LGPS Centrals Responsible Investment framework.

- 3.45 Investment managers are monitored by the Pensions Panel, with quarterly performance and RI&E information reported for each directly held investment manager. The Fund aims for investment managers to meet the Pensions Panel at least once a year in addition to further, more regular meetings with Fund Officers. The Fund employs the services of an investment advisory firm Hymans Robertson and two independent Investment Advisers, who, along with Officers of the Fund, closely monitor the performance of the Fund's managers. The Investment Advisers will attend Pensions Panel meetings and assist the Panel in the questioning of the managers. The Investment Adviser's objectives were reviewed at the Pensions Panel meeting in June 2023 and include as an objective, for the Advisers 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 Pensions Panel meeting by Members, Officers and Advisers. Issues can then be discussed directly with investment managers and ultimately contracts can be terminated if it is felt necessary. Investment managers appointed via the pool are monitored by LGPS Central. Any issues can be raised by Partner Funds in the monthly Investment Working Group meetings. The Fund is also an active participant in the quarterly LGPS Central Practitioners Advisory Forum, which enables the Fund to ensure LGPS Central delivers in line with the Fund's expectations. In 2023 Staffordshire acted as the secretariat for the meeting Investment Working Group meetings. An example of an issue raised by the during a LGPS Central Practitioners Advisory Forum meeting was the length of time it was taking to appoint new managers. LGPS Central responded by introducing a new streamlined manager selection policy.
- 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 on those companies with material corporate governance failings whom they have been engaging with.
- 3.48 For investments made through LGPS Central, LGPS Central 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 to effectively to drive positive company change. During 2023 LGPS Central found there were a few occasions where the level of engagement disclosure by investment managers was unsatisfactory, or where the link between an engagement and subsequent investment decision-making was not clear. In these instances, fund managers were marked down during LGPS Central's RAYG rating (red -

amber – yellow – green) review and LGPS Central discussed its concerns with the managers in question in quarterly meetings.

3.49

LGPS change of RAYG rating example

In Q4 of 2023, the LGPS Central RI&E team took the decision to downgrade the RAYG rating of one of their external managers to ‘Amber’ (manager warrants closer scrutiny with potential for going on “watch”). Despite the manager demonstrating evidence of ESG integration and robust engagements, they had observed a growing discrepancy between the ESG issue priorities identified by the sustainability team, who conducted the engagements, and the ESG issues highlighted in the fundamental analysis of the company by the investment teams. This disconnect persisted over multiple quarters, leading to the eventual downgrade to ‘Amber’. The downgrade was promptly communicated to the investment teams at LGPS Central and was followed up with a meeting with the manager in question. Attended by both the LGPS Central investment team and RI&E teams, this meeting provided an opportunity to articulate the reasons behind the downgrade and express their expectations for addressing these concerns.

Outcome. The manager acknowledged LGPS Central’s concerns and highlighted that they would aim to demonstrate the alignment between their teams in more detail and more clearly in future meetings. LGPS Central will engage in future review meetings to assess the manager’s progress in aligning with the Fund’s expectations for ESG integration.

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, LGPS Central and EOS at Federated Hermes (the stewardship provider to LGPS Central). The Fund expects directly held investment managers and LGPS Central to report on engagement and voting carried out on behalf of the Fund, quarterly. LAPFF also report to the Fund quarterly on the engagements they have carried out. As a member of LAPFF the Fund is able to attend their quarterly meetings and their annual Responsible Investment Conference, giving direct dialogue with LAPFF regarding engagements.
- 4.1 During due diligence processes and regular meetings with investment managers and via the LGPS Central working groups, the Fund ensures that managers are engaging with companies on topics of material significance. The Fund regularly contacts managers and LGPS Central, following news

articles, FOI requests or developments concerning investment managers or underlying companies, for comment as appropriate.

- 4.2 During 2023 and Q1 2024, EOS engaged with more than 1,785 companies on behalf of the Fund on topics across environment, social, governance strategy, risk and communication. Progress against objectives set for the engagements are also reported to the Fund, via LGPS Central, from EOS.
- 4.3 In 2023 the Fund published its third annual Climate Stewardship Plan to help guide engagement with managers and companies on climate change. The Climate Stewardship Plan focused on the 10 investee companies, from a variety of sectors such as Energy, Materials, Mining, Cement and Chemicals, which have most impact on the Fund's climate risk. The percentage of CA100+ Benchmark Indicators met and TPI Management Quality score was also provided for these 10 companies in the 2023 Climate Risk Management Report, along with suggested climate related topics to be discussed with each individual manager during meetings. Progress against the Climate Stewardship plan was reported quarterly to the Pensions Panel.
- 4.4 LAPFF conducts engagements with companies on behalf of its member LGPS Funds. In 2023, LAPFF engaged 563 companies, sent over 609 correspondences, attended 84 meetings and 7 AGMs, across a spectrum of material ESG issues. In these engagements, LAPFF saw 51 instances of improvements or change in progress.
- 4.5 It is not feasible for LGPS Central 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 specialists. 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 which are set for a three-year period. For 2023 these were.
 - Climate Change
 - Plastic Pollution
 - Responsible Tax Behaviour
 - Human Right

In 2024 the four themes were updated after consultation with Partner Fund to the list in paragraph 2.79.

- 4.6 Given that engagement requires perseverance and patience, it is expected that the new themes will be pursued over a three-year horizon.

Engagement examples

4.7

Responsible Marketing Engagement Example

LGPS Central's stewardship provider, EOS at Federated Hermes raised concerns regarding the absence of Nestle SA company advocacy for the industry to stop the marketing of unhealthy products to children under 18 years of age and the importance of extending its Responsible Marketing to Children Policy to all children under the age of 18. EOS challenged marketing policies that allow for up to 25% of marketing to target children under 12 and questioned why its 'Responsible Marketing to Children Policy' cannot be extended to all children under the age of 18. The company acknowledged their concerns but argued that there needs to be an industry-wide level-playing field on marketing policy. As a result, EOS pushed the company to evidence that it is advocating for the industry to stop the marketing of unhealthy products to children under 18 years of age as well extending its own policy to this whole age group. EOS participated in a collaborative Access to Nutrition Index engagement with the company's head of public affairs, head of food, and head of governance in Q4 2022 to further challenge the company on responsible marketing to children.

Outcome. The company raised its minimum age for marketing to children from 13 years to 16 years and its advocacy plan to raise industry standards. The company reiterated its recent commitment during a collaborative engagement with the Healthy Markets Coalition and the company's global head of food and global head of public affairs in Q4 2022. During ShareAction's Healthy Markets Coalition in July 2023, EOS found that the company is strengthening its responsible marketing to children, and refrains from marketing indulgent products or portions over a certain number of calories to children under 16 years of age

4.8

Climate Change Engagement Example

LGPS Central's stewardship provider, EOS at Federated Hermes, spoke with Phillips 66's sustainability and ESG team about its climate lobbying disclosures, human rights impact assessments, and greenhouse gas reductions strategies. On climate lobbying disclosure, EOS asked the company to provide reporting demonstrating alignments with trade associations, and where there were misalignments, decisions the company took to resolve it. EOS pointed to Royal Dutch Shell's lobbying disclosures as best practice reporting.

Outcome. Later in 2023, EOS met with the company in-person after it published its 2023 Sustainability Report which included a lobbying report. EOS were pleased to see the report highlighting the four criteria areas against which the company assesses trade association alignment. The report also includes the recent collaborations the company has undertaken supporting policies for lower-carbon energy alternatives. The company highlighted that no misalignment with its current trade associations was identified. EOS will continue to follow Phillips 66 as it engages with trade associations and focus engagement on its climate strategy.

4.9

Human Rights Engagement Example

In Q1 2024 LAPFF engaged with five luxury goods companies, several of which were new engagements for the Forum. Meetings were held with key industry players: Richemont SA, Kering SA, and Louis Vuitton Moët Hennessy. Prior to these meetings, it was recognised that LAPFF's requests would need to be varied due to the differing levels of disclosure and transparency regarding human rights programmes, risk management, and supply chain due diligence among the companies. These engagements provided LAPFF with valuable opportunities to initiate dialogues, aiming to establish good relationships and gain a deeper understanding of the companies' current practices. Moreover, these discussions allowed LAPFF to present an investor's perspective on why enhanced disclosures are critical, demonstrating a company's commitment to mitigating legal and reputational risks associated with human rights issues.

Outcome. LAPFF has calls scheduled with Moncler and Burberry for Q2 of 2024 and will also aim to build upon the initial engagements held with companies in Q1 2024, in the upcoming months. This is to ensure robust human rights risk management is viewed not only as a company responsibility, but also a key factor in safeguarding the companies' long term value and reputation. LAPFF will continue to monitor these companies' practices and disclosures, providing feedback and recommendations as necessary to ensure that human rights considerations are being adequately addressed and integrated into their business models and supply chain operations.

4.10

Climate Change Engagement Example

During Q3 2023, EOS, LGPS Central's engagement partner, conducted a meeting with the Enel SpA to gain insights into the perspectives of the new management team regarding the current climate change strategy and any potential adjustments. The company reiterated its dedication to its climate change strategy and expressed its willingness to consider feedback. Although there is a possibility of not achieving a short-term (2023) target embedded in a sustainability-linked bond, the company provided reassurance regarding its enhanced confidence in achieving longer-term targets.

Outcome. In Q4 2023, EOS held a meeting with the company after its strategy update presented at the capital markets day. The company affirmed that the majority of the key elements of its climate change strategy will be retained. However, there has been a slight reduction in the ambition of its renewable energy capacity target, from 75GW by 2025 to 73GW by 2026, with a heightened emphasis on investment in grid infrastructure. EOS intends to seek clarification regarding this adjustment and plans to maintain engagement with the company to support the achievement of its climate change targets and alignment with the Paris Agreement.

Principle 10

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

- 4.11 The Fund seeks to work collaboratively with other institutional investors to maximise the influence that it can have on individual companies and pool resources available. 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&E report.
- 4.12 As part of the LGPS Central investment pool the Fund works collaboratively with the other Partner Funds and LGPS Central on engagement. This increases the influence the Fund can have and the resources available. LGPS Central has a dedicated RI&E team and has partnered with EOS as a Stewardship provider. This exceeds the resource and expertise the Fund itself could dedicate to RI&E individually. A list of collaborations LGPS central is involved in is included in paragraph 2.82.
- 4.13 LGPS Central views engagements with the banking sector a critical part of their cross-sector engagement efforts which are needed to achieve real world decarbonisation. LGPS Central is part of a coalition of investors led by ShareAction engaging with several large banks on their net zero transition

4.14

LGPS Central Decarbonisation in Banking Sector Engagement Example

In 2023, through a collaborative engagement organised by ShareAction LGPS Central engaged with the company on its approach to fossil fuel financing.

In February 2023 they sent a letter to 5 European banks, including Barclays, requesting they cease financing new oil and gas fields. LGPS Central escalated their concerns regarding the management of the company's climate-related risks by co-filing a shareholder resolution at Barclays in Q4 2023. This resolution requested the company to disclose the risks associated with stranded assets associated with financing oil and gas infrastructure.

Outcome. Following extensive engagement with Barclay's senior leadership, the shareholder resolution was withdrawn as a result of the positive outcome regarding the climate strategy and commitment to continuing engagement, including an annual meeting between the co-filing group and Barclays CEO. In Q1 2024 Barclays announced they will stop financing new oil and gas fields and restrict lending more broadly to energy companies expanding fossil fuel production. LGPS Central remain committed to ensuring that Barclays follows through with its newly established commitments.

4.15

LGPS Central Human Rights Engagement Example

EOS had set an objective for Duke Energy Corp to set out a timebound plan on how human rights issues will be assessed in operations and supply chain mapping / due diligence process, along with the provision of a remedy. The company acknowledged the request to set out a timebound plan and the need to disclose its process for enforcing its supply chain worker rights policy. During the PRI Advance collaborative engagement, which EOS at Federated Hermes attended, the company clarified that its due diligence of suppliers involves a desktop audit, sustainability assessments, scoring survey results and providing continuous improvement training. The company said it is in the early stages of supply chain mapping. It has good oversight of its tier one suppliers but not its tier two or three suppliers. The Fund were pleased to hear that in response to forced labour risks in the Xinjiang region, the company had conducted supplier due diligence and taken action to reduce its solar supply chain to only two suppliers to monitor for supplier human rights more easily. LGPS Central's expectations for addressing human rights issues include disclosure on types of grievances raised, how companies addressed them, measurement of effectiveness of remedies, and inclusion of participants' concerns and how companies worked with affected stakeholders to arrive at an effective remedy.

Outcome. Engagement with Duke Energy Corp to set out a timebound plan on how human rights issues will be assessed in operations and supply chain mapping/ due diligence process, along with provision of remedy. EOS will monitor how the company discloses the supply chain workers' rights policy including information about the audit process.

4.16

LGPS Central Human Rights Engagement Example

LGPS Central engaged with Meta along with the Swedish Council on Ethics. The call focused on understanding how the company considers human rights' saliency, undertakes human rights due diligence, and addresses mental health risks for young users.

Outcome. The company confirmed that they rely on independent auditors for assessing saliency and human rights due diligence in high-risk countries. In addition, extensive algorithms have been implemented for ensuring teenagers have access to age-appropriate content (full profiles are disabled for minors). The company also runs content moderation programs and there are procedures for informing carers about critical internet activities from supervised minors.

- 4.17 The Fund has been a member of LAPFF since April 2013 and intends to continue that relationship indefinitely. LAPFF engages with companies over environmental, social and governance issues on behalf of its members. LAPFF engagements may deal with company specific matters or broader industry concerns.
- 4.18 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, but 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.
- 4.19

LAPFF Climate change Engagement Example

LAPFF is one of the co-leads at CA100+ on National Grid. Despite a positive superficial impression, detailed analysis reveals substantial issues, including growing delays in connecting to the grid in UK, affecting the roll out of clean energy in the UK. LAPFF's aim in engaging National Grid is to ensure that the company remains at the forefront of the energy transition.

Several meetings as part of LAPFF's leadership of the group have been held with the company, giving it the chance to explain its concerns and suggest best practice.

Outcome. The company has acknowledged some of LAPFF's comments, particularly on climate lobbying, and shortly before the AGM announced that it would publish a comprehensive review of its climate lobbying activities, a key demand of LAPFF and other CA100+ members. The company has publicised a policy proposal for addressing the delays in grid connection, which is broadly sensible, and a welcome development. In LAPFF's meeting with the Chair, she acknowledged some of their concerns over strategy communication, and therefore LAPFF will expect to see further improvement on this in the coming year.

4.20

LAPFF Human Rights Engagement Example

As a part of the Investor Alliance for Human Rights' Uyghur Working Group, LAPFF led on an engagement with The Home Depot, which was implicated in allegations of Uyghur forced labour in its luxury vinyl tile (LVT) flooring supply chains, with PVC derived from Xinjiang. LAPFF sought to understand how Home Depot responded to these allegations, and how the company has undertaken work to eliminate forced labour risks and comply with human rights standards. LAPFF, alongside other investors, met with Home Depot for a second time following reports in August that shipments of LVT from Asia were being blocked by US Customs, including those destined for Home Depot. During the call, LAPFF sought answers on what the company was doing to ensure that its company supply chain was free of forced labour, potential implications of bifurcation of supply chains, and what new methods Home Depot was implementing to have sufficient audit procedures in place.

Outcome. LAPFF will continue to monitor the company's approach to global human rights due diligence and seek further engagement in due course for updates on the issue, with a focus on the company's implementation of enhanced audit procedures.

4.21

LAPFF Gender Equality Engagement Example

LAPFF continues to support the 30% Club Investor Group. Initially, the group focused on enhancing gender diversity within UK boards, advocating for a minimum representation of 30 percent women on FTSE 350 boards and senior management positions within FTSE 100 companies. Over recent years, its scope has expanded to cover racial equity in UK boardrooms and promote gender diversity in global boardrooms.

LAPFF is supporting the Group's Global Workstream, which looks to markets outside of the UK, namely in the USA and Asia, where boardroom diversity is lacking compared to the EU and UK. Through this workstream, LAPFF wrote to KKR & Co Inc. and Shinhan Financial Group asking the companies to set targets for diversity at board level and seeking to discuss individual company approaches to diversity more widely.

Outcome. LAPFF hopes to secure meetings with both companies in the fourth quarter of 2023 and continues to support other meetings held by the 30% Club Investor Group on an ad hoc basis as appropriate.

Principle 11

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

- 4.22 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. The individual managers have their own policies for escalation of stewardship activities which are published on their individual websites, alongside their statements of adherence to the UK Stewardship Code. These include engagement with companies, meetings with directors and board members and possible divestment if necessary. These policies are assessed as part of the manager appointment process and are discussed at meetings with managers. The Fund is satisfied with the adequacy of its managers' escalation guidelines. The Fund may also be eligible to participate in certain individual and class action securities litigation, should this be deemed appropriate.
- 4.23 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.
- 4.24 During meetings with investment managers the Fund takes the opportunity to raise any concerns within portfolios. This included with companies in its Climate Stewardship plan and any other companies or sectors with topical news flows.

Escalation with Manager Example

In Q1 2024 during a call with active equity manager Impax, Linde was discussed, which is held in their portfolio and was a part of the 2023 Stewardship plan. Impax commented that they engage with Linde on its carbon footprint, and although industrial chemical production is carbon intensive (hence Linde's high metrics), Linde produced chemicals which lower the carbon use and environmental impact of the industrial processes they are used in. They are an important tool in industrial process efficiency and have carbon reduction plans. This is one of the reasons Impax invest in the company, despite the high carbon emission from its own processes.

Outcome. Impax will continue to engage Linde on their carbon emissions, and the Fund will continue to monitor the emissions of Linde via its annual climate risk management report and seek further updates from Impax, at its regular meetings with the manager.

- 4.25 A large percentage of the Fund is invested passively via Legal and General Investment Managers (LGIM), detailed quarterly engagement reports are received from LGIM, as with other managers. LGIM have had success with the use of voting to escalate their engagement.

Escalation with Manager Example

Under their Climate Impact Pledge, LGIM select CA100+ 'dial-mover' companies for in-depth engagement, using their qualitative framework set out in their sector-specific guides. 'Dial-mover' companies are chosen on their size and potential to galvanise action in their sectors, reflecting their aim of driving market-level improvements. Nucor is the largest steel producer in the US and among the top 20 in the world; steel is pivotal to the energy transition, being central to the auto industry and renewable energy infrastructure. LGIM voted against the Chair of the company in its 2023 AGM for failing to meet their 'red line', to have a commitment to net-zero operational emissions at the time of the AGM.

Outcome. LGIM were pleased to see that Nucor has now announced a net-zero emissions commitment with interim targets and a published decarbonisation plan. This is a significant step, and while they recognise that corporate decisions are the product of a range of factors, LGIM's engagements under the Climate Impact Pledge are based upon sector-specific guides and 'red lines', which include a commitment to net-zero operational emissions. This not the first time that LGIM have seen a commitment from Nucor after voting against its Chair. In 2021, LGIM voted against the Chair for a lack of emissions reduction targets and the subsequent year, the company set them, meaning they received no sanctions in 2022.

- 4.26 LGPS Central 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&E team on any topical issues with investment companies held.
- 4.27 LGPS central 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 LGPS Central'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.

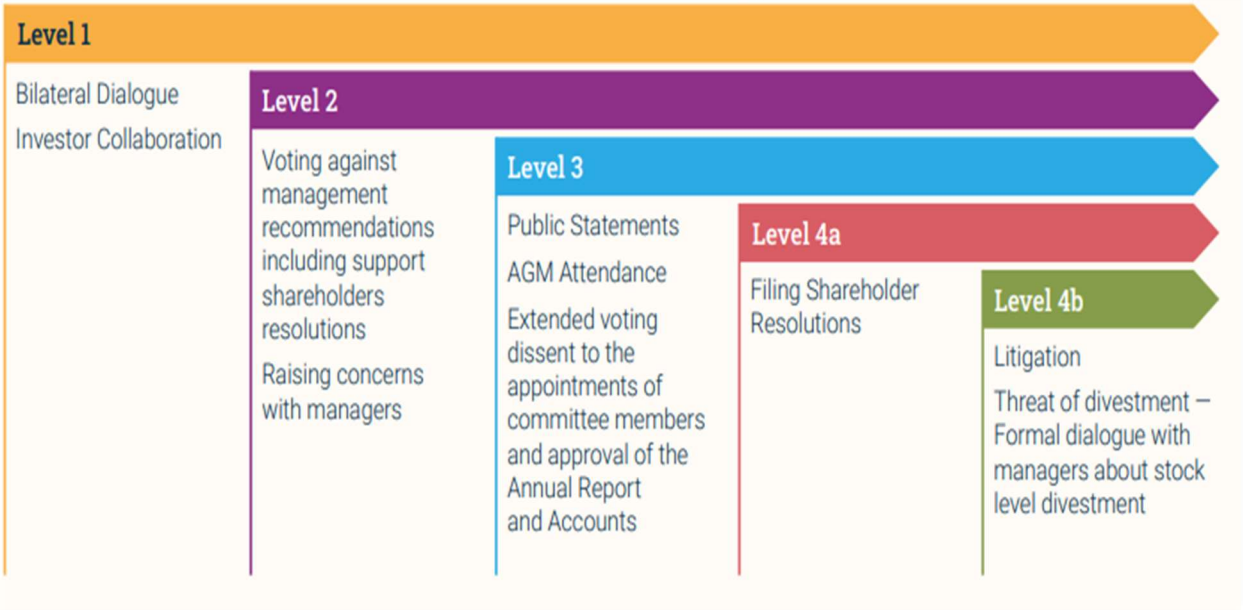
LGPS Central Human Rights Engagement Example

Since 2023 LGPS Central has been engaging with a telecommunications company on the adoption of the UNGPs (The UN Guiding Principles on Business and Human Rights) 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. LGPS Central initially sent a letter to the company asking for further disclosure on its human rights approach. LGPS Central secured a meeting with the company after sending a second letter to the company. LGPS Central met with the company’s investor relations team and two members of the compliance team. The company and LGPS Central agreed to continue a positive dialogue following LGPS Central’s provision of a detailed review of the company’s human rights approach compared with the practices adopted by its competitors.

Outcome. LGPS Central was not able to secure a follow-up meeting with the company. The company deems its own human rights approach as satisfactory (although not compliant with the UNGPs). LGPS Central has escalated its concerns by informing the company that it is likely that a dissent vote will be cast against the chair of the company at the next AGM due to inadequate engagement progress. LGPS Central will also raise this matter with managers holding the stock on behalf of LGPS Central.

- 4.28 LGPS Central 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.

LGPS Central updated 2023 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 on details of votes cast on corporate resolutions and the reasoning behind those votes, as part of a quarterly RI&E report; any points of interest are also highlighted. The Fund also publishes a report on the voting activities carried out by Managers on its behalf as part of its Annual Report and Accounts. This can be found on the Pension Fund website [Staffordshire Pension Fund - Reports and accounts \(staffspf.org.uk\)](https://staffspf.org.uk).
- 5.2 For non-listed equity assets, exercising of rights is done via engagement with the Fund's investment managers who have full delegation of the day-to-day management of the interaction with underlying assets. This is become of increasing importance with the move away from listed equities and more towards private markets as the 2022 SAA review is fully implemented. For private market investments via LGPS Central, LGPS Central have worked with private market partners to identify key performance indicators that are relevant for the underlying asset, and which they would request reporting against.
- 5.3 Where assets are managed by LGPS Central Limited, the exercising of voting rights in relation to the Fund's investments is carried out via LGPS Central but reported to Partner Funds via quarterly RI&E focussed meetings and regular meetings.
- 5.4 The possibility of introducing pass through voting is also being discussed with the Fund, LGIM, LGPS central and LAPFF. This would allow the Fund to direct votes on pooled fund investments, something it is not currently able to do.
- 5.5 Investment managers' RI&E, stewardship and governance policies are obtained on appointment and links to these are published on the Fund's website. The Pensions Panel receives regular updates from managers on details of votes cast on corporate resolutions for holdings in relevant portfolios as part of their quarterly investment reports. It is expected that investment managers will vote all eligible shares in accordance with their approved stewardship policies. Any other points of interest are also highlighted as part of a separate RI&E report each quarter. Finally, a summary of voting carried out by equity managers is included in the Fund's Annual report and Accounts, as well as quarterly reporting of numbers 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 enables the Fund to benefit from their voting alerts service which highlights companies with material corporate governance failings, in addition to meetings and webinars on a variety of RI&E topics. In the year to 30 September 2023, 54 voting alerts were received from LAPFF.

5.7 In the 15 months to 31 March 2023 the Fund voted on a total of 195,265 resolutions through its various equity investment managers, voting with management on 151,012 resolutions, against management/abstaining on 44,253.

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

- Support the long-term economic interests of their stakeholders
- Ensure boards of directors are accountable to shareholders
- Encourage sustainable market behaviour across companies and sectors.

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

- Adhere to essential standards of good governance for board composition and oversight
- Be transparent in their communication with shareholders
- Avoid excessive remuneration packages
- Protect shareholder rights and align interests with shareholders
- Promote sustainable business practices and consider the interests of other stakeholders.

5.9 To send a signal to investee companies LGPS Central votes all its shares - whether externally or internally managed, as per one of their voting principles. While the ultimate voting decision rests with LGPS Central, they have a procedure through which they capture information and recommendations from their external fund managers. As far as possible, LGPS Central aim to use voting to reinforce and promote ongoing engagements, whether carried out directly through LGPS Central, through collaborative initiatives or through their external stewardship provider EOS at Federated Hermes. This means that they regularly raise issues concerning environmental sustainability, including climate change, and broader social issues like human rights risk oversight and management, through their voting. Many votes against management concern good governance (board composition, board oversight and skill sets, remuneration, etc.). These votes are often an expression of underlying concerns with lack of expertise and or/oversight at the board level on issues, like climate change or human

rights. LGPS Central also believe that strong governance increases the likelihood of companies dealing well with environmental and social risks.

- 5.10 LGPS Central 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 prior to the vote deadline. The voting recommendations are then cast as voting instructions if there is no further intervention, except in the case of share-blocking votes. This process gives them confidence that votes are cast according to LGPS Central Voting Principles. In addition, when LGPS Central engage with a company and LAPFF issues a voting alert which falls outside EOS' main engagement, LGPS Central often consult ISS research directly.
- 5.11 LGPS Central currently hold just under 3,000 companies through their ACS equities funds. It is not feasible to do in-depth research into all proxies that will be voted at each of the companies held through the ACS equity funds. To prioritise, LGPS Central establish a "Voting Watch List" annually that consists of approximately 50 companies which carry material ESG risks, cover larger holdings and/or are captured by collaborative engagement initiatives in and outside of their Stewardship Themes, such as the CA100+. Votes at these companies will be given particular scrutiny ahead of the AGM. While it is not feasible to attend all these companies' AGMs, LGPS Central would aim to attend AGMs virtually (if permissible) for core Climate Action 100+ engagements and for any company with which they have filed a shareholder resolution. 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. LGPS Central also aim to capture intelligence and recommendations from active equity fund managers relative to key holdings and/or contentious voting issues, as well as influence managers' wider voting on key issues like climate risk management:
- 5.12 The Fund and LGPS Central both manage securities lending programmes. This is where any stocks on loan can be recalled to execute shareholder voting rights, if the issue is considered to be sufficiently material, with due consideration to the transaction costs and loss of income involved.
- 5.13 Following an in-depth discussion with their custodian (Northern Trust), in 2023 LGPS Central reviewed their approach to stock-lending, considering how voting rights are managed throughout different jurisdictions. They no longer restrict a selection of securities for lending at the start of the voting season but restrict according to voting provisions in the jurisdictions where the securities have their primary listing (e.g. securities incorporated in the United States are restricted at their record date). This is to ensure that they maximise their voting impact, e.g., in relation to critical, ongoing engagements that they expect to escalate through shareholder resolutions or other forms of voting (e.g., votes against Board members). Criteria used

for the identification of high-risk companies includes carbon intensity as flagged by climate risk management reports and the Climate Action 100+. LGPS Central consider the cost implications (in respect of stock lending revenues) of excluding companies from lending and take a considered and proportionate approach to arrive at a list of companies that they view as critical engagements, where they must be able to vote all their shares at the AGM. Ahead of voting season 2023, 14 companies on LGPS Central Voting Watch List (of 50 companies) were restricted from lending. The restriction will be lifted at the end of the AGM season. The new provisions are applicable during the 2024 AGM season.

- 5.14 The Fund does not have its own voting policy, but rather delegates the voting decision to the investment manager, including LGPS Central. 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 LGPS Central (via EOS). Where appropriate these are then passed on to the relevant investment managers and in most cases, LGPS Central took a similar view to LAPFF. Any difference in view is explained to the Fund and other Partner Funds, with the opportunity for Partner Funds to seek further clarifications on LGPS Central's voting intention. In February 2024 LAPFF issued a detailed voting alert to members for Apple's AGM, with whom they had been engaging on human rights practices for a number of years. The voting alert recommended members vote against several of their resolutions. Following receipt of this voting recommendation the Fund also received an email from LGPS Central explaining that they had already voted the Apple AGM and their votes were broadly in line with the LAPFF recommendation, with the same reasons given as given by LAPFF; concerns over excessive pay and details of its equal opportunities policy. LGPS Central, however, also voted against the re-election of Director Andrea Jung, the Chair of Apple's remuneration committee, due to ongoing concerns regarding the committee's performance. Apple's remuneration package allows for very generous payouts and LGPS Central's concern on this have not been addressed over the last couple of years.
- 5.16 Details of proxy votes are reported to the Pensions Panel every quarter in the RI&E report. This report details all votes cast by each of the Fund's investment managers including through LGPS Central and are received from the individual managers in their quarterly investment/ESG reports, which contain greater detail on votes cast and the reasons behind such.

- 5.17 An example of one of the Fund's equity managers, LGIM's, quarterly voting report from its Q4 2023 Quarterly Engagement report is included below:

Global - Q4 2023 voting summary

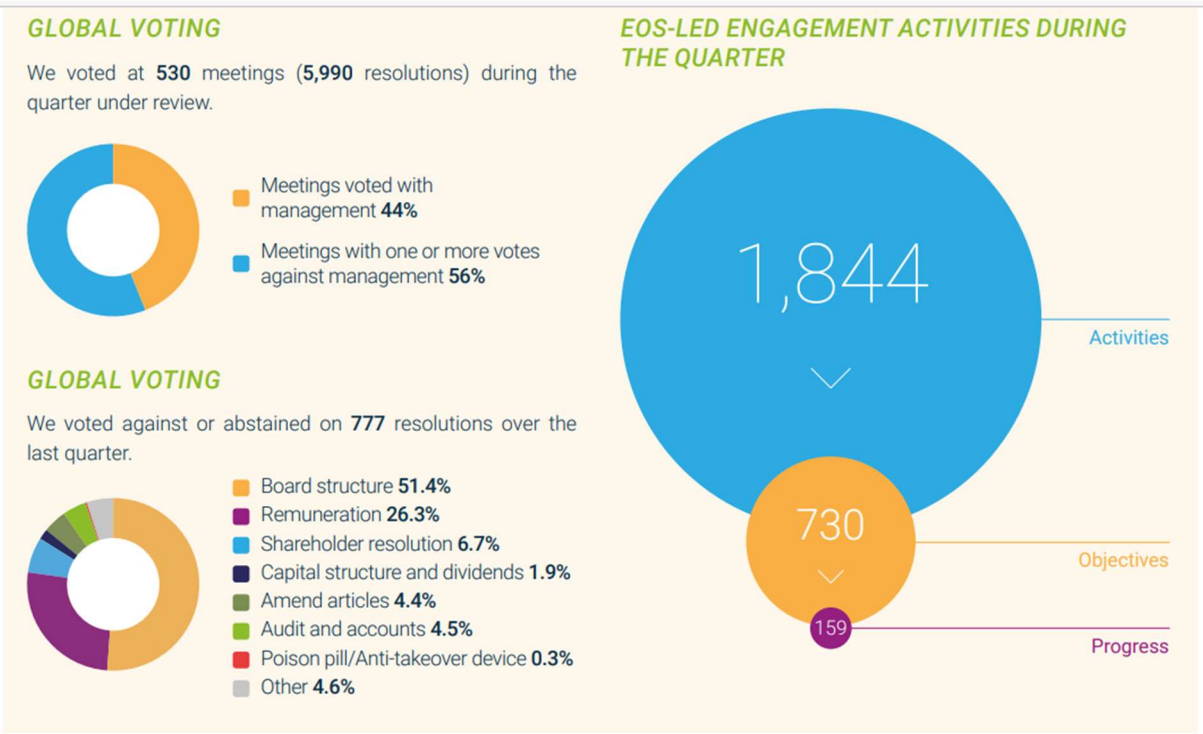
Management proposed resolutions:						
Proposal category	Total for	Total against	Total abstentions	For %	Against %	Abstain %
Management (Total)	9041	3224	209	72%	26%	2%
Director Election	3071	972	207	72%	23%	5%
Director Related	624	451	0	58%	42%	0%
Routine Business	735	143	0	84%	16%	0%
Compensation	980	863	0	53%	47%	0%
Miscellaneous	95	29	0	77%	23%	0%
Company Articles	543	237	0	70%	30%	0%
Non-Routine Business	420	58	0	88%	12%	0%
Capitalization	1052	154	0	87%	13%	0%
Audit Related	629	82	2	88%	11%	0%
Strategic Transactions	693	105	0	87%	13%	0%
Social	24	4	0	86%	14%	0%
No Research	16	109	0	9%	64%	0%
Takeover Related	139	13	0	91%	9%	0%
Mutual Funds	18	1	0	95%	5%	0%
Environmental	0	3	0	0%	100%	0%
E&S Blended	2	0	0	100%	0%	0%

- 5.18 LGIM's quarterly ESG report also includes details of significant votes as below example, again from Q4 2023 report.

Significant votes

Company name	Microsoft Corporation*
ISIN	US5949181045
Market cap	US\$2.8 trillion ²⁶
Sector	Technology
Issue identified	The issue identified is company transparency regarding risks related to AI-generated misinformation and disinformation, an important topic in the realm of social media, and one which comes under the broad scope of our 'digitisation' stewardship theme. As one of the largest tech companies in the world, Microsoft's approach to these issues has the potential to set the benchmark across the industry more broadly.
Summary of the resolution	Resolution 13: Report on Risks Related to AI Generated Misinformation and Disinformation AGM date: 7 December 2023
How LGIM voted	LGIM voted against this resolution (i.e. in line with management recommendation)
Rationale for the vote decision	Having engaged with the company directly to discuss its approach to the risks described in this resolution, we consider at the present time that the company is a leader in the disclosures, governance processes and mitigation steps it is taking on risks posed by its operations from generative AI. We therefore took the decision not to vote in favour of this shareholder resolution.
Outcome	21.2% of votes were in favour of the proposal. We will continue to engage with Microsoft on this issue as it evolves and as shareholder expectations evolve, too. AI will continue to be an important issue and Microsoft's position as a leader in its industry brings with it the responsibility to take appropriate actions regarding governance, risk and transparency on this issue.
Why is this vote 'significant'?	This vote is significant because it relates to one of our core stewardship themes, digitisation, and because it demonstrates the value of company engagement in determining how our votes should be applied on complex, new topics.

5.19 An example of LGPS Central’s quarterly voting statistics and engagement activity from their Q1 2023 report is included below:



- 5.20 An example of the reasoning behind one of LGPS Central's votes from 2023 is shown below:

LGPS Central Plastic Pollution Voting Rationale Example - Amazon.com, Inc

LGPS Central supported a shareholder proposal requesting Amazon issue a report, at reasonable expense and excluding proprietary information, describing how the company could reduce its plastics use in alignment with the one-third reduction findings of the Pew Report, or other authoritative sources, designed to significantly reduce ocean plastic pollution.

The proponent argues that the plastic pollution crisis poses financial, operational, and reputational risks to the company. The proponent argues that corporations around the world could face a cost of \$100 billion if governments were to require that they pay the waste management costs of the packaging they produce. It cites a Pew Charitable Trusts study called Breaking the Plastic Wave, which concluded that if all current industry and government commitments were met, ocean plastic deposition would be reduced by only 7%. The proponent contends that, despite likely being one of the largest corporate users of non-recyclable plastic packaging, Amazon does not disclose the amount it uses. While the company discusses the impact in terms of plastic waste reduction, it does not provide an overall baseline amount of plastic used throughout its supply chain and does not provide competing data that allows investors to assess its progress. Several of the company's peers have announced goals specifically around single-use plastic reduction. Concern over the environmental damage caused by plastics is rising and regulations are likely to go into force in several jurisdictions that would limit the amount of single-use plastic packaging that can be used. Additional disclosure would help gauge whether the company is appropriately managing risks related to the creation of plastic waste.

Outcome. Whilst the resolution did not pass it encouragingly received 31.8% support. Following the AGM, LGPS Central sent a letter to Amazon explaining the rationale for supporting the shareholder resolution to which a response was not received from the company. However, considering the strong support for the shareholder resolution LGPS Central expect the company to provide disclosure about how it can reduce its plastic use.

- 5.21 The Fund does not invest directly in fixed income, but rather through LGPS Central funds, who employ fixed income managers. As such the terms and conditions are managed by LGPS Central, who meet with the managers to understand their engagement and regularly get reporting on the engagements they have carried out.

5.22

Fixed Income Engagement Example

One of the underlying managers in the LGPS Central Global Active Investment Grade Corporate Bond Multi Manager Fund, Neuberger Berman (NB) engaged with the utilities issuer, NextEra Energy Inc, on increasing lobbying disclosures. This has been an area of focus NB have prioritized with the company over several years, given the materiality for the utilities sector.

NextEra Energy Inc have historically been a laggard on political spending disclosure compared to peers in the sector, and one of its subsidiaries faced an investigation over potentially violating the Federal Election Campaign Act after allegedly providing financial support for political campaigns.

Quarterly discussions were held with the issuer's management team, a special meeting with the issuer's ESG team to discuss political activity took place, and periodic discussions with the issuer's Treasury team were held. These engagements were led by the credit analyst covering NextEra.

Outcome. The issuer's subsidiary was cleared of wrongdoing by third-party investigations and the local utility commission, although there is still potential to face an investigation by the Federal Election Commission (FEC).

Through NB's engagement they learned that the CEO and the Board determine and have oversight of political spending activities, which NB view as a positive governance practice. NextEra's political spending and lobbying disclosures have improved, along with their third-party CPA Zicklin political disclosure score.

NB will continue to engage with the issuer on increasing transparency of political spending, along with ensuring proper governance of spending and lobbying policies.

5.23

Private Markets Engagement Example

Within the LGPS Central Credit Partnership II LP, a private debt manager has collaborated an underlying company (EU pharmaceutical) to set up climate change targets, with ESG margin ratchets also integrated in the deal. The engagement objective is to support the company to set emission reduction targets and align to SDG 12. The company operates in in the European DACH region (Germany, Austria and Switzerland) and is a specialist in acquiring and managing pharmaceutical files in speciality/prescription segments. Whilst the company reports on Scope 1, 2, 3 emissions, the manager has engaged with the company for setting up emission targets to include into the margin ratchet. The manager offered a subsidy towards a carbon report to form part of the ESG ratchet.

Outcome. In 2023 the company started building a photovoltaic and water energy farm for sourcing renewable energy for production usage. In Q1 2024 the manager discussed with the company's management the long-term and interim targets.

5.24

Private Markets Engagement Example

Within the LGPS Central Core/Core Plus Infrastructure Partnership LP, In 2021, Brookfield Real Estate began developing Reflect Reconciliation Action Plan for their Australian business. To re-examine key areas of the building design, including the landscaping of sites and sculptural elements, to ensure the affected indigenous communities' heritage and culture is accurately represented. In Perth, the manager engaged with the people of the local Wadjak community during the planning and construction of the One The Esplanade development at Elizabeth Quay, on the Swan Riverfront. Through deep collaboration with the Whadjuk Working Group, the manager re-examined some key areas of the building design, including the landscaping of the site and sculptural elements, to ensure the Whadjuk people, their ancestors, and culture are interpreted and represented accurately.

Outcome: A Cultural Safety Plan was set up with the aim of creating cultural awareness and an understanding of the site by workers, tenants and visitors.

5.25

Private Markets Engagement Example

Within the LGPS Central PE Primary Partnership 2021 LP, a manager has been engaging with companies in their portfolio since 2020, as part of the manager's commitment to ESG and rollout of its Sustainable Growth framework. The manager's ESG and Sustainable Lead meets regularly with companies to discuss ESG strategies and action plans. Engagement with a software company on cyber and information security risk as cyber security, part of governance and risk management, is considered a top priority for company board and management teams. This engagement also extended to the other software companies held by the managers. The manager engaged with the companies' C-suite stakeholders on cyber and information security processes and escalation strategies. This includes partnering with third party for presenting approaches that integrates cyber security in software development from company's inception.

Outcome. All portfolio companies provide specialist employee training on cyber and information security, up from 89% in the previous year. In addition, an increasing number of companies have integrated this risk into their board level review and their security systems are externally reviewed or tested during the year. A company have achieved several accreditations, such as ISO 27001, ISO 9001 and FSQS and appointed a Cyber Security Lead.

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

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