

Report to : PENSION FUND MANAGEMENT/ADVISORY PANEL

Date : 19 March 2021

Reporting Officer : Sandra Stewart, Director of Pensions
Tom Harrington, Assistant Director of Pensions (Investments)

Subject : **QUARTERLY UPDATE ON RESPONSIBLE INVESTMENT ACTIVITY**

Report Summary : This report provides Members with an update on the Fund's responsible investment activity during the quarter.

Recommendation(s) : That the summary of the Funds Responsible Investment progress activity for the latest quarter against the six PRI principles is noted and in particular GMPF's commitment to meet the Paris Agreement to achieve net zero carbon emissions by 2050 whilst actively exploring a 2030 target in line with the IPCC's 1.5 degree pathway.

Links to Core Belief Statement: The relevant paragraph of the Fund's Core Belief Statement is as follows :

"2.6 Well governed companies that manage their business in a responsible and sustainable manner will produce higher returns over the long term."

Financial Implications : There are no direct material costs as a result of this report.
(Authorised by the Section 151 Officer)

Legal Implications : The provisions underlined by the Regulation 7 guidance for the formulation and maintenance of their ISS, clearly address issues of responsible investment by the Local Government Pensions Scheme administering authorities.
(Authorised by the Solicitor to the Fund)

Regulation 7(2)(e) requires funds to follow pertinent advice and act prudently when making investment decisions, "*...a prudent approach to investment can be described as a duty to discharge statutory responsibilities with care, skill, prudence and diligence*". They must consider any factors that are financially material to the performance of their investments, including ESG factors contemplating the time horizon of the liabilities along with their approach to social investments.

Regulation 7(2)(f), emphasises that "*administering authorities are encouraged to consider the best way to engage with companies to promote their long-term success, either directly, in partnership with other investors or through their investment managers, and explain their policy on stewardship with reference to the Stewardship Code.*"

Administering authorities are strongly encouraged to either vote their shares directly or ask their fund managers to vote in line with their policy under the Regulation 7(2)(f) and to publish a report of voting activities as part of their pension fund annual report under Regulation 57 of the 2013 Regulations.

Regulation 7 (6) underlines that the ISS must be published by 1 April 2017 and requires it to be reviewed at least every three years.

Risk Management :

Increasing net investment returns needs to be delivered without materially increasing Fund's exposure to investment risks. We want everyone to have a pension they can be proud of – one which builds a better world, without compromising on returns.

ACCESS TO INFORMATION :

NON CONFIDENTIAL

This report does not contain information which warrants its consideration in the absence of the Press or members of the public.

Background Papers :

APPENDIX 6A

RI Partners and Collaborations

Any enquiries should be directed to: Mushfiqur Rahman, Investments Manager, on 0161-301 7145 (email: mushfiqur.rahman@gmpf.org.uk).

1. BACKGROUND

- 1.1 The Funds approach to Responsible Investment is set out in its Investment Strategy Statement. The Fund has also published a more detailed Responsible Investment policy on its website.
- 1.2 The Fund is a signatory to the Principles for Responsible Investment (PRI). As a signatory to the PRI, the Fund is required to publicly report its responsible investment activity through the PRI's 'Reporting Framework'.
- 1.3 Upon becoming a PRI signatory, the Fund committed to the following six principles:
1. *We will incorporate ESG issues into investment analysis and decision-making processes.*
 2. *We will be active owners and incorporate ESG issues into our ownership policies and practices.*
 3. *We will seek appropriate disclosure on ESG issues by the entities in which we invest.*
 4. *We will promote acceptance and implementation of the Principles within the investment industry.*
 5. *We will work together to enhance our effectiveness in implementing the Principles.*
 6. *We will each report on our activities and progress towards implementing the Principles.*

2. RESPONSIBLE INVESTMENT ACTIVITY DURING THE QUARTER

- 2.1 A summary of the Funds Responsible Investment activity for the latest quarter against the six PRI principles is provided below.
- 2.2 **We will incorporate ESG issues into investment analysis and decision-making processes.**
- 2.3 The majority of the Fund's assets are managed by external investment managers. The Fund's approach to Responsible Investment is incorporated into the mandates of each investment manager via their respective Investment Management Agreement. Managers take into consideration ESG issues as part of their investment analysis and decision-making process and engage regularly with companies that are held within the portfolio. The Fund's public equity investment managers report annually on their Responsible Investment activity to the Investment Monitoring and ESG Working Group (IMESG).
- 2.4 Legal and General, the Fund's passive investment manager presented their annual Stewardship report to the IMESG Working Group during the quarter. They shared their processes and the approach they take to engage globally on the Fund's behalf. They demonstrated their use of scale to influence their engagement and the steps they take to escalate issues when companies are not responsive. L&G provided a number of case studies highlighting their efforts across the full spectrum of ESG issues that they have either engaged with companies on or collaborated with others to bring about a positive outcome.
- 2.5 Separately, the Northern LGPS pool invested £150m in a new UK affordable housing fund managed by PGIM Real Estate. There has been a collapse in supply of UK affordable housing since the 1970's, which has been exacerbated by the end of local authority housebuilding. This has led to demand greatly outweighing supply. This investment aims to help alleviate the current supply and demand imbalance. The links below provide further details and coverage the investment has received.

<https://www.pgim.com/real-estate/press-release/pgim-real-estate-raises-ps190m-launch-uk-affordable-housing-fund>

<https://realassets.ipe.com/news/northern-lgps-brunel-pension-partnership-back-uk-housing-fund/10050393.article>

2.6 **We will be active owners and incorporate ESG issues into our ownership policies and practices.**

2.7 Voting and engagement is a cornerstone to the Fund's RI activities. The Fund retains maximum possible authority to direct voting, rather than delegating authority to the external Investment Managers. The Fund is able to engage with companies both directly and indirectly through its long-standing membership of the Local Authority Pension Fund Forum and as part of the Northern LGPS pool. The Fund's voting record can be found using the link below.

<https://votingdisclosure.pirc.co.uk/?cl=Uyc0NScKLg==&pg=1>

2.8 GMPF expects the companies it is invested in take employment standards seriously and treat their workforce with respect and employ and reward them fairly. PIRC and FAIRR co-hosted a webinar to discuss sustainability risks arising from the meat industry. Whilst the environmental impacts of meat production have been under debate for a number of years, the pandemic has prompted investors to ask deeper questions about social and labour related risks. Investors are encouraged to address labour issues in food supply chains before they evolve into material risks.

2.9 Following the ruling at the UK Supreme Court in February relating to the employment status of Uber drivers, PIRC also hosted a webinar that was joined by representatives from the GMB Union who supported the drivers that initiated the case. The ruling could have wide reaching effects not only for Uber but for other companies that operate with similar business models as they would be required to provide more rights to their workers as full employees.

2.10 GMPF's appointed external adviser PIRC, assists in the development and implementation of the Fund's Responsible Investment policy. This includes PIRC's Shareholder Voting Guidelines that are updated annually which inform GMPF's voting policies. GMPF has a responsibility as a shareholder to vote and exercise this right in a way that is consistent with its publicly disclosed objectives. PIRC released their updated Shareholder Voting Guidelines in early March. Some of the changes include:

- Where a company is considered to be in a high-risk sector with regards to Covid-19, PIRC expects full disclosure of causes of fatalities to be provided
- In regard to pay schemes, PIRC will not support bonuses where companies have been in receipt of furlough monies or other forms of state support including the coronavirus corporate finance facility
- PIRC will recommend the abstention for the re-election of the chair of the Nomination Committee where a skills matrix has not been disclosed

2.11 The voting guidelines will also assist GMPF to link the UN Sustainable Development Goals with the voting outcomes. PIRC also provided some of their findings from the review of the 2020 proxy season. Some of the highlights include:

- PIRC opposed a greater number of directors than in previous years which was largely due to concerns about individual candidates
- There has been an increase in women being appointed as both executive and non-executive directors in FTSE 100 companies. An increase from 13% in 2019 to 14% for executive roles and an increase from 44% to 47% for non-executive directorships
- The gender pay gap among employees was 15.5% in 2020, down from 17.4% in 2019

- The industrials and utilities sectors achieved the largest average reduction in greenhouse gas emissions
- 2.12 LAPFF organised a webinar that was joined by a member of the indigenous Wayuu community at Provincial and a lawyer from the Jose Alvear Restrepo lawyers' collective in Bogota. They spoke about the case of the Wayuu community, located 800 metres from the large opencast coal pits of the Cerrejon mine (owned by Anglo American, BHP and Glencore), where local people's health has been badly affected by coal dust pollution. They explained the reasons why this community has not only taken legal action against the mining company in Colombia, obtaining favourable rulings, but also taken the matter to the United Nations Human Rights Commissioner's office. LAPFF continue to engage on these issues.
- 2.13 The Fund's passive investment manager, Legal and General, published its ESG Impact report during the quarter.
- https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/cg-quarterly-report.pdf/
- 2.14 **We will seek appropriate disclosure on ESG issues by the entities in which we invest.**
- 2.15 Improved disclosure means companies can be better assessed for their long-term resilience and the Fund's investment managers can make informed investment decisions.
- 2.16 The Fund, via the Northern LGPS, is a member of the Workforce Disclosure Initiative (WDI). The aim of this initiative is for greater transparency on workforce policies and practices in their direct operations and supply chains. In 2020, 141 companies took part in the initiative demonstrating their commitment to transparency. The data provided in the survey gives an overall perspective on how a company treats its employees which gives an understanding to investors on how well the companies can perform longer term and allows engagement activity to be more focused and as effective as possible. In February, the WDI hosted a workshop to speak about the importance of Diversity and Inclusion and best practice and reporting trends.
- 2.17 GMPF is a member of the CDP which runs a global disclosure system for companies, cities, states and regions to manage their environmental impacts. Each year these organisations measure and manage their risks and opportunities on climate change, water security and deforestation. Further to the initial request to companies for information, GMPF further assisted by co-signing letters to any non-disclosing companies, requesting again that they complete the survey.
- 2.18 The 2020 CDP campaign had the highest response rate to date, with more than double the number of companies disclosing compared to 2019. Further details of the 2020 non-disclosure campaign are available at the link below.
- <https://www.cdp.net/en/investor/engage-with-companies/non-disclosure-campaign>
- 2.19 In July 2020, the CDP launched a Science Based Targets Campaign which is a collaborative engagement campaign designed to push the 1,850 highest emitting companies to set a 1.5°C emissions reduction target. The CDP has published a progress report which can be viewed using the link below.
- https://6fefcbb86e61af1b2fc4c70d8ead6ced550b4d987d7c03fcdd1d.ssl.cf3.rackcdn.com/omfy/cms/files/files/000/004/205/original/CDP_science-based_targets_campaign_-_mid-term_report.pdf
- 2.20 The Fund considers shareholder resolutions a useful tool to proactively raise issues of concern either where boards of investee businesses are resistant to dialogue or change, or

to amplify the shareholder voice where engagement with boards has been positive. The Fund co-filed a shareholder resolution at Citigroup requesting more transparency on the company's lobbying activities which would make it easier to assess whether Citigroup's lobbying is consistent with its expressed goals and stockholder interests. Officers joined several meetings with the lead filer to plan the best way to approach management at Citigroup in order for them to meet the demands of the proposal and to include the proposal in the Proxy Statement.

2.21 We will promote acceptance and implementation of the Principles within the investment industry.

2.22 The newly established Responsible Investment Advisory Group (RIAG) met for the first time on the 3 March 2021 and discussed a wide range of responsible investment related issues, including MHCLG's proposals for TCFD reporting within the LGPS and the response to the LGPS All Party Parliamentary Group's inquiry into a "Just Transition". The group is Chaired by the Director of Pensions at the Greater Manchester Pension Fund and includes a wide range of other members who can be found on the RIAG membership page.

2.23 The main role of the group will be to advise the LGPS Scheme Advisory Board and the Investment Committee, as requested, on all matters relating to responsible investment. It will also be responsible for assisting the Board in developing and maintaining the online Responsible Investment A to Z website, which is expected to go live at the end of March 2021. The group will continue to meet on a six weekly cycle and will report directly to the Investment Committee.

<https://www.lgpsboard.org/index.php/projects/responsible-investment>

2.24 All of the Fund's external public markets investment managers are PRI signatories. Many of the Fund's external private markets investments managers are also PRI signatories, and those who are not are encouraged to do so.

2.25 We will work together to enhance our effectiveness in implementing the Principles.

2.26 Where possible the Fund works in collaboration with other like-minded investors to amplify the investor voice and effect positive change. The Fund participates in several initiatives and forums across the full spectrum of ESG issues. A description of the Fund's main RI partners and collaborative bodies is attached as **Appendix A**.

2.27 On 10 March 2021, the Institutional Investors Group on Climate Change (IIGCC) launched the 'Net Zero Investment Framework', enabling investors to maximise the contribution they make to decarbonisation of the global economy and tackling climate change. This is achieved by ensuring investment portfolios are aligned with net zero emissions and investors are working in a comprehensive manner to help deliver on the goal of the Paris Agreement to keep global warming below 1.5°C. Building on IIGCC's existing work to date, the finalised Framework was published in partnership with other investor groups across North America, Asia and Australasia. It will be rolled out globally as the basis for investors worldwide to implement their net zero strategies.

2.28 GMPF and Northern LGPS were among 22 asset owners, with \$1.2 trillion (Tn) in assets, to have used publication of the Framework to commit to achieve net zero alignment by 2050 or sooner. The funds in question are drawing on the Framework to deliver these commitments, alongside a number of asset managers who are already working with clients on net zero alignment.

2.29 The Framework enables investors to decarbonise investment portfolios and increase investment in climate solutions, in a way that is consistent with and contributes to a 1.5°C net

zero emissions future. Investors do this by developing a 'net zero investment strategy' built around five core components of the Framework. These key components are: objectives and targets, strategic asset allocation and asset class alignment, alongside policy advocacy and, investor engagement activity and governance.

2.30 The 'net zero investment strategy' is also underpinned by three types of targets, as the main metrics to measure effective action:

- Portfolio level targets for decarbonisation and investment in climate solutions
- Timebound portfolio coverage targets for companies and assets to meet net zero or aligned criteria
- Engagement coverage threshold (>70% emissions in material sectors) ensuring intensive engagement to drive the transition

<https://www.iigcc.org/news/global-framework-for-investors-to-achieve-net-zero-emissions-alignment-launched-8-trillion-investors-put-it-into-practice/>

2.31 Two of the Fund's external investment managers, Legal and General and UBS committed to the Net Zero Asset Managers initiative. The 30 founding signatory global investors of the Net Zero Asset Managers initiative are committing to decarbonise their investment portfolios and accelerate their contribution to achieving net zero, while also encouraging other asset managers to join in order to demonstrate sector leadership and commitment to a sustainable future. By signing up to the Net Zero Asset Manager initiative they are committing in partnership and on behalf of their clients to invest in alignment with the net zero greenhouse gas emissions framework by 2050 or sooner. They will be putting the following steps in place:

- **Working in partnership** with their clients on decarbonisation goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all AUM
- **Setting an interim target** for the proportion of assets to be managed in line with the attainment of net zero emissions by 2050 or sooner
- **Reviewing** their short-term target at least every five years and with their clients' support, look to increase the proportion of AUM covered until 100% of assets are included

2.32 The Northern LGPS gave its support to the 'Say on Climate' initiative Initiated by Sir Christopher Hohn founder of the Children's Investment Fund Foundation. The initiative encourages all listed companies to develop a climate transition plan and put it to a shareholder vote at their AGM. These plans will give investors more opportunity to influence how listed companies will transition to net zero and reduce the chance for corporates to pay lip service to managing climate change risk

2.33 The Fund signed a letter from the Institutional Investors Group on Climate Change to the UK government to raise concerns of the decision to open a new deep coking coal mine in Cumbria. The opening of the coal mine will increase emissions and have a notable impact on the UK's legally binding net zero carbon emissions commitment. The letter can be found using the link below.

<https://www.iigcc.org/resource/iigcc-letter-to-uk-government-regarding-coking-coal-in-the-uk/>

2.34 Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. It focuses on 167 companies that are critical to the net zero emissions transition. Climate Action 100+ published its progress report for 2020 during the quarter. The report reveals that investor action, including by many IIGCC members, has helped to establish commitments to reach net zero

emissions by 2050 or sooner, from over half of the 167 companies engaged globally through the initiative. Highlights during 2020 include:

- Net zero commitments secured at 37 European companies, representing 80% of the total number of companies engaged via IIGCC.
- All European oil and gas majors - namely BP, Shell and Total - in addition to Equinor, Repsol and others, all now working to net zero goals

<https://www.climateaction100.org/wp-content/uploads/2020/12/CA100-Progress-Report.pdf>

2.35 The Transition Pathway Initiative (TPI) is an initiative led by asset owners that assesses the progress that companies are making on the transition to a low-carbon economy using publicly disclosed data. GMPF utilises this tool as part of its annual carbon reporting and Officers of the Fund keep up to date with updates provided by the TPI. The latest update relating to industrials/materials companies from February can be found using the link below.

<https://www.transitionpathwayinitiative.org/publications/74.pdf?type=Publication>

2.36 The TPI is currently working on a consultation for the Oil and Gas sector. A number of Oil and Gas companies have made net zero commitments and the aim of the consultation is to provide a standard way of being able to assess whether companies are aligned with their net zero commitment. GMPF's external equities managers are in the process of submitting their responses to the consultation. The TPI published its research into the Oil and Gas sector which can be found using the link below.

<https://www.transitionpathwayinitiative.org/publications/48?type=NewsArticle>

2.37 **We will each report on our activities and progress towards implementing the Principles.**

2.38 The Northern LGPS Stewardship Report for Q4 2020 can be found using the link below.

<https://northernlgps.org/taxonomy/term/15>

2.39 The LAPFF Quarterly Engagement Report for Q4 2020 can be found using the link below.

https://lapfforum.org/wp-content/uploads/2021/01/LAPFF_QER4_2020_final.pdf

3. RECOMMENDATION

3.1 As per the front of the report.