

GREATER MANCHESTER PENSION FUND - INVESTMENT MONITORING AND ESG WORKING GROUP

8 APRIL 2022

Commenced: 09:00

Terminated: 09:54

Present: Councillors Cooney (Chair), Barnes, Hartigan, Jabbar, Joinson, Mitchell, Ricci, Smith Taylor and Ward,

Mr Llewellyn, Mr Drury and Mr Caplan

Fund Observer Councillor Pantall

In Attendance:

Sandra Stewart	Director of Pensions
Tom Harrington	Assistant Director of Investments
Neil Cooper	Head of Pension Investment (Private Markets)
Lorraine Peart	Investment Officer
Michael Ashworth	Senior Investments Manager
Mushfiqur Rahman	Investments Manager (Public Markets)
Alex Jones	Investment Officer (Local Investments)
Alan MacDougall	PIRC
Janice Hayward	PIRC

Apologies for Absence: Councillors Andrews, Homer and Newton
Mr Flatley
Fund Observer Councillor Ryan

19. DECLARATIONS OF INTEREST

There were no declarations of interest.

20. MINUTES

The minutes of the Investment Monitoring and ESG Working Group meeting on the 1 October 2021 were approved as a correct record.

21. NINETY ONE ESG UPDATE

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

The Director, Head of UK Client Management & Sales at Ninety One set out their approach to achieve Net Zero. It was stated that Ninety One were among the asset managers committed to achieving net zero emissions by 2050 and that they supported setting net zero targets that focused on emissions pathways not current emissions. Ninety One wanted to ensure asset owners were incentivised to allocate to companies and countries working to tackle climate risk through robust transition plans. Further, Ninety One would ensure asset owners were incentivised to allocate to the solution providers for climate change and allocate in a just and inclusive way.

Ninety One's investment philosophy was presented to the Working Group. It was explained that Ninety One believed markets were inefficient due to behavioural errors made by investors. Further, bottom-up processes could mitigate behavioural errors and capture opportunities and that finding successful investments required fundamental analysis incorporating financial and material non-

financial information including sustainability considerations.

The Portfolio Manager at Ninety One presented their 4Factor approach and detailed the 3 principles:

1. Sustainability analysis was essential to finding successful investments, therefore Ninety One incorporated it across their investments process.
2. Carbon pathways were integral, but only one part of a wider sustainability assessment.
3. Ninety One prioritised positive change over broad-brush exclusions.

It was stated that the sector sustainability frameworks sought to:

- identify sustainability issues for each sector;
- determine importance;
- identify measurement metrics to assess
- identify best practice
- look for makers of positive change
- quantify how this affects earning and value

Members were advised that companies were at different stages in their journeys, Ninety One engaged with high emitting companies in their portfolio, to ensure their progress, with the aim of increasing the proportion of companies they held with science based targets.

The Working Group were presented with the Carbon Scorecard, which used standard metrics to assess how companies were performing. Further, the Portfolio Manager at Ninety One presented the portfolio holdings' commitments to net zero targets.

RECOMMENDED

That the presentation be noted.

22. NINETY ONE REPORT ON TRADING COSTS

Consideration was given to a presentation of Ninety One on trading costs. Attached to the report was Ninety One's 'Order Execution' policy at Appendix A and GMPFs report of trading costs for the year to 21 December 2021 was attached at Appendix B.

It was reported that there had been no significant changes to the policy previously reviewed by this group in April 2021. Ninety One were set to review and update their 'Order Execution' policy, in December 2022. Ninety One confirmed that they did not anticipate any significant changes to the policy as part of the re-approval process.

Stephen Lee of Ninety One presented GMPF's trading costs for the 12 month period to 31 December 2021. The aggregate turnover metric for Ninety One's GMPF equity portfolio was estimated at 24% per annum (i.e. once every 51 months, meaning that the average share was held for 51 months).

RECOMMENDED

That the report be noted.

23. RESPONSIBLE INVESTMENT UPDATE

Consideration was given to a presentation of PIRC on the 'PIRC Shareholder Voting Guidelines 2022'.

The Managing Director of PIRC highlighted changes in the shareholder voting guidelines for the UK market in 2022. In regards to the approval of annual report, the 2022 position recommended that directors of extractive companies be expected to state whether the financial statements or the

accounts were Paris-aligned or explain the reason if they were not. Failure to do so could lead to a recommendation to oppose accounts as they could not reflect accurately all financial impacts from material risks.

Previously PIRC recommended opposition on the re-election of the nomination committee chair in a FTSE 350 company for lack of disclosure on progress in line with the Parker Report. The 2022 position stated that for FTSE 100 companies, PIRC would recommend opposition to the re-election of the chair of the Nomination Committee if the company had not met the targets laid out in the Parker Review and had not provided an adequate explanation. Further, for FTSE 250 companies, PIRC could recommend abstention, where the company had not discussed how the targets included in the Parker Review would be achieved.

It was stated that PIRC could recommend opposition on the re-election of the chair of the audit committee for extractive companies where the company did not state whether the financial statements or the accounts were Paris-aligned, or explain the reason if they were not.

In regards the re-appointment of audit firms, in addition to the previous position, auditors would be expected to state whether the financial statements of the accounts were Paris-aligned, or explain the reason if they were not. Failure to do so could expose the company to significant financial risks, including an inability to access capital at reasonable costs, and auditors should be held accountable for not disclosing to shareholders such issues in the auditing of the accounts of the company and opposition could also be recommended.

RECOMMENDED

That the report be noted.

24. GMPF SUBMISSION TO THE UK STEWARDSHIP CODE REPORTING FRAMEWORK

Consideration was given to a report of the Director of Pensions / Assistant Director of Pensions for Investments. The report sought endorsement from the Working Group on the draft GMPF Stewardship Report for submission to the FRC subject to any minor updates. The FRC's acceptance of the reporting and the feedback provided where GMPF met reporting expectations and where it could improve reporting was attached as Appendix A. Further, a draft updated GMPF Stewardship Report incorporating these improvements for the calendar year ending December 2021 was attached as Appendix B.

It was explained that the 2020 Code consists 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). The Stewardship Report should be a single document structured to give a clear picture of how GMPF had applied the 12 Principles and should be fair, balanced and understandable.

In order to maintain its signatory status, GMPF, as an asset owner was required to demonstrate its stewardship activities for the reporting period between 1 January and 31 December each year with the deadline for submitting reporting being the following 30 April. There was currently no tiering in place when the reporting was being assessed.

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

GMPF's first submission in April 2021 to the 2020 Code was accepted in September 2021. During the assessment of GMPF's submission, the FRC highlighted some areas the Fund could improve its reporting on. Attached at Appendix A was confirmation of GMPF's successful submission and the FRC's feedback where GMPF met reporting expectations and also where it could improve reporting.

RECOMMENDED

That the draft updated GMPF Stewardship Report for submission to the FRC subject to any minor updates which are delegated to Officers be endorsed.

25. UPDATE ON ACTIVE PARTICIPATION IN CLASS ACTIONS

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

It was explained that at the time that the initial loss threshold was established it was anticipated that GMPF's loss threshold would rise over time to maintain it at broadly the same percentage of GMPF's US equity holdings and that the threshold would be reviewed periodically and re-set in line with the growth in GMPF's US equity holdings.

Members were advised when the original loss threshold was established, US equities stood at £3.3bn (\$4.4bn) as at 31 December 2019. The loss threshold of \$7.5m therefore represented 0.17% of US equities. It is now proposed that, rather than periodically updating the loss threshold cash amount, the loss threshold is recouched, and simply set at 0.17% of US equities. As GMPF's US equities now stand at £4.3bn (\$5.5bn) as at 31 December 2021, this approach means that the loss threshold currently stands at \$9.8m (31 December 2021).

RECOMMENDED

That GMPF recouches the loss threshold as 0.17% of US equities, as at 31 December 2021, as set out in the report before seeking active participation in Class Actions.

26. URGENT ITEMS

There were no urgent items.

CHAIR