GREATER MANCHESTER PENSION FUND - INVESTMENT MONITORING AND ESG WORKING GROUP

22 January 2021

Commenced: 09:00 **Terminated:** 10:40

Present: Councillors Cooney (Chair), Andrews, Homer, Jabbar, Newton, Ward, Ricci, M Smith, O'Neill, Mitchell, Taylor,

Mr Drury, Mr Llewellyn, Mrs Fullham and Mr Flatley

Fund Observer Councillor Pantall and Ryan

In Attendance:

Sandra Stewart	Director of Pensions
Tom Harrington	Assistant Director of Investments
Paddy Dowdall	Assistant Director of Local Investments and Property
Neil Cooper	Head of Pension Investment (Private Markets)
Michael Ashworth	Senior Investments Manager
Andrew Hall	Investment Manager (Local Investments)
Mushfiqur Rahman	Investments Manager
Lorraine Peart	Investments Officer
Richard Thomas	Investments Officer

Apologies for Absence: Councillors Barnes and Parkinson

41. MINUTES

The minutes of the meeting of the Investment Montioring and ESG Working Group on the 2 October 2020 were approved as a correct record.

42. LEGAL & GENERAL ESG REVIEW

Consideration was given to a report of Legal & General Investment Management (LGIM), which provided an update on the Environmental, Social and Governance activity over the last 12 months.

Sacha Sadan of LGIM explained that stewardship played a critical role in responsible investing at LGIM. LGIM used their scale to influence, integrate ESG factors to make better investment decisions, build long-term relationships and escalate concerns by using votes and collaboration.

An update was provided on LGIM's activities over the previous year, it was reported that LGIM's quarterly report and annual active ownership report was due to be published, which provided examples of real world impact of LGIM and collaboration activities.

Members were presented with case studies where LGIM had used their influence to change the behaviour of businesses. This was achieved through a number of approaches including, direct engagement, collaborative engagement, voting, capital allocation, engaging the regulator and through public pressure. It was highlighted that in 2019 LGIM named 11 companies as laggards under the Climate Impact Pledge.

It was stated that LGIM aimed to raise standards at companies and in markets. Market failures had to be addressed to build healthy economies and societies. Stewardship involved close work with policy makers to improve disclosure, corporate governance standards, achieve climate goals to reach net zero and for green and sustainable finance.

The key themes that were focused on by LGIM were fiscal imbalance, wealth inequality, climate change and resource scarcity, digital disruption, short-termism and lack of disclosure / inadequate governance. Case Studies were presented where LGIM had influenced companies in changing their climate policies, using engagement, voting and public pressure.

Members were advised of the Transparency score campaign, LGIM had produced a guide to ESG transparency, this set out expectation of a long term investor regarding the ESG information investee listed companies should report on.

It was reported that LGIM had been a member of the Human Capital Management Coalition (HCM) for seven years and were an active member. The HMC asked companies to capture details on their Workforce Composition, Costs of Workforce, turnover or Workforce Stability Metric and their Workforce Diversity Data.

RESOLVED
That the report be noted.

43. RESPONSIBLE INVESTMENT UPDATE

Consideration was given to a report of representatives of PIRC Ltd, which provided the Working Group with an update on responsible investment.

Alice Martin, Labour Specialist of PIRC delivered a presentation titled “Unpacking the Outbreak”, which detailed how food processing became a high risk sector in the Covid Pandemic.

Members were reminded that food production was classed as essential work and there had been major Covid outbreaks in food plants internationally. Further, there had been closures and walkouts within the USA, Germany, Brazil and the UK. A Unite the Union survey of food workers found that a number of UK food workers were unable to social distance on production lines.

PIRC found that there had been corporate underreporting, out of 1400+ cases and 6 fatalities only 123 cases and 1 fatality was reported under the Reporting of Injuries, Diseases and Dangerous Occurrences regulations (RIDDOR). From interviewing workers, engagements with companies and HSE data, PIRC found that the real number of cases reported should have been higher. **Appendix A** included a detailed report on the under reporting of cases and fatalities from Covid in the food production sector.

It was explained that the food production sector was high risk for a number of reasons: it was labour intensive, line operatives stood within 1 metre, the temperature and surfaces were cold increasing chances of transmission, ventilation was poor and often workers were in shared living accommodation and commuted together.

The Labour Specialist explained that the workforce was particularly vulnerable, non- standard contracts were common, over 2/3 of food companies used temporary and agency workers, a quarter of the workforce were EU migrants and the workforce received lower average pay than other manufacturing jobs.

It was stated that one of the reasons why the risks had been so high in the sector was due to a lack of supply chain visibility. This was partly due to the efforts of supermarkets to disassociate themselves from their suppliers. There was also a weak workforce voice in the sector with only 25% union representation and health authorities were overstretched. Therefore, there had been a mismanagement of Covid risks, there was a reluctance to call in sick due to loss of income, poor sick pay provision and threats of lost hours and jobs.

Members were presented with a breakdown of the spikes in google searches for company Covid outbreaks. It was explained that some companies had received significant reputational damage due to their handling of Covid outbreaks. This had subsequently had an impact on share prices despite high demand for products.

It was explained that there had been a Co-ordinated investor response, Interfaith Centre on Corporate Responsibility (ICCR) led coordinated investors of 129 institutions and $2.4 trillion in combined assets to push for changes. PIRC and investors had written similar letters to the UK food sector and other engagements would continue.

It was reported that there were a number of issues which existed before the pandemic and would continue after. Fluctuating demand and safety risks which prompted calls for automation was expected to continue to be a theme after the pandemic, in response to this PIRC were looking at how automation would not need to lead to less jobs but improvement in productivity and upskilling of the workforce. Sustainability would continue to be a theme in the sector and labour rights would remain a concern internationally. It was stated that there had been progress in this area, Unilever reached a global agreement in 2019 with unions not to use non-standard contracts. More work on these areas and standards would be needed to see improvements domestically and internationally.

Tom Powdrill of PIRC highlighted details from the Northern LGPS Quarterly Stewardship report for July - September 2020. It was explained that despite that Q3 had been a quieter period in terms of the number of meetings work continued on challenging companies through active and informed voting during Q3. 33 shareholder resolutions were voted on during the quarter relating to ESG, of these 20 were voted for, 8 were opposed and 5 abstained.

It was stated that in terms of themes throughout the quarter, the Social of ESG had been the focus. It was explained this had partly been due to Covid amongst other issues. Members discussed the “Rio Tinto board implosion”, this was highlighted as an example of the potential risks to companies and their investors by not treating affected stakeholders fairly.

The Quarterly report detailed how the US Occupational Safety and Health Administration (OSHA) fined two of the biggest meat processing companies Smithfields and JBS $29,000 for allowing more than 42,000 workers to contract Covid-19 while at work. Smithfields made $14bn in revenues last year while JBS made $57.1bn. It was explained that with weak regulatory oversight and derisory fines, investors should continue to engage with companies in the food processing conditions for employees to reduce the spread of the disease.

It was highlighted that there was a working assumption in the ESG world that governance had been dealt with, whereas in reality rules that related to governance went through ongoing review and revision. During 2020 there had been numerous cases where audit firms had faced significant criticism and in some cases legal claims in relation to businesses that had failed or faced other challenges. It was explained that Investors relied heavily on robust auditing and accounts to help them make decisions on the validity of a potential investee company. In the absence of reliable reporting, individuals and institutions were vulnerable to the fallout from financial fraud and scandal.

With regards to engagements with major holdings, it was reported that during Q3 NLGPS held a call with Sir Roy Gardner Chair of Servo Plc to discuss the impact of Covid-19 on the company’s operations and measures taken by Serco to mitigate the impacts of the Pandemic. Engagements had also taken place with Man Group Plc where discussions took place on the relative pay of executives and engagements took place with Synthomer Plc where discussions took place regarding their clients on allegations of forced labour. NLGPS had further engagements with major holdings scheduled for later in 2020.

RESOLVED
That the report be noted.

44. URGENT ITEMS

There were no urgent items.

CHAIR