South Tyneside Council

item 9

Pensions Committee
Date: 12 June 2026

Stewardship Quarterly Update - 31 March 2026
(for information and discussion)

Report Sponsor: Paul McCann, Assistant Director (Pension Fund) and Senior LGPS Officer.

Recommendation

1. The Committee is recommended to note the report.

Executive Summary

2. This report provides an overview of the Fund's stewardship activities for the quarter ending 31 March 2026. Key points to note are:

- Why stewardship matters - The Fund must act in the best financial interests of its stakeholders. Stewardship supports this by encouraging the companies in which the Fund invests to improve governance, manage risks well and take a long-term approach to decision-making.

- How the Fund carries out stewardship - Most day-to-day stewardship work is carried out by Border to Coast, investment managers and the Local Authority Pension Fund Forum (LAPFF). The Fund oversees this work and reviews whether it supports its investment objectives.

- Voting activity this quarter - During the quarter, the Fund's managers cast more than 17,000 votes at nearly 2,000 company meetings around the world.

- Engagement activity - Border to Coast, LGIM and LAPFF engaged with companies on issues including workforce matters, climate change, governance, pollution and wider environmental performance.

- Stewardship Code submission - The Fund submitted its 2025/26 Stewardship Report to the Financial Reporting Council in May 2026. This is part of the process for seeking signatory status to the UK Stewardship Code, which is an external benchmark for good stewardship practice.

Background

5. The Committee and officers have a fiduciary duty. In simple terms, this means they must act in the best financial interests of scheme members and employers when making investment decisions.

6. Acting in members' and employers' best financial interests means looking not only at short-term returns, but also at the long-term risks that can affect investment performance. Stewardship is one way the Fund does this. By encouraging the companies in which it invests to improve governance, manage environmental and social risks well, and make sound long-term decisions, the Fund aims to protect and support long-term investment returns.

7. This report gives the Committee an overview of the stewardship activity carried out by, or on behalf of, the Fund during the last quarter and explains how that work supports responsible investment and long-term value creation for the Fund.

Voting Activities this Quarter

6. The table below summarises global voting activity, including the number of company meetings, the number of votes cast and the level of dissent. These figures help show the scale of activity, although they do not on their own explain the reasons behind individual voting decisions.

Manager	Meetings	Resolutions	For	Against	Abstain/Oth	% dissent
BCPP	233	2,466	2,070	358	38	16%
LGIM	1,749	14,628	11,687	2,642	299	20%
TOTAL	1,982	17,094	13,757	3,000	337	20%

7. Voting is an important stewardship tool, but change is often achieved through longer-term engagement with companies. This usually involves ongoing dialogue between investors and company management, sometimes supported by collaborative work with other asset owners.

Engagement Highlights - Legal and General (LGIM)

Sustainability Framework

8. LGIM aims to improve long-term value and resilience across its investments through a sustainability framework built around four themes: an inclusive economy; health, wellbeing and quality of life; climate change and resilience; and protection of the natural environment.

9. During the quarter, LGIM carried out targeted engagement on issues such as living wages and income inequality. This included voting against companies where progress was not strong enough. One positive example was Sainsbury's, which achieved an "advanced" rating for its supply chain wage disclosures.

Sainsbury's: A Case Study in Social Resilience Engagement

10. Sainsbury's was part of LGIM's wider engagement on income inequality and living wages. It was also included in collaborative work led by the Platform Living Wage Financials, which assesses how companies deal with living wage issues across both their own workforce and their supply chains.

11. LGIM engaged directly with senior company representatives to encourage further progress on living wage commitments, improve disclosure about workforce and supply-chain practices, and promote alignment with good practice on fair pay and responsible sourcing.

12. LGIM also played a leading role in the wider investor collaboration, helping to review the company's progress and provide feedback on the initial assessment findings.

13. This engagement led to a number of positive outcomes:

    - Achievement of expectations: Sainsbury's met LGIM's minimum standards, avoiding escalation via voting sanctions.
    - Best-in-class disclosure: Rated "advanced" under PLWF and the highest-performing global food retailer assessed.
    - Supply chain leadership: Strong disclosure practices recognised as best practice.

14. Overall, this example shows how focused and collaborative stewardship can help bring about practical improvements in difficult areas such as supply chain labour standards and income inequality. Addressing these issues can strengthen business resilience and support long-term value.

Engagement Highlights - Border to Coast (BCPP)

Apple Inc (AGM)

15. As part of its stewardship work, Border to Coast reviewed two main agenda items at Apple's 2026 annual general meeting: executive pay and a shareholder proposal on China-related risks.

16. Border to Coast supported the vote on executive pay. Although it considered that there is still room for improvement, particularly in relation to environmental, social and governance measures and the design of long-term incentives, it concluded that the arrangements met its minimum expectations. The proposal received around 91% shareholder support.

17. Border to Coast opposed the shareholder proposal asking for a report on the risks and costs linked to Apple’s exposure to China. It did not consider the proposal sufficiently justified and took the view that its overall intent had not materially changed from a similar proposal considered in 2023. The resolution received low support of around 1%.

18. Overall, this shows Border to Coast taking a balanced approach, supporting company proposals where minimum standards were met and opposing proposals it considered weak or not well founded.

Jindal Steel & Top 100 Portfolio Emitters

19. Border to Coast continued to prioritise engagement with the 100 highest carbon-emitting companies in its portfolio in order to protect long-term value for partner funds. All of these companies are now subject to some form of engagement, whether directly or through Robeco, external managers or wider investor collaborations.

20. Jindal Steel was identified as the highest-emitting company not previously under engagement. Border to Coast wrote to the company to recognise progress already made while also encouraging stronger climate governance, risk management and disclosure, including reporting on Scope 3 emissions.

21. Letters were also sent to a further 30 companies setting out minimum expectations for climate risk management. These expectations were tailored to reflect the different circumstances of developed and emerging markets.

22. Activity in the quarter brought all of the highest-emitting holdings within engagement coverage and started engagement with companies that had not previously been approached, particularly where there were gaps in governance and transparency. Border to Coast’s previous Engagement Strategy ended in Q1 2026, with some programmes closing as work began on the new strategy for 2026 to 2030.

Local Authority Pension Fund Forum (LAPFF)

Aviation and Climate Transition

23. The aviation sector faces increasing regulatory pressure because it remains heavily dependent on fossil fuels. LAPFF engaged with aviation companies to encourage credible plans for cutting emissions and managing the business risks linked to the transition to a lower-carbon economy.

24. During the quarter, LAPFF met with Ryanair, IAG, Wizz Air and easyJet to discuss how their strategies align with a 1.5°C pathway. Topics included sustainable aviation fuel, governance, climate risk, net-zero plans, fleet efficiency, new technology and supply chain accountability. The

discussions also highlighted challenges such as limited sustainable fuel supply, policy uncertainty and governance gaps.

25. LAPFF noted progress by all four airlines in areas such as fleet modernisation, operational efficiency and early action on sustainable aviation fuel. However, significant challenges remain, and LAPFF will continue to monitor how the companies strengthen governance and improve disclosure, including on Scope 3 emissions.

Water Utilities

26. LAPFF continued its engagement with water companies on storm overflow pollution and underinvestment in ageing infrastructure, while also increasing its focus on PFAS and microplastics. These issues create environmental, public health, regulatory and financial risks for the sector.

27. This engagement supports companies in responding to the new UK regulatory framework and encourages wider collaboration across the sector to build a more resilient and sustainable water system.

28. LAPFF met with Pennon to review South West Water's environmental performance, readiness for regulatory change and governance arrangements. This showed improvements in sustainability capability, operations and investment in renewable energy.

29. Pennon also reported progress on reducing storm overflows, supported by board-level oversight, and confirmed its long-term targets. However, it still faces a challenging environment because of climate pressures, ageing infrastructure and increased public and regulatory scrutiny. LAPFF will continue to monitor the company's response.

30. LAPFF also supported wider water stewardship through the Valuing Water Finance Initiative by co-signing a letter to 56 water-intensive companies calling for better disclosure of water-related risks.

Preparation and Submission of the Fund's 2025/26 Stewardship Report

31. The UK Stewardship Code, issued by the Financial Reporting Council (FRC), is a voluntary code that sets standards for how asset owners and managers invest responsibly and oversee their investments. The Fund applies to be a signatory because this gives external recognition to its stewardship approach, supports transparency and accountability, and demonstrates that the Fund takes its role as a long-term investor seriously.

32. Officers prepared the 2025/26 Stewardship Report using the previous year's submission as a starting point and updated it to reflect stewardship activity carried out during the year, together with the latest FRC guidance on reporting.

33. The report was submitted to the FRC at the end of May 2026. To support openness and accessibility, a copy of the final submission will also be published on the Fund's website.

34. The FRC is expected to take around two to three months to assess the submission. As Tyne and Wear is a large pension fund, the application is likely to be examined closely, so there is no guarantee it will be successful this year. However, the Fund has built on previous successful submissions, which should help strengthen the overall quality of the report.

Risks

35. Financial risk - Poor stewardship by the companies in which the Fund invests, or weak oversight by the Fund and its investment partners, could lead to weaker governance, unmanaged risks and poorer long-term investment returns.

36. Reputational risk - The Fund's reputation could be affected if its stewardship approach is seen to fall short of good practice or stakeholder expectations, or if it cannot clearly explain how this work supports members' and employers' best financial interests.

37. Governance and compliance risk - Although signatory status to the UK Stewardship Code is voluntary, an unsuccessful application could reduce external confidence in the Fund's stewardship framework and indicate that further improvement is needed.

Next Steps

38. Officers will continue to monitor stewardship and engagement activity reported by LGIM, Border to Coast and LAPFF, publish the Fund's 2025/26 Stewardship Code submission on the Fund's website and bring further updates to the Committee where relevant.

Recommendation

39. The Committee is recommended to note the report.

Reason for Recommendation

40. This report helps the Committee understand how the Fund is carrying out its stewardship responsibilities and provides assurance that this work supports the Fund's long-term investment objectives.

Report Author: Loveness Miller, Investment Manager (Pension Fund).

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
LGIM Engagement Report		Investments Office, South Shields Town Hall
Border to Coast Stewardship Report Q1 2026		Investments Office, South Shields Town Hall
LAPFF Q1 2026 Quarterly Engagement Report		Investments Office, South Shields Town Hall
Stewardship Code Report 2025/26		Fund Website

Contact Officer: Paul McCann, Assistant Director (Pension Fund)