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2024-2027 Proposed Stewardship Strategy

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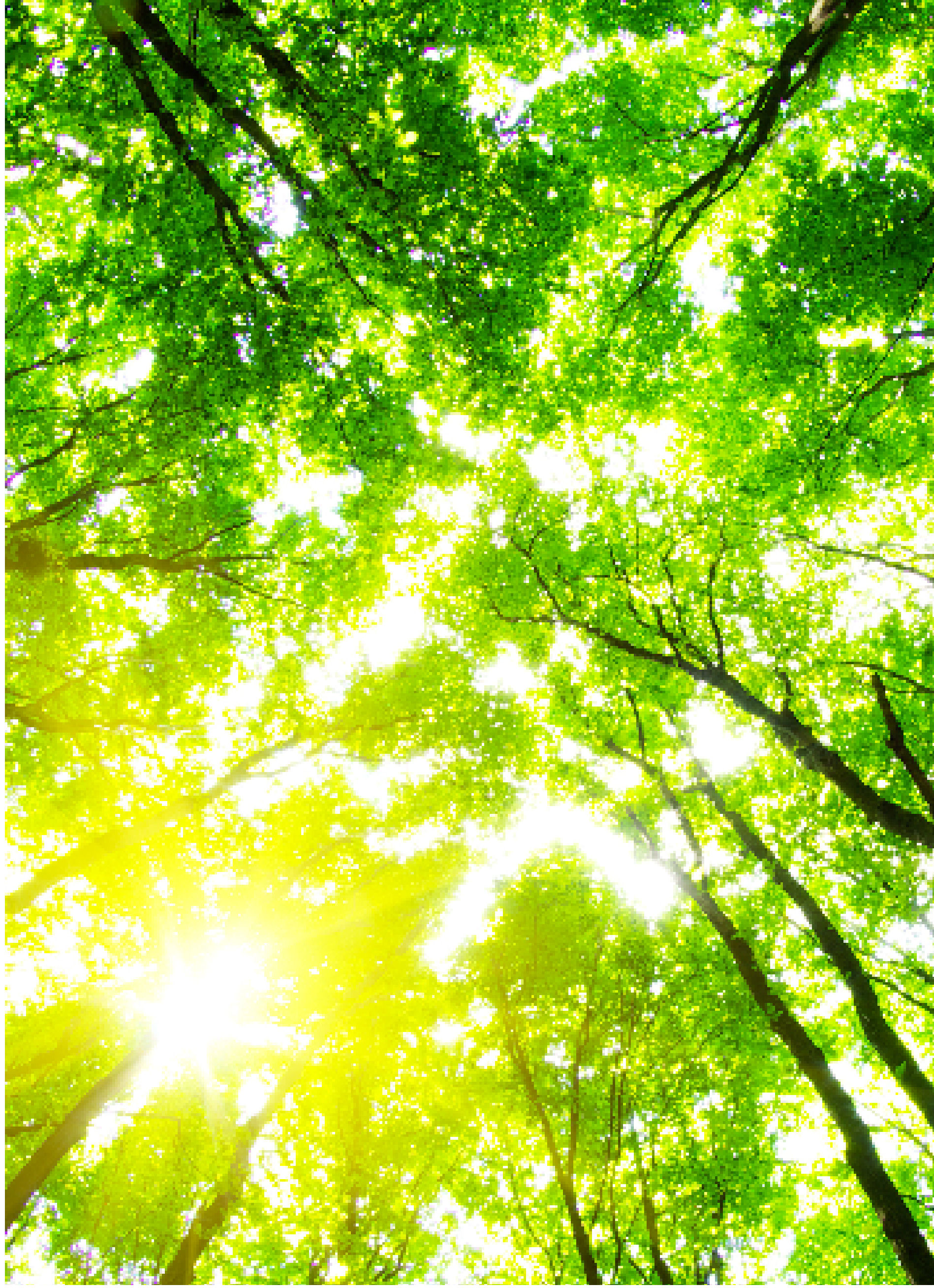

Agenda

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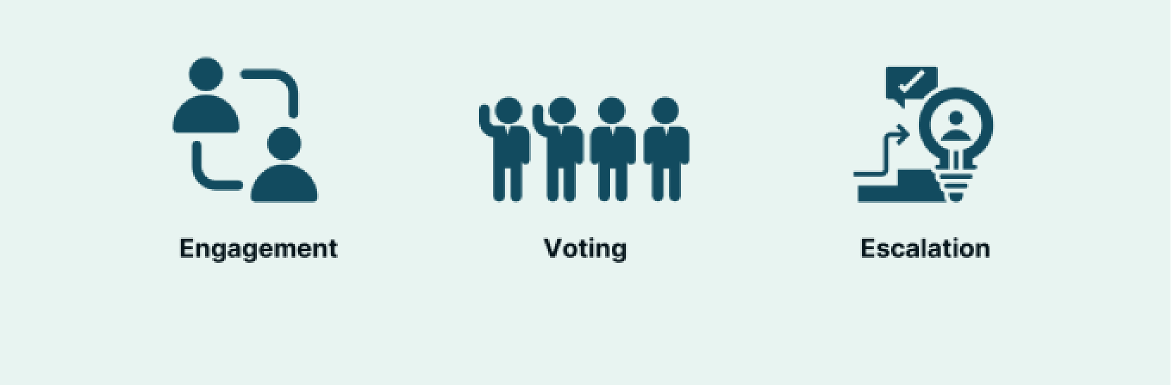
ITEMS

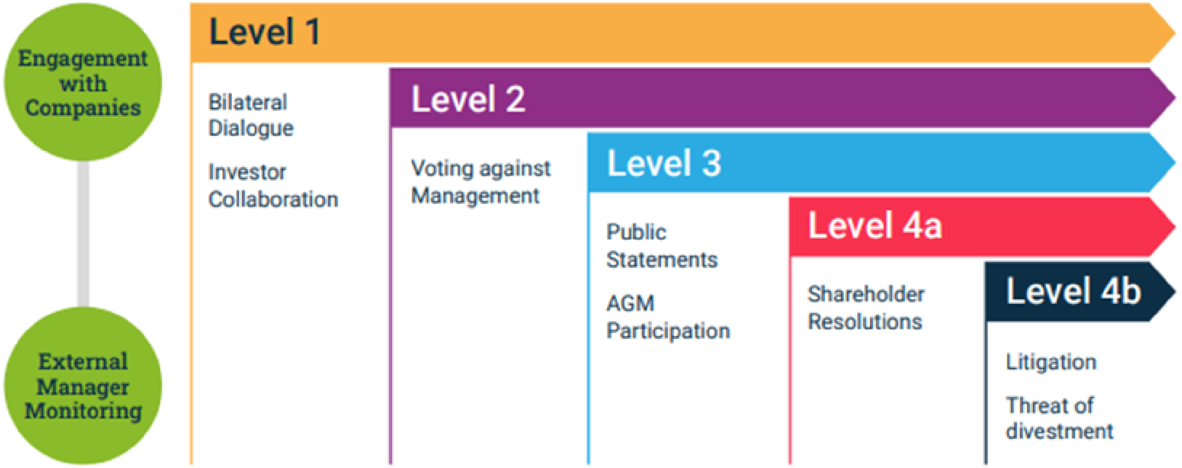
1. What Stewardship means
2. Revision of Stewardship Themes
3. 2024-2027 Proposed Stewardship Themes
4. Detail on Each Theme
5. Stewardship Partners Themes
6. Key Partnerships
7. Glossary

CHESHIRE PENSION FUND
Derbyshire Pension Fund
PENSION FUND
NOTTINGHAMSHIRE PENSION FUND
Shropshire County Pension Fund
Staffordshire Pension Fund
West Midlands Pension Fund
Worcestershire Pension Fund

What Stewardship means

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 (FRC).





Review of Stewardship

Identification criteria for Stewardship Themes:

1. Economic relevance
2. Stakeholder relevance
3. LGPSC's ability to resource the theme and find collaboration

CLIMATE CHANGE

NATURAL CAPITAL

HUMAN RIGHTS

CONTROVERSIAL ACTIVITIES

2024-2027 Proposed Stewardship Themes

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Climate

- Net Zero Alignment (Direct, CA100+, CDP)
- Audit Accounts (IIGCC)
- Just Transition (LAPFF)
- Banks (ShareAction)

Natural Capital

- Advocacy (PRI, IPDD)
- Nature Action 100
- Plastic pollution (AsYouSow)

Human Rights

- Corporate Index Benchmark (ICCR)
- Advance (PRI)
- Modern Slavery (Find it, Fix it, Prevent it), OPT (Direct, LAPFF)

Controversial Activities

- Laggards in ACS (Direct, Investor Forum, EOS)
- Egregious controversies in ACS (Direct, Investor Forum, EOS)
- Fair Tax (PRI)

Climate Change (i)

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What is the Problem?

- The largest impact of climate change is that it could negatively impact GDP of the worldwide economy by 2050 if global temperatures rise dramatically. Forecast based on temperature increases staying on the current trajectory and the Paris Agreement and net-zero emissions targets not being met.
- IPCC states that "it is unequivocal that human influence has warmed the atmosphere, oceans and land".
- Climate change has the potential impact to disrupt the success of companies across all sectors and geographies.
- Climate change risks are endemic, and they span from physical, transitional to market-pricing risk. Its impact is likely to be transgenerational.

Investment Risk and Opportunity

- Climate change could put at risk around 2 percent of global financial assets by the year 2100. A worst case scenario could see up to 10 percent of global financial assets being at risk by 2100. As pension schemes' liabilities stretch over an extended period, the long-term impacts of climate change can affect the liability side of the balance sheet in addition to any transitional impacts on asset values.
- Companies with credible net zero strategies are more likely to set resilient business plans against climate risks and stir away from stranded assets.
- Climate financing is pre-requisite for meeting the Paris Agreement. Climate solutions can contribute to emissions reductions needed to limit global warming to 1.5° or 2° C .

Exposure

High-risk sectors

- Oil & gas, coal mining, utilities
- Automotive, steel, cement, petrochemicals, airlines
- Financial services
- Forestry
- Agricultural supply chains
- Consumer goods

Natural Capital (i)

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What is the Problem?

- Over half of global GDP is moderately or highly dependent on nature
- Positive feedback loop exists between the effects of Climate Change and Biodiversity loss
- Climate change will become the dominant cause of biodiversity loss in the coming decades
- 5 key drivers of Biodiversity loss: Land-use change, Climate Change, Pollution, Natural Resource use and exploitation, invasive species.
- The mismanagement of nature-related risks poses potentially serious systemic and macroeconomic risks.

Investment Risk and Opportunity

- Degradation of nature could reduce companies' ability to generate long-term value for shareholders through (i) scarce resources (ii) regulatory tightening (iii) reputational damage.
- Companies reliant on a linear take-make-waste model face substantial commercial risks
- New opportunities around Nature-based climate solutions

Exposure

High-risk sectors

- Biotechnology and pharmaceuticals
- Chemicals
- Consumer Good Retail
- Food
- Forestry & Paper Products
- Household and personal goods
- Food and beverage retail and restaurants
- Metals and mining

Human Rights Risks (i)

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BACKGROUND

What is the Problem?

- There is a growing visibility and urgency around many human rights issues globally
- Media, governments and citizens are questioning whether the global financial system serves its intended purpose, and the wider interests of society, if it fails to manage capital in a way that supports sustainable and inclusive economies
- Higher scrutiny is placed on "S" factors as if mismanaged, they can have the potential to destroy companies' value and they are increasingly perceived as a barometer for company's culture[1].

Investment Risk and Opportunity

- The long-term legitimacy of sectors and markets depends, among other things, on operations and products that are ethically acceptable – "social license to operate".
- Companies' operations have impact on employees, as well as contract workers, workers in supply chains, customers, communities and the environment around operations
- 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, e.g. through the OCP.

Exposure

High-risk sectors

- The responsibility to respect human rights applies to all companies across sectors.
- Certain human rights will likely be more at risk of being impacted than others, depending on sector, geographical area and other circumstances.

(1) Time to Rethink the S in ESG (harvard.edu)

Controversial Activities(i)

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BACKGROUND

What is the Problem?

- A MSCI study found that companies with high ESG scores experienced lower costs of capital, lower equity costs, and lower debt costs compared to companies with poor ESG scores. McKinsey(1) echoes this argument maintaining that over 2,000 academic studies concluded that better ESG scores translate to about a 10% lower cost of capital. This correlates to lower regulatory, environmental, and litigation risks associated with high ESG-scoring companies
- In two thirds of "high ESG controversy" cases, companies' stock experienced "sustained underperformance," trailing the global index by an average of 12% over the course of the following 2 years after the controversy (2).
- Supply chain disruption may severely affect the long-term success of companies (i.e., supply chain resilience and business risk)

Investment Risk and Opportunity

- The value of shares of companies that are involved in systemic ESG scandals are likely to severely impaired, e.g., Lomnin, Vedanta, Bayer. Companies with severe breach of international norms can be exposed to: imminent removal of their licence to operate, government intervention, and severe litigations. Investors can face dire reputational risks as well as complaints at OCP level.
- Laggard ESG practices can act as a proxy indicator for companies' vulnerability to potential scandals and corporate mismanagement.
- Engaging with companies' executive teams with alleged controversies and/or ESG laggard approach is part of the LGPSC's fiduciary duties2 and universal owners' commitment to responsible investment.

Exposure

High-risk sectors

- The responsibility to respect international norms and adopt business practices applies to all companies across sectors.

(1) Why ESG scores are here to stay | McKinsey
(2) ussif.org/files/GSIR_Review2018F.pdf
(3) ICGN - Fiduciary duties exist to safeguard the current and future interests of fund beneficiaries, both to enhance value and to protect them from potential misuse of their assets, owing to negligence,

Stewardship Partners Engagement Themes

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Federated Hermes

THE INVESTOR FORUM

Meta theme	Theme	Subtheme
Environmental	Circular economy and zero pollution	Circular Economy & Waste
		Pollution
	Climate change	Governance & Transparency
		Climate Opportunities
		GHG Emissions Reduction
		Physical Risk
	Natural resource stewardship	Antimicrobial Resistance
		Biodiversity & Sustainable Food Systems
		Water Stress
Governance	Board effectiveness	Board Composition & Structure
		Board & Management Effectiveness
		Succession & Stability
	Executive remuneration	Pay Outcomes
		Pay Design & Transparency
	Investor protection and rights	Basic Shareholder Rights
		Debtholder Rights
		Minority Protections
Social	Human and labour rights	Access & Affordability
		Digital Rights
		High Geographic Risks
		Indigenous & Community Rights
		Supply Chain Rights
	Human capital	DEI & Innovation
		Health, Safety & Wellbeing
		Employment Terms & Conditions
	Wider societal impacts	Anti-bribery & Corruption
		Conduct & Ethics
		Safe Products & Services
		Responsible Tax Practices
Strategy, Risk and Communication	Corporate reporting	Audit & Accounting
		Sustainability Transparency
	Purpose, strategy and policies	Business Purpose
		Capital Allocation
		Long-term Sustainable Strategy
	Risk management	Cyber Security
		Enterprise Risk Practices

Oversight by the Board	Execution by the Management team
Strategy	Operational Performance
Leadership & Succession	Management Information
Capital Allocation	Reporting & Communication
Corporate Governance	Capital Allocation
Corporate Action	
Improving Governance	

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Stewardship Partners Engagement Themes

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Local Authority Pension Fund Forum

- Climate Risk
- Social Risk
- Governance Risk
- Reliable Accounting Risk
- LGPS & Stewardship

ShareAction»

- Investor Decarbonisation Initiative
- Long-term investors for People's Health
- Good Work Coalition
- Workforce Disclosure Initiative
- Raising Banking Standards
- Biodiversity Initiatives

THE INVESTMENT ASSOCIATION

•Responding to Climate change
•Audit quality
•Stakeholder engagement and
•Diversity

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Key partnerships

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Green Finance Initiative

Local Authority Pension Fund Forum

Transition Pathway Initiative

PRI Principles for Responsible Investment

THE INVESTOR FORUM

IIGCC Institutional Investors Group on Climate Change

Climate Action 100+ Global Investors Driving Business Transition

30% Club GROWTH THROUGH DIVERSITY

ICGN International Corporate Governance Network

THE INVESTMENT ASSOCIATION

FRC Financial Reporting

CDP DISCLOSURE INSIGHT ACTION

Nature Action 100

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- AsYouSow: NGO promoting corporate accountability through shareholder action.
- Authorised Contractual Schemes (ACS): collective investment scheme that pools assets and is managed on behalf of several investors.
- CDP: NGO helping companies, cities, states, regions, and public authorities disclose their environmental reporting impact.
- Climate Action 100+ (CA100+): investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.
- EOS at Federated Hermes: engagement overlay provider that delivers corporate engagement and proxy voting services.
- Finance Sector Deforestation Action (FSDA): investor initiative focused on eliminating agricultural commodity-driven deforestation from portfolios.
- Financial Reporting Council (FRC): regulator that is responsible for setting the UK's Corporate Governance and Stewardship Code.
- Institutional Investors Group on Climate Change (IIGCC): a European-based membership body for investor collaboration on climate change.

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- Intergovernmental Panel on Climate Change (IPCC): United Nations body for assessing the science related to climate change.
- Investor Policy Dialogue on Deforestation (IPDD): investor initiative engaging with public agencies and industry associations on the issue of deforestation.
- Local Authority Pension Fund Forum (LAPFF): promotes the highest standards of corporate governance to protect the long-term value of local authority pension funds.
- Natural Capital: the worlds stocks of renewable and non-renewable natural resources (plant, animals, air, water, minerals, soil) that combine to provide a flow of benefits (ecosystem services) to people.
- Principles for Responsible Investment (PRI): independent body working to encourage investors to use Responsible Investment to enhance returns and better manage risk.
- ShareAction: NGO promoting Responsible Investment and driving better corporate action on Environmental, Social, and Governance issues.
- Taskforce for Nature-related Financial Disclosures (TNFD): risk management and disclosure framework for organisations to report on nature-related risks.

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- The Investor Forum: practitioner-led membership organisation to position stewardship at the heart of investment decision–making.
- Transition Pathway Initiative (TPI): global initiative that assesses preparedness by companies in high carbon sectors for transition to a low carbon economy.
- UN Guiding Principles on Business and Human Rights (UNGP): set of guidelines for states and companies to prevent, address and remedy human rights abuses committed in business operations.

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"One Central team, working in partnership to invest with purpose and deliver superior returns"