



# South Tyneside Council

## Local Pension Board

Date: 28 March 2025

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## Stewardship Quarterly Update Report Report for the Quarter to 31st December 2024 (for information and discussion)

Report of the Head of Pensions

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### **Purpose of Report**

1. This report provides an overview of actions undertaken during 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.

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Contact Officer: Paul McCann, Head of Pensions

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### **Voting Activities this Quarter**

3. 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	51	292	253	39	0	13%
BCPP EM	54	324	294	30	0	9%
BCPP UK	16	170	155	15	0	9%
LGIM	2,175	12,533	9,347	2,693	493	21%
Lazard	0	0	0	0	0	n/a
TT	7	39	32	6	1	15%
TOTAL	2.303	13,358	10,081	2,783	494	21%

4. 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**

5. Border to Coast provided an update on the US withdrawal from climate initiatives following the inauguration of President Trump. Border to Coast has stated that the Paris Agreement remains as essential as ever. The UN climate negotiations are the only platform that convenes almost all nations to discuss one of the most pressing challenges of our time and reach consensus on actions that need to be taken to address the global impact of climate change. This is important for a just and equitable energy transition that takes account of national pride, security and economic opportunity.
6. Border to Coast also reaffirmed their commitment to responsible investment (RI) as fundamental to delivering long-term investment returns for Partner Funds.
7. With regard to those external asset managers that have taken the decision to withdraw or backtrack from climate initiatives, Border to Coast is carefully reviewing the potential implications of this on any assets managed on behalf of the partnership. All managers are expected to manage assets in accordance with the approved Border to Coast RI policy.

8. Officers will continue to engage with Border to Coast on external managers' RI commitments. Particular attention will be paid to the appointment and retention of managers where commitment to decarbonisation actions and commitments is uncertain.

### **Update on Biodiversity and Deforestation Risk**

9. As part of the annual update of its policies, Border to Coast has bolstered its stance on deforestation, placing more pressure on investee companies to reduce damaging activities and mitigate this material climate change risk.
10. The pool will vote against management at companies involved in high deforestation-risk commodities, such as palm oil, soy, beef, timber, and paper, which do not have adequate policies in place to reduce their impact on biodiversity or are involved in deforestation-linked controversies. Border to Coast will oppose the re-election of the Chair of the Sustainability Committee, or most appropriate agenda item, at companies failing to address risks within operations and supply chains.
11. Border to Coast will also vote in favour of shareholder proposals that ask companies to mitigate deforestation risks, taking a 'comply or explain' approach, and publicly disclosing the rationale if it votes against.

### **Legal & General (LGIM)**

12. Over the quarter, LGIM have begun the next cycle of engagements with c.100 'dial mover' companies under their Climate Impact Pledge. Across 20 'climate critical sectors', LGIM has selected these companies for in-depth engagement on account of their scale and influence across their sectors and value chains, and their potential to drive market-wide improvements.
13. In their engagements for the 2024-2025 cycle, LGIM will be increasingly focused on outcome-driven objectives, reflecting the progress over time from commitments and targets to climate transition plans, actions and investments, and to interrelated nature dependencies. LGIM will report on the results of the next engagement cycle in June 2025.
14. At COP16, LGIM joined over 70 global leaders from across civil society, indigenous peoples, business and finance in signing an open letter to Presidents Gustavo Petro (Colombia) and Luiz Inácio Lula da Silva (Brazil), requesting that they take the following actions:
  - Strengthen national climate plans to deliver a triple win for people,
  - nature and food security,

- Scale up investment for nature and food system transformation, and
  - Support the full and effective participation of farmers, indigenous peoples and local communities across climate and food systems.
15. The Fund continues to engage with LGIM over its investment in Drax PLC. As highlighted in earlier reporting, Drax has been subject to financial penalties for misreporting to OFGEM the sustainability of wood pellets from primary and old growth forests in Canada. Reliable press reports have confirmed that Ofgem is asking the company to conduct an independent external audit of its global supply chain. LGIM remain in dialogue with Drax and an update is awaited. Fund Officers will continue to discuss this with LGIM and keep Committee updated as to material progress.
16. LAPFF reported in February 2025 that Drax has had its subsidy for 2027 to 2031 cut by half and the sustainable sourcing requirement increased from 70% to 100%.
17. It should be noted that Border to Coast do not have any holdings in Drax.

### **Human Rights**

18. As reported to Committee in November's Stewardship Quarterly Update Report, LGIM are very active in engaging on human rights. This included correspondence and a questionnaire to 397 "high risk" companies.
19. Fund Officers committed to tracking this area of engagement as a case study example. Through further discussions with LGIM, we can report the following observations:
- Companies that responded to the questionnaire have been receptive to engaging on human rights. Through engagement so far, LGIM has seen some confirmation of a disconnect in many cases between a company's policy commitments and the efficacy of their human rights risk management.
  - Companies that demonstrated the most comprehensive human rights management showed a holistic understanding of their operation and supply chain risks, and took a granular, often bottom-up, approach to addressing these risks.
  - 95% of respondents reported strong awareness of human rights issues demonstrated through published policies and board oversight. When asked to demonstrate effective human rights management

beyond policy commitments through risk identification, remedy access, and preventive actions, the percentage of companies acknowledging those measures to be in place dropped to 75% – compared to a 98% confidence rate of overall awareness of human rights.

- In LGIM’s questionnaire as part of their human rights campaign, they sought to understand how companies manage secondary impacts. Climate impact emerged as the top concern for about 50% of the respondents, especially within the auto, utilities, and extractive industries. Artificial intelligence was also cited as a key challenge from 16% of responded companies to manage.

20. As LGIM draw the first stage of the human rights engagement campaign to a close, they will continue to assess what they can learn from the questionnaire responses. A smaller number of companies will be selected for future engagement, using broader research to drive meaningful dialogue with companies whose positive practices and developments have the potential to improve human rights standards across their industries and supply chains.

## **LAPFF**

### **LAPFF Annual Conference 2024 “Stand Firm”**

21. The 2024 LAPFF Annual Conference took place between 4th and 6th December 2024 at the Hilton Hotel, Bournemouth. Attendees from the Tyne and Wear Pension Fund included members from Pensions Committee, the Local Pension Board and Fund Officers. Highlights from the conference included:

#### Impact Investing

22. Sarah Foster of The Good Economy discussed the current position on place-based investing. The UK struggles with entrenched spatial and social inequalities. Investment in key growth sectors by the LGPS, such as Housing, Infrastructure and Clean Energy are currently falling well short of a recommended 5% investment in place-based impact.

#### Overseas Supply Chains and Human Rights

23. Anna Bryher, Advocacy director for Labour Behind the Label, presented some case studies of human rights issues in global fashion supply chains. They included specific cases such as unpaid wages in Cambodia (Wai Full Garments), concerns regarding Social Auditor practices in Thailand (YK Garments) and legal repression of garment workers in Bangladesh.

### Renewable Energy and Just Transition

24. Richard Hansen, Director of Regulation at Orsted UK, outlined how a Danish fossil fuel company pivoted to renewables. As part of the Just Transition to contribution to biodiversity, TNFD issues and community engagement was showcased by work in the Humber Estuary to reseed coastal grasses and support for the East Coast Community Fund.

### The Good Work Coalition

25. ShareAction outlined work to encourage companies to commit to Living Wage conditions in the UK. Eleven companies are the focus of engagement, primarily in retail, where living wage concerns are most prevalent.
26. Border to Coast is a signatory to the Good Work Coalition, as well as LGIM.

### **LAPFF Quarterly Engagement Report – December 2024**

27. The Fund places significant emphasis on achieving Responsible Investment 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. The Fund's Principal Investment Officer is a member of the Executive at LAPFF.
28. The latest LAPFF Engagement Report for the period October – December 2024 has recently been published on the LAPFF website. Major engagement themes in this quarter include:

### London Stock Exchange (LSE)

29. LAPFF continued engagement with the LSE on the issue of listing standard relaxation. The broad background is the active role of the Chief Executive in the UK Capital Markets Task Force. Whilst the objective is laudable to increase capital activity in the UK, LAPFF are concerned that a lowering of listing standards is counterproductive. LAPFF cite examples of corporate failures in the UK, often with businesses with little or no true UK footprint. The concern is that rather than build a capital market with high standards of governance, the primary objective is fee generation.
30. LAPFF continue to press the LSE to engage positively and constructively.

### National Grid Group

31. In December 2024, LAPFF met with the Chief Sustainability Officer of National Grid, Rhian Kelly, to continue engagement with National Grid on lobbying and climate transition.

32. LAPFF highlighted the recent low score National Grid received from InfluenceMap regarding its approach to lobbying. National Grid emphasised that their continued participation in trade and industry associations enables them to positively influence climate policies from within.
33. LAPFF also questioned the company's position relating to the future role of gas in domestic heating. National Grid confirmed that they have modelled various scenarios involving gas heating, emphasising that currently cost implications for customers remains a key concern. The company also stressed that meaningful progress in this area will require collaboration and support from regulators and other key stakeholders.
34. Shortly after LAPFF's meeting with National Grid, the company announced proposals to invest up to £35 billion in its UK electricity transmission network between 2026 and 2031. Chief Executive John Pettigrew described the investment as "*the most significant step forward in the electricity network in a generation*". The plans include upgrading overhead lines, nearly doubling energy transport capacity, and undertaking major network reinforcement and expansion projects.

### Tobacco

35. There is mounting global pressure on companies to address single-use plastics in their product ranges. This affects the tobacco industry producing cigarette butts, which are the most littered item globally and made predominantly of plastic. LAPFF has been engaging with the tobacco industry throughout 2024 to understand how companies are assessing risk areas as it relates to plastic pollution, and modelling for potential needs to adapt their business models to a changing regulatory environment, as well as how they are looking at plastic alternatives.
36. LAPFF engaged with British American Tobacco (BAT) to discuss its approach to addressing plastic waste, including cigarette filters and single-use plastics in its product range. BAT outlined its ongoing pilots and initiatives, such as the use of recycled and bio-based plastics in its Velo products and take-back schemes for vaping devices. The company also highlighted its circularity strategy and efforts to innovate within its product design and supply chain to meet regulatory requirements like the EU Single-Use Plastics Directive.
37. As the regulatory environment develops, LAPFF will monitor cigarette companies to assess the scalability of projects incorporating circular economy principles into their business models. Despite projects on next generation or alternative products, the tobacco industry appears slow in addressing the issue of cigarette filters.

**Private Markets (Legacy)**

- 38. Pantheon is one of our primary legacy private markets managers, managing around £362m of the Fund’s assets.
- 39. Pantheon seek to generate strong, long-term returns through an investment discipline focused on value creation and risk mitigation. They recognise that sustainability factors can influence long term investment performance, and therefore take a systematic and strategic approach to integrating sustainability considerations into the assessment of investment risks and opportunities.
- 40. In common with other private funds we hold, our long-term engagement has concentrated on encouraging managers to develop quality, auditable ESG metrics, to aid good decision making and consequently successful investments.
- 41. Pantheon has developed and launched an integrated framework known as TIES which is shown below. The TIES framework analyses the underlying investments to establish the appropriate quality of Transparency, Integration, Engagement and Solutions.



<b>Transparency</b>	We seek to enhance transparency through improved practices, tools and resources. Transparency leads to improved decision-making, monitoring, engagement and reporting.
<b>Integration</b>	We aim to integrate consideration of sustainability factors into each stage of the investment process.
<b>Engagement</b>	We collaborate with our clients, managers and peers to develop and share best practices on assessing sustainability factors.
<b>Solutions</b>	We endeavor to explore the range of investment opportunities and develop innovative investment solutions to meet our clients’ requirements.

Source: Pantheon Public Website

- 42. Building upon data sourced from managers, Pantheon then combine that into a Sustainability Scorecard, which has a multi-level method of analysis

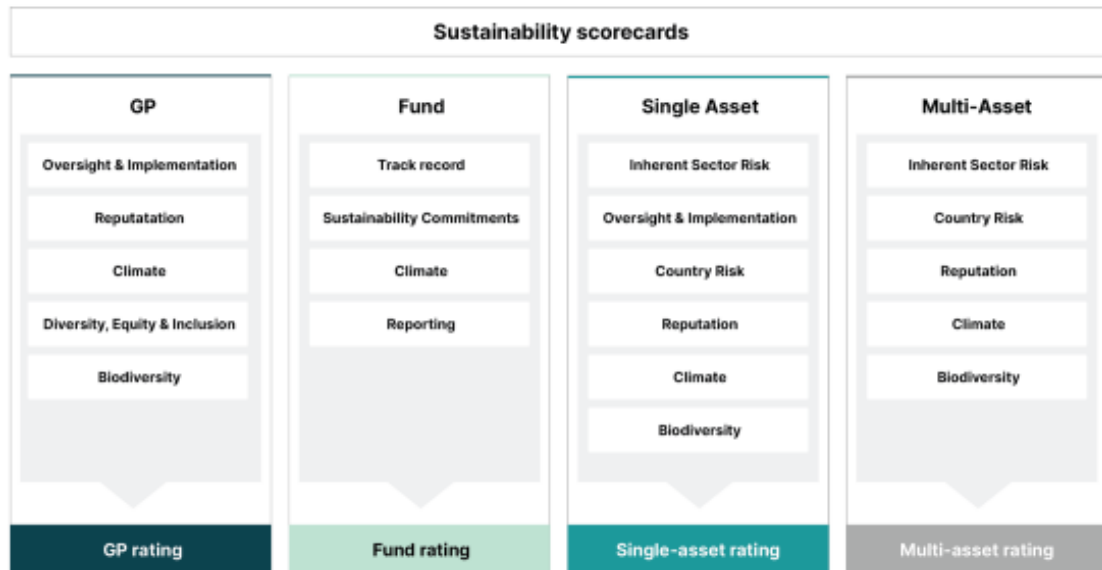


drilling down to single assets. This enables a Sustainability rating by investment fund and produces a Private Market Sustainability Index (PMSI), which Pantheon hold to be the first of its kind in the industry.

### Sustainability Scorecards

Pantheon has developed our own Sustainability Scorecards to provide a comprehensive view of each investment during due diligence and to support ongoing

monitoring. An investment's sustainability profile is one of a number of factors Pantheon considers when evaluating managers and investments.



Source : Pantheon Public Website

43. As well as reporting to us on a fund-by-fund basis, this enables an engagement platform with managers and a tool for the Pantheon Investment Committee to consider how sustainability may impact future decisions and actions.
44. From the Fund's perspective as investors, it is recognised currently there is no 'one size fits all' solution to oversight of good stewardship in private markets. However, in this case, Pantheon has taken time and resource to develop a consistent and clearly definable solution. Most importantly, it is built around helping make better investment decisions to improve outcomes, rather than a tick box approach to ESG concerns.

### Recommendation

45. The Board is recommended to note the report.

## Stewardship Quarterly Update Report

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

<b>Background Paper</b>	<b>File Ref:</b>	<b>File Location</b>
Managers' Monitoring Files		Investments Office, South Shields Town Hall
LAPFF Agenda Papers		Investments Office, South Shields Town Hall
LAPFF Climate Alerts		Investments Office, South Shields Town Hall
Border to Coast ESG Q4 Report		Investments Office, South Shields Town Hall
Global Statement to Government on Climate Change		Investments Office, South Shields Town Hall
LGIM Q4 Report		Investments Office, South Shields Town Hall