Report to :	**PENSION FUND MANAGEMENT/ADVISOY PANEL**
Date :	15 July 2022
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 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 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.

We will incorporate ESG issues into investment analysis and decision-making processes.

2.2 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).

2.3 Ninety One, GMPF's global, active public market manager, presented at the April Investment Monitoring & ESG Working Group meeting. They presented their annual ESG update highlighting their approach sustainability. They described how their framework helps to identify sector specific sustainability issues and how to prioritise them, identify measurement metrics to be able to assess progress and identify best practice and markers of positive change that enable Ninety One to invest in the sustainable companies.

2.4 GMPF does not typically divest from businesses unless ESG factors are likely to have a financially material negative impact. Instead GMPF seeks to use its influence as an investor to address issues of concern. GMPF engages with companies on a wide range of ESG issues via its Fund Managers and through its membership of collaborative organisations, and participates in investor initiatives to leverage outcomes of company and policy engagement.

2.5 Excluding whole sectors from investment, such as the currently relatively carbon intensive sectors of energy, materials and utilities, risks material financial detriment to the Fund. Officers estimate that over the three year valuation period ending 31 March 2019, had UBS (the manager of the Fund's largest mandate) been prohibited from investing in the aforementioned three sectors, with those assets instead being prorated across the remainder of their portfolio, the Fund would have accumulated £400m less in assets. Similarly, for the following valuation period ending 31 March 2022, an accumulation of £220m less is estimated. In aggregate, the Fund would have approximately £620m less is assets over the six year period had it divested of assets in the three sectors identified. It should be noted that extensive engagement with companies in those sectors has achieved significant change over that period, albeit much more remains to be done to enable a just and orderly energy transition.

2.6 In June, the GMPF Investment Committee approved a further commitment of £10m for the Impact portfolio to purchase and refurbish residential properties in the North West region with the aim of letting to registered providers on a long term basis to provide accommodation to families at risk of homelessness.

2.7 The Investment Committee approved a further £48m commitment towards the Greater Manchester Venture Fund allocation to acquire three prime logistics units within the Greater Manchester area. The developer incorporates ESG considerations into the construction process to ensure a 'very good' BREEAM rating which is a science based validation and certification system for sustainable buildings. The developer is also looking to build to ensure an EPC 'A' rating to maintain low energy costs for future tenants.

2.8 In February 2021, the Northern LGPS committed to the Paris Aligned Investment Initiative's Net Zero Asset Owner Commitment. Within 12 months of committing, Northern LGPS was obligated to set interim targets and submit these via the "Paris Aligned Asset Owners: Target Disclosure Template" to IICGG. Once the IIGCC issued their final guidance, Officers completed the disclosure template and submitted the template. Since submitting, the IIGCC have been working to collate the disclosure templates of Northern LGPS and the 26 other asset owners who also submitted their disclosure templates to produce a single document that details each asset owner's commitment. This document is now publicly available on the link below.
https://www.parisalignedinvestment.org/media/2022/07/PAAO-Disclosures-010722.pdf

2.9 Additionally, as part of the commitment Northern LGPS provided several case studies demonstrating its approach to investing in climate solutions which was highlighted via the investments made through the GLIL infrastructure vehicle. The IIGCC collated case studies from a number of investors and has published these on the Investor Agenda website. These case studies can be found using the link below.
https://theinvestoragenda.org/icaps/

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

2.10 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

2.11 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. A key change is:

- Directors of extractive companies will be expected to state whether the financial statements or company accounts are Paris-aligned or explain why they are not.

Failure to do so may lead to opposition to the accounts as they do not accurately reflect all financial impact from material risks.

2.12 In April, LAPFF published a report titled 'Mining and Human Rights: An investor Perspective'. The report is written from an investor's perspective, with analysis conducted through the lens of international human rights law. The report evaluates how human rights law applies to the mining sector and covers the human rights and environmental impacts of mining companies such as Anglo American, BHP and Glencore. The report also presents an industry perspective on human rights impacts by evaluating the main ESG impacts LAPFF found through engaging with mining companies and members of affected communities. The full report is available using on the link below.
https://lapfforum.org/wp-content/uploads/2022/04/LAPFF-Mining-and-Human-Rights-Report.pdf

2.13 In April, LAPFF and the London Mining Network hosted a webinar inviting investors to hear from community members affected by Anglo American and Glencore projects in Colombia and Brazil. Attendees heard from Wayuu community members affected by the Cerrejon mine in Colombia, and a Brazilian community member affected by Anglo American's Minas Rio mine in Brazil who discussed the social and environmental impacts of the dam.

2.14 PIRC published a report on an investigation into 'social washing' that looks at the trend of questionable employee engagement scores being used by major companies to justify executive bonuses. The last decade has seen a boom in accreditation and ratings services based on 'black box' datasets. These are designed to guide the practices of investors who want to understand the ESG performance of a company. Companies are increasingly tapping into this unregulated and vast industry to tailor their reporting and meet the expectations of the responsible investment market. But there is little scrutiny of the underlying metrics used. To shine a light on the risks and inconsistencies, PIRC has reviewed the reporting and remuneration policies of 12 of the largest listed employers in the FTSE EuroFirst index to uncover how employment-related indicators are being used. Some of the key findings from the report are summarised below.

- Half of the companies use employee engagement scores, based on workforce surveys, as a KPI for executive bonuses
- A lack of rigour in terms of survey methods and scoring however undermines the credibility of this KPI
- The prevalence of workforce surveillance and job insecurity mean that employees cannot participate in company-led surveys without fear of repercussions
- In half of cases, the relevant engagement score is not disclosed, even when being used as a bonus KPI
- There is not enough detail in remuneration policies to assess whether the KPIs are appropriately set
- No companies fully disclosed their workforce survey methodology: half disclosed no method, half disclosed basic information

2.15 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/esg/asia/q1-2022-esg-impact_apac-final.pdf

2.16 Legal and General also published their 11th edition of their Active Ownership report where they outline the activities they have undertaken to deliver positive change on behalf of clients on a broad range of ESG issues. The report shows that in 2021, LGIM gave particular attention to supporting stakeholders through the COVID-19 pandemic, income inequality and the threat of climate change.
https://www.lgim.com/uk/en/capabilities/investment-stewardship/active-ownership/?cid=emlActive_Ownership_DB

2.17 Legal and General with BHP jointly published a research paper titled 'The Energy Transition Dilemma' which discusses the path to net zero to become Paris-aligned and what a transition to meet this goal requires. The report along with over a hundred other Paris-aligned scenarios converge on the following conclusions:

- the need to radically transform the way the world produces and consumes energy and uses land
- the need for massive investments in clean energy to meet this transformative challenge
- the utility of universal pricing of carbon emissions to tackle the demand side of carbon intensive energy use and to stimulate the supply of clean alternatives is unmatched by other potential levers
- the climate change challenge battle is global: it cannot be won in the developed world alone, but it can be lost in the developing world, where the majority of future emissions are likely to come under a business-as-usual scenario
- the need for unprecedented levels of international cooperation to accommodate all of the above, including the containment of carbon leakage and swift diffusion of clean technology
- the need for a step-wise increase in the supply of the future-facing metals that are the building blocks of the hardware of decarbonisation

2.18 The full report is available on the link below. https://www.lgim.com/asia/en/insights/our-thinking/esg-and-long-term-themes/the-energy--transition--dilemma/#:~:text=A%20common%20goal%20of%20limiting,there%20are%20climate%20scenario%20models.

We will seek appropriate disclosure on ESG issues by the entities in which we invest.

2.19 Following the shareholder resolution that GMPF co-filed with Amazon in December requesting greater disclosure on the company's global tax practices, Amazon submitted a no action request to the SEC challenging the resolution. The shareholder proposal survived this challenge which is only the second time a tax related shareholder proposal has survived an SEC challenge. The decision reflects the global regulatory momentum and changing investor expectations regarding tax. Although the proposal did not gain enough support to pass it gained more than 20% of shareholder votes which sent a strong message to the company about the issues that matter to shareholders. The co-filing of this resolution featured in several media outlets.
https://www.pensionsage.com/pa/SEC-upholds-shareholder-proposal-on-Amazon-s-tax-transparency.php#:~:text=SEC%20upholds%20shareholder%20proposal%20on%20Amazon's%20tax%20transparency,-By%20Jack%20Gray&text=The%20US%20Securities%20and%20Exchange,payments%20and%20risks%20to%20investors.

https://www.reuters.com/technology/amazon-shareholders-call-tax-transparency-ft-2022-03-06/

2.20 Prior to the Amazon AGM, PIRC hosted an investor briefing webinar relating to the shareholder proposal which more detail on why the proposal was submitted. PIRC highlighted conduct such as paying no federal corporate income tax in the US in 2020, poor reporting and one of eight companies considered 'unresponsive' by lead investors in the UNPRI's collaborative engagement on tax transparency as reasons for filing the shareholder resolution. The webinar also highlighted companies that report to the GRI Tax Standard and the risks associated with the lack of transparency to shareholders.

2.21 GMPF co-filed shareholder a resolution with Microsoft requesting the company issue a tax transparency report to shareholders. With the Covid-19 pandemic resulting in large deficits for many governments, there has been an increased focus on whether corporations are paying their fair share of tax and contributing to society.

2.22 The Fund also filed a shareholder resolution as a lead filer with Cisco Systems requesting the same transparency report to shareholders.

2.23 GMPF had been engaging with TotalEnergies with a group of investors requesting the company set Paris-aligned targets. Having concluded that the dialogue had been unsuccessful the group agreed to file a shareholder resolution and formalise the request. However, the resolution was withheld from the AGM agenda and not voted on. Given that an identical resolution was accepted in the 2020 AGM and similar resolutions have been filed successfully at several competitors' AGM's the group were unsure why the proposal was rejected. The group are looking to take further steps to gain a better understanding of the views of the management at TotalEnergies and the most effective way this matter can be escalated if required.

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

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 LAPFF responded to the governments Department for Transport Jet Zero technical consultation. LAPFF recognise the imperative need to address climate change as a systemic investment concern. It poses material financial risks across all asset classes with the potential for significant loss of shareholder value. Emissions from air transport are a significant contributor to economic and investment risk. LAPFF's experience engaging with companies is that, without strong and timely regulation, achieving the UK's ambitions for reducing emissions will be slower and less effective as some companies tend only to meet minimum regulatory requirements. LAPFF considers that all measures to promote net zero aviation should considered within the context of overall provision of reliable and affordable transport including surface transport. LAPFF supports the government pushing for domestic flights to be replaced by train journeys and for any remaining domestic flights to be provided by electric aircraft. This is in line with measures being taken by Austria, France, the Netherlands and Spain. The full response to the consultation can be accessed using the link below.
https://lapfforum.org/wp-content/uploads/2022/05/2022-Jet-Zero-Consultation.pdf

2.26 LAPFF also responded to the Department for Transport consultation on ending the sale of new non-zero emission buses. ending of new non-zero emission buses. In 2020, LAPFF set out its view that a clear strategy and policies should be required for all road vehicles in terms of ending the sale of petrol, diesel and hybrid vehicles. Since then, the World Meteorological Association has noted the world has already reached 1.2°C of warming. The Intergovernmental Panel on Climate Change (IPCC) set out that, for an 83% chance of remaining within 1.5°C of warming, the global carbon budget will be used up by 2027 at the current emissions rate. LAPFF's formally adopted policy outlines its main engagement objective for companies is to align their business models with a 1.5°C scenario and to push for an orderly net-zero carbon transition. LAPFF supports clearly identified legislative framework on carbon reductions, so that companies will be able to make the necessary decisions and financial commitments to provide the short and long-term solutions to decarbonising the economy that are needed. Again, LAPFF's experience engaging with companies is that, without strong and timely regulation, achieving the UK's ambitions for reducing emissions will be slower and less effective as some companies tend only to meet minimum regulatory requirements. In this context, LAPFF strongly supports ending the sale of new, non-zero emission buses, coaches and minibuses by 2025. The full response to the consultation can be accessed using the link below.
https://lapfforum.org/wp-content/uploads/2022/05/2022-Non-Zero-Emissions-Buses.pdf

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

2.27 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**.

The Northern LGPS RI Policy covers a wide range of ESG issues. In the update from 2021, the policy specifically highlighted Public Health as a theme that the Northern Pool would engage on with companies. The Healthy Markets Initiative, which Northern LGPS is a member of wrote to Nestle, Kelloggs, Danone and Kraft Heinz ahead of their respective AGMs urging them to increase their ambition on health, look to report using government endorsed nutrient profiling models and to set targets to increase their sales from healthier products. The press release can be found on the ShareAction website using the link below. https://shareaction.org/news/investors-call-on-major-food-manufacturers-to-follow-unilevers-moves-on-health-nutrition

2.28 The IIGCC published a new report which aims to support investors in understanding the $126 trillion of investment in climate solutions required to meet the goals of the Paris Agreement. The report, entitled "Climate Investment Roadmap: A tool to help investors accelerate the energy transition through investment and engagement", was developed with support and analysis from Vivid Economics. The findings support the key themes identified in the IPCC's latest report on mitigation of climate change, including the need for policy changes to facilitate greater investment in climate solutions. The full report can be accessed using the link below. https://www.iigcc.org/resource/climate-investment-roadmap-a-tool-to-help-investors-accelerate-the-energy-transition-through-investment-and-engagement/

2.29 At the end of March, Climate Action 100+ released the second assessments of its 166 focus companies using the Net Zero Company Benchmark. These show some corporate progress against key climate indicators, but find much more action is urgently needed from focus companies to limit global temperature rise to 1.5°C. This is the second iteration of the Net Zero Company Benchmark since it was launched by the initiative in March 2021. The assessments indicate overall year-on-year improvements on the initiative's three engagement goals of cutting greenhouse gas emissions, improving climate governance, and strengthening climate-related financial disclosures. Driven by pressure from Climate Action 100+ investor signatories, the results show that:

- 69% of focus companies have now committed to achieve net zero emissions by 2050 or sooner across all or some of their emissions footprint, a 17% year-on-year increase
- 90% of focus companies have some level of board oversight of climate change
- 89% of focus companies have aligned with TCFD recommendations, either by supporting the TCFD principles or by employing climate-scenario planning

2.30 However, the vast majority of companies have not set medium-term emissions reduction targets aligned with 1.5°C or fully aligned their future capital expenditures with the goals of the Paris Agreement, despite the increase in net zero commitments. Climate Action 100+ is calling on all focus companies to step up climate ambition before a third round of assessments is released later this year. More details including company assessments and key findings can be found on the Climate Action 100+ website. https://www.climateaction100.org/net-zero-company-benchmark/

2.31 The Northern LGPS co-signed a statement that was announced at the Net Zero Delivery Summit at Mansion House. The initiative, which is backed by UK Pensions Minister, Guy Opperman MP, recognises the important role UK asset owners can and should play in supporting emerging economies in achieving their climate targets. The 12 signatories to the statement representing 18.3 million members with assets worth £400 billion pledged to better understand the needs of emerging economies and the required transition. Ahead of COP27 in Egypt, the group plans to set out the steps they intend to take in line with their respective investment strategies. The statement as well as links to media attention it received can be accessed below.
https://www.churchofengland.org/media-and-news/press-releases/12-leading-uk-pension-

funds-collaborate-support-climate-transition

https://www.professionalpensions.com/news/4049582/pension-funds-launch-em-climate-collaboration

https://www.esginvestor.net/uk-pensions-set-to-support-emerging-markets-climate-transition/

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

2.32 The Northern LGPS Stewardship Report for the latest quarter can be found using the link below.
https://northernlgps.org/taxonomy/term/15

2.33 The LAPFF Quarterly Engagement Report for the latest quarter can be found using the link below.
https://lapfforum.org/publications/category/quarterly-engagement-reports/

2.24 Following on from the IMESG Working Group meeting in April where Officers presented a draft of the report on compliance with the UK Stewardship Code, Officers completed and submitted the necessary reporting during the quarter. Where previously compliance to the Stewardship Code involved signing up to a set of statements, the latest Stewardship Code asks investors to report on how they have exercised their responsibilities across 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

9. RECOMMENDATION

9.1 As per the front of the report.