

Report to : PENSION FUND MANAGEMENT/ADVISORY PANEL

Date : 17 September 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 :
(Authorised by the Section 151 Officer)** There are no direct material costs as a result of this report.

**Legal Implications :
(Authorised by the Solicitor to the Fund)** 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.
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	Responsible Investment Policy
APPENDIX 7B	PIRC Newsletter
APPENDIX 7C	Responsible Investment Partners & Collaborations

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1. BACKGROUND

- 1.1 The Fund's 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 Fund's 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 UBS presented their annual ESG update at the July Investment Monitoring & ESG Working Group meeting. They reported on their approach to stewardship which is core to their investment process. They shared the process and approach they take to engage on the Fund's behalf with companies on a wide range of ESG themes. They also provided examples of engagements with case studies that resulted in tangible positive changes.
- 2.5 Following on from the Working Group meeting UBS shared two documents, the first of which showcases progress and thinking going forward from their engagement activities on climate change. The second report details and summarises UBS's stewardship activities. The reports can be accessed using the links below.
- <https://www.ubs.com/global/en/asset-management/insights/sustainable-and-impact-investing/2021/achieve-net-zero.html>
 - <https://www.ubs.com/global/en/asset-management/insights/sustainable-and-impact-investing/2021/aligning-activities.html>
- 2.6 During the latest quarter, several investments from the Local Investments portfolio were approved:
- A £30m loan to fund the development of two North West industrial units seeking to achieve operational net zero carbon specification, which will be accredited by the Green Buildings Council;

- £41m to acquire a prime logistics unit which includes a specification to obtain BREEAM Excellent and Operational Net Zero Carbon; and
- £18m to acquire a vehicle storage and electric vehicle charging facility in Greater Manchester, recognising that the move to a net zero emissions environment will require a tapering in the use of internal combustion engine vehicles which would see an increase in demand for electric vehicles.

2.7 The Fund also committed to a £24m co-investment into a Life Science Campus Development within the Property portfolio. The development has outstanding ESG credentials especially in respect of sustainability of the build and the social benefit of contributing to the development of a life science sub-sector of which the UK Government is highly supportive. The scheme is part of a larger town centre regeneration programme, complete with a new housing development led by the local council.

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

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

2.10 As part of Northern LGPS's continuous evaluation of its approach to Responsible Investment the Northern LGPS adopted its updated Responsible Investment Policy which covers a wide range of ESG themes. The new Policy expands on ESG themes and now explicitly mentions human rights, public health, deforestation and water stewardship. The Policy also references the Northern LGPS's approach to its activity with companies based in the north of England. The updated Policy is attached as **Appendix A**.

2.11 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 Equal Pay for Equal Work webinar in July which focused on one of the UK's biggest ever private sector equal pay claims. In March this year, the Supreme Court ruled that Asda's shop floor workforce, who are mostly women, can compare themselves to the male-dominated warehouse workforce under the Equal Pay Act 1970 and Equality Act 2010 in pursuit for equal pay. More detail relating to this issue and other social issues that are the focus of PIRC's monthly newsletter can be found in **Appendix B**.

2.12 GMPF backed a shareholder resolution, highlighted by a LAPFF Voting Alert, seeking that banking and financial services group, Mitsubishi UFJ, disclose an annual plan of its business strategy to align its financing and investments with the goals of the Paris Agreement. LAPFF wrote a press release relating to this shareholder resolution which can be found using the link set out here: <https://lapfforum.org/press/category/press-release/>

2.13 The Fund's passive investment manager, Legal and General, published its ESG Impact report during the quarter, which can be set out here: https://www.lgim.com/landg-assets/lgim/document-library/esg/q2-2021_esg-impact-report-uk_europe-final.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 was one of 168 investors representing \$17 trillion in assets engaging companies to improve transparency on materially important environmental data. The Fund supported the CDP's Non-Disclosure Campaign, which ran during the quarter. The campaign targets

those companies that are not already disclosing environmental data to CDP, viewing disclosure as crucial in offering investors insights on companies' environmental risks and opportunities.

- 2.17 **We will promote acceptance and implementation of the Principles within the investment industry.**
- 2.18 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.
- 2.19 The Net Zero Asset Managers initiative is an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limiting warming to 1.5 degrees Celsius; and to supporting investing aligned with net zero emissions by 2050 or sooner. In joining the initiative signatories commit to working with asset owners, such as GMPF, to work collaboratively on working towards decarbonisation goals, setting interim targets for the proportion of assets to be managed in line with the attainment of net zero emissions by 2050 or sooner and reviewing interim targets at least every five years with a view to increasing the proportion of assets until all assets are included.
- 2.20 All of GMPF's public market equity managers have now signed up to this initiative which will assist GMPF in reaching its own long-term decarbonisation goal. A link to the initiative can be found using the link set out here: <https://www.netzeroassetmanagers.org/>
- 2.21 Ninety One's commitment to the initiative can be found using the link set out here: <https://ninetyone.com/en/united-kingdom/how-we-think/investing-for-a-world-of-change/sustainable-investing/advocate/our-commitment-to-net-zero>
- 2.22 **We will work together to enhance our effectiveness in implementing the Principles.**
- 2.23 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 C**.
- 2.24 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 the largest corporate greenhouse gas emitters to ensure they take necessary action on climate change. In August, Climate Action 100+ launched the Global Sector Strategies workstream which outlines investor expectations for companies to build effective climate transition plans and decarbonise value chains. The aim is to accelerate the industry transition by identifying key actions for companies, investors and industries overall.
- 2.25 Climate Action 100+ set new decarbonisation expectations for the food and beverage industry in line with the goals of the Paris Agreement. The global food system is responsible for approximately one third of global greenhouse gas emissions from human activity, with most of these emissions coming from the supply chains of food and beverage companies. Further information can be found using the link set out here: <https://www.climateaction100.org/news/climate-action-100-sets-new-decarbonisation-expectations-for-food-and-beverage-industry-in-line-with-paris-agreement-goals/>
- 2.26 As part of this Global Sector Strategies workstream, Climate Action 100+ also launched its action plan for the steel industry which reflects 12 months of multi-stakeholder dialogue with consultants, investors and steel companies. Further information can be found using the link set out here: <https://www.climateaction100.org/news/blog-climate-action-100-zeroes-in-on-industry-wide-decarbonisation/>

- 2.27 The Fund, via Northern LGPS, gave its support to the Healthy Markets initiative led by ShareAction. The initiative is in line with the Northern LGPS belief that maintaining a healthy population is essential and therefore it would seek to support initiatives for improving nutrition, ensuring healthy lives and promoting well-being in line with UN Sustainable Development Goals 2 and 3. Further information can be found using the link set out here: <https://shareaction.org/coalitions-and-networks/healthy-markets-initiative/>
- 2.28 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. During the quarter, the TPI presented the path it has taken to grow from a coverage of 105 companies in 3 sectors in 2018 to 401 companies in 16 sectors in 2021. The TPI also shared its expansion plans to cover over 500 companies on Management Quality by the end of 2021 and include the banking and food sectors as well as other asset classes including corporate bonds and sovereign bonds.
- 2.29 GMPF co-signed an Investor Position Statement coordinated by IIGCC calling for the implementation of new corporate governance measures to ensure shareholders can hold companies to account in achieving net zero emissions commitments. The statement calls on companies to:
- Disclose a net zero transition plan
 - Identify the director responsible for the plan
 - Provide a means for investors to vote annually on progress against the plan
- Further information can be found using the link set out here: <https://www.iigcc.org/resource/investor-position-statement-vote-on-transition-planning/>
- 2.30 The announcement of the statement gained positive media coverage across a number of financial and specialist ESG publications which can be accessed via the links below.
- <https://www.reuters.com/business/sustainable-business/investors-overseeing-14-trln-call-vote-company-climate-plans-2021-07-30/>
 - <https://www.ipe.com/news/investors-seek-step-change-in-corporate-governance-on-climate-risk/10054276.article>
- 2.31 The IIGCC is coordinating a new research initiative called the Net Zero Technology Accelerator. The objective of the Accelerator is to map out the trajectories of technologies vital to the net zero transition and the role of investors in scaling these. The IIGCC held a webinar on the role of hydrogen in the transition to net zero, the challenges it presents and the role of investors in scaling it up. The key points from the briefing are:
- The use of green hydrogen is fundamental in the energy transition but its application across sectors must be adequately prioritised
 - Deploying green hydrogen in existing markets must happen first to scale up production and decrease costs
 - Policy support is important to create demand for green hydrogen and lower risk in investment
- 2.32 **We will each report on our activities and progress towards implementing the Principles.**
- 2.33 The Northern LGPS Stewardship Report for the latest quarter can be found using the link set out here: <https://northernlgps.org/taxonomy/term/15>
- 2.34 The LAPFF Quarterly Engagement Report for the latest quarter can be found using the link set out here: <https://lapfforum.org/publications/category/quarterly-engagement-reports/>
- 2.35 Officers reported in the previous Quarterly Responsible Investment Activity Report that the application for the new UK Stewardship Code had been submitted. The 12 principles of the Code are as follows:

Purpose and governance

1. Purpose, strategy and culture
2. Governance, resources and incentives
3. Conflicts of interest
4. Promoting well-functioning markets
5. Review and assurance

Investment Approach

6. Client and beneficiary needs
7. Stewardship, investment and ESG integration
8. Monitoring managers and service providers

Engagement

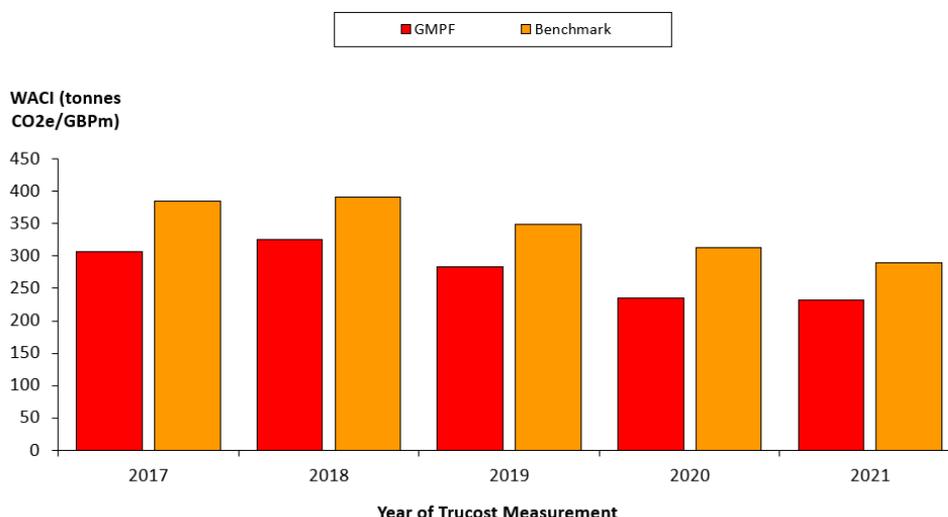
9. Engagement
10. Collaboration
11. Escalation

Exercising rights and responsibilities

12. Exercising rights and responsibilities

- 2.36 The Fund's application has now been assessed by the Financial Reporting Council and was accepted. GMPF will be required to update and submit a new application each year to maintain its status as a signatory to the UK Stewardship Code. GMPF's Stewardship Code statement is available at the following link: <https://www.frc.org.uk/getattachment/b494b94e-9d13-4224-9cd1-4a89d1338f19/GMPF-STEWARDSHIP-CODE-Final-Copy-with-Graphics.pdf>
- 2.37 Officers of the Fund completed the annual carbon footprinting exercise of its listed equity and corporate bonds during the quarter. The backward-looking analysis takes a snapshot of the holdings as at 31 March each year and the carbon footprint is measured using an external provider.
- 2.38 The Taskforce for Climate-Related Financial Disclosures (TCFD), of which the Fund is a supporter, recommends the measurement and disclosure of a metric known as the weighted average carbon intensity (WACI). The WACI provides an indication of a portfolio's exposure to carbon intensive companies.
- 2.39 The graph below shows the Fund's WACI over time. Over the five years the Fund has measured this metric, the Fund's WACI has been significantly below the benchmark WACI, with both the benchmark and the Fund's WACI trending downwards since 2018.

GMPF WEIGHTED AVERAGE CARBON INTENSITY (WACI)



3. RECOMMENDATION

- 3.1 As per the front of the report.