



South Tyneside Council

Local Pension Board

Date: 18 October 2024

Stewardship Quarterly Update Report

(for information and discussion)

Report of the Head of Pensions

Purpose of Report

1. This report provides an overview of actions undertaken in the last quarter in respect of the Fund's commitment to being a responsible investor and a good steward of capital.
2. The Board is recommended to note the report.

Contact Officer: Paul McCann, Head of Pensions

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2023/24 Stewardship Report Outcome

3. As previously reported, Fund Officers, in collaboration with Hymans Robertson, produced a Stewardship Code Report for 2023/24. The report was submitted to the FRC at the end of May 2024, in line with the prescribed deadline.
4. A copy of the report has previously been shared with Committee and Board members by email. The report is also available on the Fund's website: [Stewardship Code](#)
5. On 18th July 2024, the Fund was pleased to be informed by the FRC that the application outcome had been successful. The Fund was reconfirmed as a signatory to the Code as published by the FRC on its website.
6. The FRC is undertaking a fundamental review of the UK Stewardship Code 2020 to ensure it encourages high quality stewardship outcomes in a proportionate way. The Code is an important driver of the UK's investment ecosystem, replicated worldwide.
7. Officers will monitor the position on the updated Stewardship Report.

Voting Activities this Quarter

8. The second quarter of the year is always very busy in what is "proxy season". The chart below shows voting activity, in terms of number of meetings, votes cast and rates of dissent. Traditionally, there is a focus on levels of activity. However, in truth this tells us little beyond the scale of the task in hand.

Manager	Meetings	Resolutions	For	Against	Abstain	dissent %
BCPP GLOBAL	224	3333	2873	417	16	13%
BCPP EM	133	1484	1201	266	17	19%
BCPP UK	106	1838	1703	135	0	7%
LGIM	8,682	104,780	72,838	23,324	618	23%
Lazard	54	734	671	63	0	9%
TT	27	243	223	18	2	8%
TOTAL	9,226	112,412	79,309	24,133	653	21%

9. It is the engagements, actions and innovations that drive the Responsible Investment (RI) process. Proxy voting outcomes are one manifestation of RI strategies, but ideally effective change comes through considered collaborative engagement with like mind asset owners.

Engagement Highlights

Border to Coast

11. The temptation of companies to be blinded by success can carry long term implications for investors. Chip maker Nvidia has grown to be the most valuable company globally, driven by excitement over AI chip capabilities. Despite this success, Border to Coast's proxy advisor, Robeco, highlight concerns over governance.
12. They believe that Nvidia's compensation plans should follow best practice in terms of incentive structure and transparency. Upon applying Robeco's remuneration framework assessment, Robeco concluded that the company does not sufficiently meet expectations in this regard. For example, the annual bonus plan is based on a single metric and the company does not apply any ESG metrics throughout its variable incentive plans. As a result, they did not support this year's executive compensation proposal.

Legal & General (LGIM)

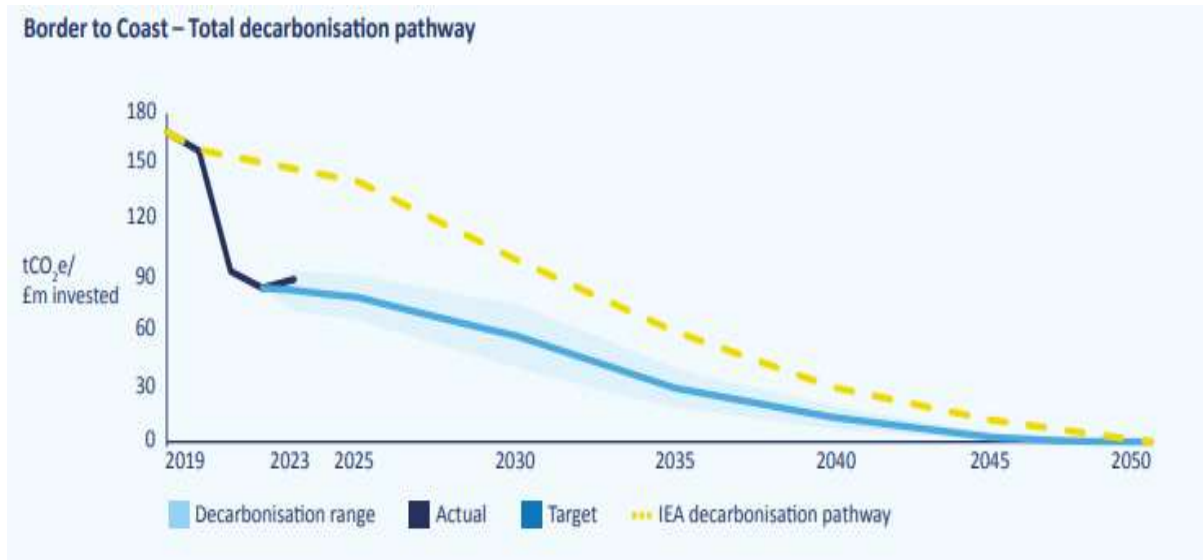
13. Nippon Steel Corporation is the largest steel maker in Japan and one of the largest globally in terms of production. Traditional steelmaking processes are highly carbon intensive, and a shift to "green steel" will require a policy environment that supports a sufficient supply of low-carbon alternatives. Assessments undertaken by third-party data providers have demonstrated that Nippon Steel lags its peers on climate policy engagement disclosures.
14. LGIM has been engaging with Nippon Steel for many years and specifically through the Climate Impact Pledge since early 2022. The same year, LGIM added the 'red line' related to climate-related lobbying. The company failed to meet this criterion, so it became the focus of engagement with LGIM for 2023 and expanded engagement to work collaboratively with other investors to increase influence. Despite several meetings with the company, the disclosures provided so far have not met LGIM expectations.
15. Given the significant role that Nippon Steel Corporation has in influencing Japanese policy, LGIM co-filed a shareholder proposal asking the company to disclose annual climate-related and decarbonisation-related policy positions and lobbying activities globally. This is to include its own direct lobbying and industry association memberships, and review these for alignment with the company's goal of carbon neutrality by 2050.
16. LGIM were pleased to see that their shareholder resolution achieved 28% support, sending a strong message to the company's board that investors expect greater transparency on climate-related policy engagement

activity. This was also one of the highest levels of support recorded for a climate-related shareholder resolution in Japan.

17. 2024 is pivotal for Japan as the country is scheduled to update its key climate and energy policies. The choices made in the very near future will determine the direction of its mid-term decarbonisation strategy and the results underscore the scale of investor attention on politically influential companies like Nippon Steel.
18. LGIM will continue engaging with the company and expect to see their board address investor expectations and enhance accountability and transparency in its efforts to influence these policies as they take shape.

Progress to Net Zero

20. The Fund has committed to transitioning its investment portfolios to Net Zero GHG emissions by “2050, or sooner” and to reduce emissions by 50% - 60% by 2030 based upon the 2019 baseline.
21. The Fund has recently completed its annual carbon footprint assessment as at 31 March 2024. The analysis shows that the Fund has reduced the carbon footprint of its investment portfolio by 42.4% against the baseline position of 31 March 2019. This is another progressive step and shows that the Fund continues on the right path. Further information will be provided at the next Board meeting in December as part of the Fund’s TCFD reporting.
22. As the Fund’s chosen asset pool, Border to Coast are central to achieving the Fund’s net zero objectives. The Fund’s net zero commitments are similarly positioned to those of Border to Coast. This is appropriate given the intrinsic link.
23. Whilst Border to Coast have set headline commitment targets, it is also sensible to have targets for the respective mandates. For each asset class, targets were developed by considering the actual emissions pathway of each fund since launch and what is considered to be achievable over the short and medium-term. The asset specific targets include:
 - Listed equities, Border to Coast are targeting reductions of 52% and 65% by 2025 and 2030 respectively from the 2019 baseline year.
 - Corporate fixed income, Border to Coast are targeting reductions of 54% and 66% by 2025 and 2030 respectively from launch in 2020.
24. To help achieve their net zero targets, Border to Coast have committed to tracking the IEA decarbonisation pathways. The table below shows the progress to date:



Source : Border to Coast

25. As can be seen, Border to Coast are currently well ahead of the IEA decarbonisation pathway. It is expected that the gap will narrow as time progresses.
26. Transition pathways can play a meaningful role in helping investors achieve their net zero commitments. The Fund will be considering setting a transition pathway as part of its net zero commitments review later this calendar year.

Changes to RI Senior Management at Border to Coast

27. In June 2024, Border to Coast's Head of Responsible Investment, Jane Firth, retired. Jane has been instrumental since inception of the pool with the development of RI strategy and brought a wealth of LGPS experience from her contribution prior to that at South Yorkshire Pensions Authority.
28. After a rigorous selection process, Border to Coast appointed Tim Manuel, who has 18 years' experience with Aon, leading in RI development. Tim started in his role in September and Officers look forward to working with Tim going forwards.

Legal & General (LGIM) Climate Impact Update

29. LGIM published their Climate Impact Pledge (CIP) for 2024 in June.
30. As part of the Climate Impact Pledge review process, LGIM concluded that CIP assessments and engagements show there is much more that companies can do to mitigate climate risks and achieve net-zero carbon emissions by 2050.

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31. Over the years since the CIP started in 2016, LGIM has seen progress but overall consider that the transition must accelerate. LGIM are concerned that there is still insufficient disclosure of Scope 1 and 2 emissions.
 32. One-third of the companies LGIM assessed did not appear to report Scope 1 and 2 emissions. It is likely that some companies report these in ways which are not straightforward to identify. LGIM has written to companies to highlight the necessity to identify and disclose emissions. LGIM are also engaging with data providers on this issue. LGIM also expect companies to disclose and address material Scope 3 emissions.
 33. In engagement, LGIM have a two-tier method of approach using both quantitative and qualitative measures:

Quantitative measures

34. Within LGIM's entire corporate holdings they focus on 20 climate-critical sectors, creating a universe of 5,000+ companies, measured on a traffic light basis.
35. In 2024, new metrics were added including all companies to calculate and disclose their Scope 1 and 2 GHG emissions and Banks to restrict financing related to unabated thermal coal, new oil and gas fields and commodity-driven deforestation.
36. New minimum standards linked to voting have been introduced, including baseline expectations that drive climate-related voting for emission-intensive sectors. These expectations apply to the following sectors:
 - Oil & Gas - Disclosure of methane emissions.
 - Mining - No expansion of thermal coal mining capacity.
 - Utilities - No expansion of thermal coal power generation capacity

Qualitative measures

37. LGIM focus on 100+ 'Dial Mover Companies'. Dial-movers are chosen for their size and potential to galvanise action in their sectors. Investment Stewardship teams analyse each company in depth using public information, based on the framework and expectations set out in sector guides that are published on LGIM's website. They encourage companies to align their strategy with net zero and to build climate resilience.
38. LGIM has made changes in 2024, including the development and enhancement of an escalation process, that can lead to divestment. The adoption of this process (as seen below) helps in sending a clear message to companies and the wider market about LGIM's expectations with regard to net-zero emissions and the energy transition.

Escalation process and sanctions



LGIM, as at June 2024. Subject to change.

39. It should be noted that LGIM's Climate Impact Pledge only applies to our Future World funds, not the conventional passive mandates.

LAPFF Business Meeting and Half Year Conference 10th July 2024

40. The Local Authority Pension Fund Forum (LAPFF) was created by LGPS funds as a specialised body to promote good corporate governance and responsible investment.
41. The Fund has been a member of LAPFF for many years and Neil Sellstrom, Principal Investment Manager, currently sits on the executive body of LAPFF.
42. The LAPFF Business Meeting and Half Year Conference was held on 10th July 2024, attended by Officers on behalf of the Fund. Key contributions of interest to the Fund were:

Fair and Just Transition

43. Outlining the socio-economic challenges to overcome, to ensure a rapid and democratically engaged journey to net zero.

Climate Risk Modelling

44. The potential pitfalls, uses and abuses of risk models to meet these objectives.

Conflict Affected and High Risk Area (CAHRA) pilot project

45. An important tool and process to develop a coherent response to concerns over investment risk and consequences in actual and potential

conflict zones.

LAPFF Climate Alerts

46. LAPFF has continued its initiative of looking at climate-related shareholder resolutions and respective voting alerts. LAPFF recommend their members vote in a certain way. These recommendations typically ask companies to take steps in addressing a range of climate-related risks. They include requests that companies set science-based targets, plan for a just transition and disclose on climate-related lobbying activities.
47. LAPFF has released voting alerts covering 49 climate-related resolutions during the quarter. Of the 42 resolutions voted upon at the time of writing, proposals received an average of 22% support. There was a solid baseline of support, with over three quarters of proposals receiving more than 10% and well over half of proposals receiving 20% or more support. Of those proposals receiving single digit support, the majority had a controlling shareholder in opposition and as such diluting the efficacy of the independent vote.

LAPFF Quarterly Engagement Report - June 2024

48. The Fund places significant emphasis of achieving Responsible Investments aims through collaborative actions with our fellow LGPS funds. LAPFF's engagement, via an agreed workplan, enables maximised reach and impact of our shared investments.
49. The latest LAPFF Engagement Report for the period April – June 2024 has recently been published on the LAPFF website. Major engagement themes in this quarter include:

Water Stewardship

50. LAPFF is engaging with Pennon (South West Water) and United Utilities on the environmental and financial challenges in the water sector. Specifically measures in place to reduce overflow incidents.

Climate

51. LAPFF has been working with HSBC and Canadian Banks on the risk of lending to businesses that may be exposed to stranded assets.

Energy

52. LAPFF has ongoing concerns and engagement with Drax over burning of wood pellets and the sustainability of where these may have been sourced. Further meetings with management are ongoing.

Human Rights

- 53. LAPFF is participating in a pilot project on Conflict Affected and High-Risk Areas (CAHRA), as concerns grow around the increasing scale and intensity of global armed conflict. The social and environmental impacts having eventual financial consequences. LAPFF met with Danish shipping company Maersk to discuss and gain further mutual insight into undertaking effective heightened Human Rights Due Diligence (hHRDD)

Private Markets (Legacy)

- 54. On the journey to net zero, much focus has been on listed companies. One of the primary reasons has been the availability of information. Public companies disclose considerable amounts of carbon data for regulatory reasons, whereas privately owned companies can potentially be less transparent.
- 55. The Fund has a high level of exposure to private markets, meaning we need to pay close attention to the net zero journey of Private Market managers. There is also a justifiable fiduciary benefit, considering that having strong net zero and decarbonization characteristics may enhance the exit value and marketability of investments.
- 56. Findings by one of our Private Managers, Harbourvest, highlights Private Equity as being behind the curve. Much of this is down to the availability of good quality data.

Setting emissions reductions targets varies by asset class



- 57. To that end, Harbourvest has devised a suite of reporting KPI's, including the decarbonisation roadmap, GHG Emissions, WACI and renewable energy consumption. These will be available to the Fund in the near future.

Private Markets (Border to Coast)

58. In July 2024, Border to Coast presented to Fund Officers the outcome from the 2023 Private Markets ESG Questionnaire.
59. The findings were broadly of steady overall improvement. Notable highlights were more than 74% of funds now collect carbon metrics, rising to 90% on a 2-3 year scale. 75% of funds now track climate metrics in accordance with TCFD guidance, compared to approximately 25% in 2021. 92% of funds are on track to meet 2030 Border to Coast net zero targets, with the balance ahead to meet by 2028.



Source: Border to Coast 2024

60. Fund Officers have reviewed and adapted the ESG Questionnaire developed by Border to Coast and have issued this to the Fund's main legacy private market managers.
61. The responses received will enable the Fund to assess the progress being made by our own managers and compare this to the larger dataset being compiled by Border to Coast.
62. This work will support the Fund's stewardship approach and address the service plan objective around improving reporting by private market managers on ESG issues including climate change metrics.

Recommendation

63. The Board is recommended to note the report.

Stewardship Quarterly Update Report

The following is a list of the background papers (excluding exempt papers) relied upon in the preparation of the above report:

Background Paper	File Ref:	File Location
Managers' Monitoring Files		Investments Office, South Shields Town Hall
Harbourvest ESG Reporting		Investments Office, South Shields Town Hall
Border to Coast Q2 Alts Update		Investments Office, South Shields Town Hall
LGIM 2024 Climate Impact Pledge LGIM Q2 2024 Engagement Report		Investments Office, South Shields Town Hall
LAPFF Agenda Papers 10 th July 2024 Business Meeting		Investments Office, South Shields Town Hall
LAPFF Half Year Conference Papers 10 th July 2024		Investments Office, South Shields Town Hall
LAPFF Climate Alerts		Investments Office, South Shields Town Hall