GREATER MANCHESTER PENSION FUND
INVESTMENT MONITORING AND ESG WORKING GROUP

16 April 2021

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

Present:	Councillors Cooney (Chair), Andrews, Newton, Ward, M Smith, O'Neill, Mitchell, Taylor,	
	Mr Drury, Mr Llewellyn, Mrs Fullham and Mr Flatley	
	Fund Observer Councillor Pantall	
In Attendance:	Sandra Stewart	Director of Pensions
	Tom Harrington	Assistant Director of Investments
	Paddy Dowdall	Assistant Director of Local Investments and Property
	Steven Taylor	Assistant Director of Investment Special Projects
	Abdul Bashir	Investments Manager (Public Markets
Apologies for Absence:	Councillors Ricci, Barnes, Homer, Jabbar and Parkinson	

45. DECLARATIONS OF INTEREST

There were no declarations of interest.

46. MINUTES

The minutes of the meeting of the Investment Monitoring and ESG Working Group on the 22 January 2021 were approved as a correct record.

47. NINETY ONE ESG REVIEW

Consideration was given to presentation of Ninety One which provided an update on the Environmental, Social and Governance activity in the last 12 months.

The Project Manager for Ninety One stated work had been underway on a white paper which would update Ninety One’s position on ESG. Members were advised that ESG had become broader and deepened over the years. Governance had previously focused on areas such as executive remuneration and shareholder rights, it was explained that governance now included broader areas such as looking at whether a company was ready for the challenges going forward.

It was reported that another learning that had come from the white paper was that ESG had become more proactive instead of reactive. It was stated that historically, ESG analysis would be undertaken before investing, it would be unusual to become actively involved in companies that had been actively invested in. However, now when an analysts research a stock they specifically identify areas where they would like to engage with the company and where by engaging a better outcome could be reached for the company. Portfolio managers would still focus on the value and prospects of a portfolio but also spend considerable time looking at ESG analysis. Members of the Working Group were presented with recent engagement examples including the objectives of each engagement and expected outcomes.

Members were advised that Ninety One had enrolled a significant number of their employees to undertake a specialist course at the Imperial College Business School to learn about climate risk, energy transition and carbon. This represented a big investment by Ninety One both in time and money, this investment was made as Ninety One saw climate change as such a big issue now and in the upcoming decades.

RECOMMENDED
That the report be noted.

48. NINETY ONE TRADING COSTS

Consideration was given to a report of the Director of Pensions / Assistant Director of Pensions for Investments. The report facilitated Members' scrutiny of Ninety One's approach to, and practice with regards to, trading costs.

The Director, Head of UK Client Management & Sales at Ninety One detailed the transaction and research costs for GMPF's portfolio for the year to 31 December 2020

RECOMMENDED
That the report be noted.

49. RESPONSIBLE INVESTMENT UPDATE

Consideration was given to a presentation PIRC which detailed the 2021 PIRC Shareholder Voting Guidelines.

In regards to Covid and approval of Annual Reports, it was stated that when a company was considered to be in a high-risk sector, due to staff exposure to Covid, PIRC expected that full disclosure of causes of fatalities be provided, particularly where related to cases of Covid among staff. Adequate measurement of such cases was considered to be material for the financial resilience of the company in the long term and the absence of it could lead to a recommendation to oppose the approval of the annual report. Further, PIRC would not support bonuses where there had been a rescue rights issues with the suspension for pre-emption rights issues, receipt of furlough monies or where other forms of state support this included the coronavirus corporate finance facility.

The Managing Director of PIRC stated that their position on non-executive director fees had changed in 2021. PIRC would assess Non-Executive Director (NED) NED-to-employee ratio and considered that analysis should progressively move away from year-on-year acceptable increases, regardless of other issues and instead benchmark NED fees in the same way as executive pay.

Members were advised that PIRC would recommend abstention on the re-election of the Chief Executive under the following circumstances:

- Where a company had failed to disclose sufficient information which related to key employee metrics such as a trade union relationship, the impact of Covid had on employees or where any fatalities could have occurred as a result of contracting Covid; and
- Where there was no designated NED with responsibility for employee engagement, no formal workforce panel and no director appointed from workforce.

It stated that opposition would be recommended where the company had been fined by a regulatory body or equivalent or had censored COVID-related cases.

It was also reported that if the company claimed government support for furloughed workers and if any of the company's variable remuneration schemes paid out during the year under review, PIRC would recommend an oppose vote for the Chair of the remuneration committee. PIRC would expect remuneration committees to reduce LTIP award levels proportionally in instances in which companies had continued to award shares as part of variable remuneration schemes despite material share price reductions having occurred as a result of Covid.

In regards to the lack of disclosure on progress in line with the Parker report PIRC would recommend opposition on the re-election of the nomination committee chair in a FTSE 350 company.

It was stated that in addition to the previous positions applied so far, opposition would be recommended for PwC, Grant-Thornton, E&Y, as these audit firms did not repudiate the 2020 International Auditing and Assurance Standards Board (IAASB) consultation entitled, “Fraud and Going Concern”, and neither did they confirm that the concept of an ‘expectations gap’ did not limit the scope of their work.

Members of the Working Group were advised that PIRC considered appointing the company’s statutory auditor to manage the whistleblowing hotline to be a conflict of interests, even if the auditor was considered independent as the auditor could be unlikely to report issues highlighted that contradict its previous assurance statements. It was considered that this could lead to whistle-blowers being suppressed.

The Managing Director of PIRC explained that PIRC would recommend abstention for the re-election of the chair of Nomination Committee where a skill matrix had not been disclosed, even in the absence of other issues. Abstention would also be recommended on the chair of the Audit Committee, if they did not have relevant skills for the sector of the company.

In working towards a new policy PIRC had concluded that the concept of alignment with shareholders’ for pay purposes was a fallacy, because the risk and responsibilities were different.

Executives who were directors had unlimited liability, fiduciary duties and Companies Act s172 and contractual duties. The delivery of objectives covered by these duties should not be additionally rewarded with bonuses or LTIPs but considered part of the job. The Managing Director of PIRC detailed the expectations for pay schemes for approval for general meetings from 1 January 2022 this included:

- A going rate true market salary
- Director service contracts approved by vote
- A single profit pool to be distributed company wide, to be again voted on as to the amount of the pool and the distribution method.
- Exceptional bonuses only - to be put to the vote.
- No long-term incentive plans (LTIPs)

Members were advised of the Sustainable Development Goals where research was underway by PIRC. It was explained that PIRC’s assessment of sustainability policy, governance and disclosure would allow direct links from SDG-related data to voting outcomes and enhance stewardship.

RECOMMENDED
That the report be noted.

50. INVESTMENT STRATEGY STATEMENT

Consideration was given to a report of the Director of Pensions / Assistant Director of Pensions for Investments. The report advised the Working Group of the proposed approach to reviewing the investment strategy statement.

It was stated that the Investment Strategy Statement was subject to review at least every three years. The last fundamental review of the Investment Strategy Statement occurred in March 2018. As such, Officers had started to conduct a full review of the Investment Strategy Statement.

It was reported that the main differences between the draft Investment Strategy Statement attached as Appendix A and the current Investment Strategy Statement were threefold. Firstly, minor changes to account for the appointment and funding of the Factor Based Investment portfolio managed by UBS (as replicator). Secondly, section 9 (Socially Responsible Investment) had been updated to reflect the additional work and engagement of the Fund in responsible investment activities, such as support of the Just Transition and Make My Money Matter initiatives. Thirdly, section 10 (The Exercise of Investment Rights) had been updated to reflect that the Fund made publicly available its voting record.

It was stated similarly to the previous full review, it was intended that a public consultation on the draft Investment Strategy Statement would be held following endorsement by this Working Group. It was proposed that the draft Investment Strategy Statement be placed on the Fund's website and key parties be alerted to its presence and invited to comment. A final draft version would be considered for adoption at a subsequent meeting of the Management Panel.

RECOMMENDED
That the report be noted.

51. UK STEWARDSHIP CODE

Consideration was given to a report of the Director of Pensions / Assistant Director of Pensions for Investments, which set out the updated UK Stewardship Sode 2020 reporting framework.

It was stated that the UK Stewardship Code 2020 took effect on 1 January 2020 and aimed to set high expectations on those responsible for managing long-term savings of the UK public. In particular it sought to position stewardship as 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.

Guidance from the Department for Communities and Local Government now the Ministry of Housing, Communities & Local Government recommended that administering authorities in the Local Government Pension Scheme become signatories to the 2020 Code.

It was explained that the 2020 Code contained new expectations of how investment and stewardship should be integrated, including Environmental, Social and Governance (ESG) issues. It asked investors to explain how they had exercised stewardship in relation to a broad range of asset classes, not only listed equities, which was the previous focus. These asset classes included fixed income, private markets, infrastructure, property and extended to investments made outside the UK. The 2020 Code was designed to accommodate the different terms, investment horizons, rights and responsibilities of each of these asset classes. The 2020 Code consisted of 12 Principles that were applicable to GMPF as an asset owner that were divided into four main categories Purpose and Governance, Investment Approach, Engagement and Exercising Rights and Responsibilities.

Members were advised that GMPF was required to demonstrate its stewardship activities for the reporting period between 1 January 2020 and 31 December 2020 with the deadline for submission being 30 April 2021 as an asset owner.

Once the Stewardship Report was submitted and approved by the FRC, it was required to be a public document and must be made available on GMPF's website.

RECOMMENDED
That the draft updated GMPF Stewardship Report be endorsed and the Director of Pensions be authorised to submit a final version to the FRC further to any drafting/presentation support which can be provided by PIRC.

52. INVESTMENT CONSULTANT OBJECTIVES

Consideration was given to a report of the Director of Pensions / Assistant Director of Pensions for Investments, which provided members of the Working Group with an update on investment consultant objectives and a review of Hymans Robertson's performance for the year 2020.

It was reported that in June 2019, the CMA published its final order following a review of the investment consulting and fiduciary management markets. Consequently, pension scheme trustees should submit 'compliance statements' which stated that they had complied with the above requirements. The most recent of which needed to be submitted between 10 December 2020 and 7 January 2021 and annually thereafter. On 6 January 2021, the Chair of the Greater Manchester Pension Fund Management Panel submitted the Fund's annual compliance statement to the CMA confirming the Fund's compliance with Part 3 and Part 7 of the Order.

It was stated that senior officers held their annual review meeting with Hymans Robertson on 15 February 2021. As part of the annual review meeting, Hymans Robertson's performance over the preceding year was discussed and a qualitative assessment versus objectives undertaken. Following the annual review meeting, together with relevant supporting information, Officers concluded that Hymans Robertson had met their Investment Consultant objectives for 2020. Officers did not propose any changes to the agreed Investment Consultant objectives at this stage.

RECOMMENDED
That the report be noted.

53. CLASS ACTIONS

Consideration was given to a report of the Director of Pensions / Assistant Director of Pensions for Investments. The report provided Members with an update on litigation in which GMPF sought to actively recover losses in the value of its shareholdings in various companies as a result of actions taken by those companies.

This report provides Members with an annual update in relation to GMPF's outstanding active Class Actions. The process for active participation in class actions is as set out in the report to 31 July 2020 IMESG (Minute 31 refers) and there were no changes proposed in this report.

RECOMMENDED
That the report be noted.

54. URGENT ITEMS

There were no urgent items.

CHAIR