

Report to : PENSION FUND MANAGEMENT PANEL

Date : 16 July 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 report be noted.

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 7A	GMPF’s Responsible Investment Partners and Collaborations
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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 GMPF is a partner in GLIL which is a joint venture that invests directly in infrastructure assets. GLIL was formed in 2015 to enable pension funds to access high-quality returns from predominantly UK-based 'core' infrastructure in a cost-effective manner. GLIL recognises the increasing requirement to demonstrate capital flows towards genuine solutions. In identifying this, GLIL has adopted an ESG policy that sets out its core values and outlines why and how ESG factors influence a forward-looking, successful and trusted infrastructure investor. The GLIL ESG policy outlines how GLIL internalises this through research, investment selection, policy engagement and thought leadership, using:
- Pre-investment screening and assessment
 - Valuation
 - Stewardship and, where necessary
 - Intervention
- 2.5 In May 2021, GLIL acquired a preferred equity stake in Smart Meter Assets (SMA), alongside Arcus Infrastructure Partners. SMA was incorporated in January 2014 and is a leading UK

independent Meter Asset Provider. Apart from enabling accurate billing, SMA's smart meters play a role in the UK's energy transition and net zero emissions ambitions. They have a direct positive impact on end energy consumers by improving their ability to monitor energy usage, helping them achieve energy cost savings and improving overall user experience.

- 2.6 Following the Northern LGPS pool investment of £150m in a new affordable housing fund, which was reported last quarter, GMPF has approved a further co-investment of £20m for an asset in Greater Manchester. The development specification is of a high energy efficiency standard with an aim to achieve operational net carbon zero.
- 2.7 **We will be active owners and incorporate ESG issues into our ownership policies and practices.**
- 2.8 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>
- 2.9 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 hosted their 'WORK' conference during the quarter which focused on employment related ESG issues. The conference was recorded and can be streamed using the links below.
<https://youtu.be/A77Y5v6TPxl>
<https://youtu.be/GkLWD-iffWE>
- 2.10 In partnership with the Human Rights Law Centre and London Mining Network, LAPFF organised a webinar that provided another opportunity for investors to hear directly from community members impacted by mining activities. The focus on this occasion was on a community affected by Rio Tinto's former Panguna mine in Papua New Guinea. The community members filed a complaint with the Australian OECD National Contact Point alleging that the huge volume of mine waste is contaminating their water sources, flooding their lands and sacred sites, causing treacherous conditions and a range of health problems in serious breach of Rio Tinto's human rights and environmental obligations.
- 2.11 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/esg-impact-report-q1-2021.pdf>
- 2.12 The Fund has voluntarily reported under the TCFD's framework for four years which forms part of the annual report. Legal and General published their checklist to help pension funds ensure adequate climate reporting. The report affirms GMPF's approach to TCFD reporting.
<https://www.lgim.com/landg-assets/lgim/document-library/insights/long-term-thinking/tcfd-5-step-checklist.pdf>
- 2.13 **We will seek appropriate disclosure on ESG issues by the entities in which we invest.**
- 2.14 Improved disclosure means companies can be better assessed for their long-term resilience and the Fund's investment managers can make informed investment decisions.
- 2.15 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. The target list of companies is now over 1,000 of

the world's largest firms. GMPF has co-signed the letters being sent out to companies inviting them to complete the survey.

- 2.16 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. At the time of writing, 15 companies have had a climate transition plan related vote included in their most recent AGM and all have passed to date with GMPF having a holding in 10 of these companies, highlighted in bold.

Issuer (GMPF have a holding in bold)	AGM Date	Results
Ferrovial	9 April	Passed: 96.59% FOR (#7.1) 96.75% (#7.2) Results
Nestle SA	15 April	Passed: 95% FOR 4.4% abstain Link
Moody's Corporation	20 April	Passed: 93% FOR, 1.2% Against, 5.5% Abstain Link
Canadian Pacific Railway Ltd	21 April	Passed: 85.36% FOR Link
Canadian National Railway Co	27 April	Passed: 92.09% FOR Results
Charter Communications, Inc	27 April	Passed: 93% FOR, 1.2% Against, 5.5% Link: Here
Aena S.M.E. SA	27 April	Passed: 95.68% FOR, 3.59% Against Results
Glencore Plc	29 April	Passed: 94.36% FOR and 5.64% AGAINST. Link: Here
S&P Global Inc	5 May	Passed: 99.49% FOR (of F+A) Results Link
Unilever Plc	5 May	Passed: 99.59% FOR Link: Here
Gestamp Automocion SA	6 May	Passed: 99.54% FOR Resolution 11: Here
Aviva Plc	6 May	Passed: 99.95% FOR Results Here
Royal Dutch Shell	18 May	Passed: 88.74% FOR Link: Here
HSBC Holdings Plc	28 May	Passed: 99.71% FOR Link: Here
Total SE	28 May	Passed: 91.88% FOR Link

- 2.17 **We will promote acceptance and implementation of the Principles within the investment industry.**
- 2.18 The Good Economy Project, Impact Investing Institute and Pensions for Purpose joined forces to produce a report on place-based impact investing that can mobilise capital to help build back better and level up the UK. Based on extensive consultations with market participants and stakeholders, the report offers a set of directions, models and geographies and practical guidance for investors to engage in place-based impact investing.
- 2.19 The report found that GMPF was one of six LGPS funds out of a sample of 50 that has a stated intention to make place-based investments. Furthermore, the report found that GMPF is the only fund to have an approved allocation to invest some of its assets locally. The full report can be found using the link below.
<https://www.impactinvest.org.uk/publications/report-scaling-up-institutional-investment-for-place-based-impact/>
- 2.20 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.

- 2.21 **We will work together to enhance our effectiveness in implementing the Principles.**
- 2.22 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**.
- 2.23 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. During the quarter, Climate Action 100+ published its net zero company benchmark of the world's largest corporate emitters. The report states that "while there is growing global momentum around companies making ambitious climate commitments, the Benchmark assessments show that companies still have a long way to go in delivering on these promises." The Benchmark sets clear engagement priorities.
<https://www.climateaction100.org/news/climate-action-100-issues-its-first-ever-net-zero-company-benchmark-of-the-worlds-largest-corporate-emitters/>
- 2.24 LAPFF responded to a government consultation on a proposed reduction to air passenger duty calling on the Treasury to review the current position of air tickets being VAT free and aviation fuel incurring no duty which would encourage more flights in stark and direct opposition to the government's own climate change target to reduce emissions by 78% by 2035 over 1990 levels. The response and associated press releases can be found using the links below.
https://lapfforum.org/wp-content/uploads/2021/06/20210611_LAPFF_response_to_Air_passenger_duty_consultation.pdf
https://lapfforum.org/wp-content/uploads/2021/06/20210714_LAPFF_APD_press_release.pdf
- 2.25 The Fund co-signed the 2021 Global Investor Statement to Governments on the Climate Crisis coordinated by the Institutional Investors Group on Climate Change that asks governments to raise their climate ambition and implement robust policies by COP26 in November. The statement which can be found using the link below sets out five actions governments need to urgently undertake:
- **Strengthen** Nationally Determined Contributions for 2030 in line with limiting warming to 1.5°C
 - **Commit** to a mid-century net zero emissions target with clear sectoral decarbonisation roadmaps
 - **Ensure ambitious** pre-2030 policy action including strengthened carbon pricing, phasing out fossil fuel subsidies and thermal coal-based power, avoiding new carbon-intensive infrastructure (no new coal power plants) and developing just transition plans
 - Ensure COVID-19 economic **recovery** plans support the transition to net zero emissions
 - Commit to implementing **mandatory** climate risk disclosure requirements.
- <https://www.iigcc.org/resource/2021-global-investor-statement-to-governments-on-the-climate-crisis/>
- 2.26 The launch generated widespread media interest ahead of the G7 Summit that took place in Cornwall in June.
<https://www.reuters.com/business/sustainable-business/ceos-investors-push-world-leaders-stronger-climate-action-2021-06-10/>
<https://www.theguardian.com/business/2021/jun/10/investors-governments-end-support-fossil-fuels-assets-net-zero-targets>

2.27 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 4th annual TPI report presenting the State of the Transition summarising the progress made by the 401 companies from 16 business sectors on the transition to a low carbon economy can be found using the below link.

<https://www.transitionpathwayinitiative.org/publications/82.pdf?type=Publication>

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

2.29 The Northern LGPS Stewardship Report for the latest quarter can be found using the link below.

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

2.30 The LAPFF Quarterly Engagement Report for the latest quarter can be found using the link below.

<https://lapfforum.org/publications/category/quarterly-engagement-reports/>

2.31 During the quarter Officers completed the annual PRI reporting. The reporting covers all aspects of RI activity undertaken by the Fund in the reporting cycle of 1 April to 31 March and associated outcomes. The Fund is assessed relative to its peers and progress can be tracked via the grading system. The results are considered annually by the Investment Monitoring and ESG Working Group. The scoring methodology for the 2021 reporting framework has been recalibrated to make the assessment more challenging. The focus has expanded from providing examples of RI activity to include reporting on the outcomes of the activity.

2.32 Officers also completed the reporting for the new UK Stewardship Code during the quarter. Where previously compliance to the Stewardship Code meant signing up to a set of statements the new Stewardship Code asks investors to report on how they have exercised their responsibilities across the all asset classes in relation to the 12 Principles. Details of the new Stewardship Code can be found using the link below.

<https://www.frc.org.uk/investors/uk-stewardship-code>

3. RECOMMENDATION

3.1 As per the front of the report.