

# GREATER MANCHESTER PENSION FUND - INVESTMENT MONITORING AND ESG WORKING GROUP

19 January 2018

**Commenced:** 10.00 am

**Terminated:** 11.20 am

**Present:** Councillors Taylor (Chair), Ricci, Andrews, Brett, Grimshaw, Mitchell and Mr Allsop

**In Attendance:**

Sandra Stewart	Director of Pensions
Tom Harrington	Assistant Director of Pensions (Investments)
Steven Taylor	Assistant Director of Pensions (Investments)
Michael Ashworth	Investments Manager
Abdul Bashir	Investments Manager
Iain Campbell	Investments Manager
Raymond Holdsworth	Investments Manager

**Apologies for Absence:** Councillor Pantall

In opening the meeting, those in attendance joined the Chair in a one minutes silence in memory of Councillor Kieran Quinn, Executive Leader of Tameside Council and Chair of the Greater Manchester Pension Fund, who sadly passed away on 25 December 2017.

## 20. DECLARATIONS OF INTEREST

There were no declarations of interest.

## 21. MINUTES

The Minutes of the Investment Monitoring and ESG Working Group held on 13 October 2017 were approved as a correct record.

## 22. LEGAL & GENERAL CORPORATE GOVERNANCE REVIEW

The Working Group welcomed James Sparshott and Sacha Sadan from Legal & General who attended the meeting to present their corporate governance activity over the last 12 months.

Mr Sadan told the Working Group that two new analysts had been appointed to the Sustainability and Responsible Investment Strategy team and there were two new non-Executive Director Roles in the Corporate Governance team.

It was reported that Legal & General achieved long-term returns for clients by using their scale to influence and change behaviour, by integrating ESG to make better investment decisions, by building trust and long-term relationships and escalating concerns where necessary.

Long term ESG topics were outlined and included: remuneration; diversity; and climate change. Legal & General had not abstained from voting on UK shareholder resolutions for six years and opposed the election of 89 UK board directors and 136 UK remuneration resolutions in 2016.

Legal & General were committed to encourage the transition to a low carbon economy for the long-term benefit of all companies and their investors and had engaged with the world's largest companies to address climate change on behalf of all L&G clients.

Two case studies were outlined and discussed with the Group.

A discussion ensued on diversity issues, climate change and audit tenure.

**RECOMMENDED:**

**That the presentation be noted.**

### **23. ROUTINE PIRC UPDATE**

Alan MacDougall and Janice Hayward of PIRC Ltd, attended the meeting to present PIRC's report "2017 UK Annual Corporate Governance Review". The report provided an analysis of good corporate governance practice and proxy voting trends amongst the FTSE 350 during 2016/17.

It was reported that the key areas of PIRC's Annual Corporate Governance Review were:-

- Boards of Directors
- Executive Remuneration
- Audit Issues
- Capital Structure

Director elections and Board structure were a central element of annual general meetings with re-election for FTSE 350 companies being a requirement of the UK Corporate Governance Code. The review looked into board composition, focusing on AGM votes, gender diversity and tenure. Data showed that female representation in FTSE 350 firms increased by 1% but there had been no change to females in a leadership position and, similar to last year, only 7.7% of Executive Directors were women.

With regards to remuneration, data showed that the level of opposition on companies' remuneration reports was similar to the previous year and the majority of the FTSE 350 companies renewed their remuneration policy during the year, which was a marked increase compared to 2015/16. The average pay ratio of CEOs to average employees was slightly lower than the previous year.

In relation to audit, the review showed that the four biggest audit companies were responsible for auditing almost all of the FTSE 350 companies and highlighted the difference and similarities in terms of average tenure where there had been a positive reduction in tenure above 10 years. For the 2017 proxy season, PIRC had made the decision to withdraw support for share repurchase authorities unless a clear and cogent rationale was provided by the company.

In conclusion, PIRC vote recommendations had an impact on poor governance practices in the FTSE 350 market, by targeting the same resolution each year companies had responded by changing their approach.

**RECOMMENDED:**

**That the report be noted.**

## **24. INVESTMENT STRATEGY STATEMENT**

The Assistant Director of Pensions (Investments) submitted a report, which considered comments received on the draft Investment Strategy Statement following a public consultation period. An updated draft Investment Strategy Statement was appended to the report.

It was reported that an interim Investment Strategy Statement had been agreed and adopted by Panel at their meeting of 10 March 2017 to reflect the 2016 Regulations. Following a detailed review, a draft Statement was considered and endorsed by the Working Group at their last meeting on 13 October 2017. A public consultation on the draft Statement was held in-between 19 October and 19 November 2017 and members of the public were able to submit any comments or feedback via a form on the website.

The Fund received 30 responses to the consultation, 29 of which related to climate change, with the main focus being for the Fund to reduce or divest its holdings in fossil fuel companies, and one related to poverty and the Living Wage. A number of Greater Manchester Councillors received template emails calling on the Fund to disinvest from fossil fuel holdings. A copy of the Chair of the Pension Fund's response was appended to the report. In addition to the public consultation the Fund held a Stakeholder Engagement event on 19 October 2017 at Gorton Monastery, which was an opportunity to learn about the Funds current approach to Responsible Investment and have an input into shaping the evolution of the future approach.

Following the public consultation and feedback from the Stakeholder event a number of changes were made to Section 9 of the draft Investment Strategy Statement.

### **RECOMMENDED:**

**That the Working Group endorses the updated draft Investment Strategy Statement and supports its adoption by the Panel.**

## **25. CDP (FORMERLY THE CARBON DISCLOSURE PROJECT)**

The Assistant Executive Director of Pensions (Investments) submitted a report outlining an invitation from the CDP, which was formerly the Carbon Disclosure Project (CDP), to become a signatory to four CDP information requests - the CDP, the CDP Water Disclosure, the CDP Carbon Action and the CDP Forest Footprint Disclosure.

It was reported that the CDP was an independent not-for-profit organisation, which held the largest database in the world of primary information on company policies and practices relating to climate change. The CDP sent out information requests to organisations on an annual basis. In order to encourage them to voluntarily respond, financial institutions were invited to become signatories to the information requests. Last year the Fund accepted an invitation to become a signatory.

### **RECOMMENDED:**

**That the working group accept the invitation to become a signatory subject to an annual administration fee of £745 plus VAT to the four Carbon Disclosure Project information requests outlined in the report.**

## **26. UNDERWRITING, STOCKLENDING AND COMMISSION RECAPTURE**

The Assistant Director of Pensions (Investments) submitted a report advising Members of the activity and income generated on Underwriting, Stocklending and Commission Recapture during the quarter.

It was reported that Capital International did not participate in underwriting activity and the Fund did not participate in any sub-underwriting via UBS in the quarter ended September 2017. Stocklending

income during the quarter was £92,926, compared to £104,568 in the same quarter of 2016, and Commission 'recaptured' was £16,969, compared to £31,148 in the same quarter of 2016.

The report outlined that income generated from these activities was very sensitive to market conditions, therefore the amounts generated were expected to vary from one quarter to another, and from one year to another.

**RECOMMENDED:**

**That the report be noted.**

**27. UPDATE ON ACTIVE PARTICIPATION IN CLASS ACTIONS**

The Assistant Director of Pensions (Investments) submitted a report, which provided Members with an update on litigation in which Greater Manchester Pension Fund sought to actively recover losses in the value of its shareholdings in various companies as a result of actions taken by those companies.

A quarterly update explaining active Class Actions, which remain outstanding, was presented to Members, and recent developments relating to each action was provided.

It was reported that the Fund had recently joined litigation and, due to the short deadline for participation, approval to join the litigation was given by the Director of Pensions who had delegated authority under the Constitution.

**RECOMMENDED:**

**That the report be noted.**

**28. URGENT ITEMS**

There were no urgent items.