

GREATER MANCHESTER PENSION FUND - INVESTMENT MONITORING AND ESG WORKING GROUP

29 July 2022

Commenced: 09:00 **Terminated:** 10:50

Present: John Pantall (Chair) Councillors Andrews, Jabbar, Lane, Massey, Quinn and Smart

Mr Drury, Flatley, Llewellyn

In Attendance: Tom Harrington Assistant Director of Investments
 Steven Taylor Assistant Director for Investment Special Projects
 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
 Tom Powdrill PIRC
 Janice Hayward PIRC

Apologies for Absence: Mr Caplan, Councillors Barnes, Cooney, Cowen Drennan, North, Ricci, Ryan and Ward

1. **DECLARATIONS OF INTEREST**

There were no declarations of interest.

2. **MINUTES**

The minutes of the Investment Monitoring and ESG Working Group meeting on the 8 April 2022 were approved as a correct record.

3. **UBS ESG UPDATE**

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

The Head of Stewardship for UBS explained how Stewardship influenced portfolio outcomes. The Stewardship program sought to advance standards across the industry. The key leadership features of the approach by UBS was presented to the Working Group:

- Focus on outcomes
- Bottom-up and top-down approach
- Company Issue and ecosystem engagement
- Sustainability SMEs and cross asset class fundamental analyst participation
- Research driven approach to set engagement objectives
- Escalation process informs portfolio construction

It was highlighted in the 2021 Annual Stewardship Report that UBS had supported 100% of climate resolutions flagged by Climate Action 100, UBS had supported 67% of ESG related proposals. Further, the Annual Stewardship Report detailed companies when engagement led to UBS to exclude companies from the investment universe.

It was stated that 430 engagement meetings had taken place in the last year with over 1150 meetings with Company management teams. Of these engagements 25% reflected a positive outcome of progress towards objectives.

It was explained that UBS set specific expectations and track progress against these expectations. Examples of outcomes include:

- Boards' refreshment to better oversee management's delivery of business strategies
- Setting of long-term greenhouse gas emissions targets in carbon intensive companies
- Enhancements to pay structures to ensure better alignment with shareholders' interest
- Increased disclosure of material ESG information

Members of the Working Group were presented with companies that were flagged by the UBS ESG Risk Dashboard for the UK Value Portfolio with elevated sustainability risks.

In regards to engagement at the portfolio-level in the 12 month period to the end of March 2022. Between 31 March 2021, and 31 March 2022, UBS held 163 engagement meetings with issuers from the Fund's portfolio. UBS engaged with companies across all sectors, Members of the Working Group were presented with a breakdown of company engagement by sector and region.

Members of the Working Group were presented with engagement examples, which highlighted the ESG issues with the companies, actions taken and the outcomes and next steps of UBS.

Discussion ensued on how outcomes were used in the UBS statistics on engagement and what steps were taken when engagement does not reach the desired outcomes.

RECOMMENDED

That the report be noted.

4. UBS REPORT ON TRADING COSTS

Consideration was given to a presentation of representatives from UBS. The presentation detailed GMPF's trading costs for the year to 31 December 2021. The volume of equities traded was reported, along with the total commission paid and the average commission rate. Members of the Working Group were also presented with a breakdown of counterparties that were traded with.

RECOMMENDED

That the report be noted.

5. RESPONSIBLE INVESTMENT UPDATE

Consideration was given to a presentation of representatives of PIRC, which set out their review of PLC workforce safety disclosures.

Members of the Working Group were presented with a breakdown of statistics on Covid-19 cases in the workplace. Covid-19 cases peaked in early 2021, it was explained that some types of workplace experienced large outbreaks. The Head of Stewardship at PIRC presented statistics on the Covid-19 infections in the workplace and fatal Covid-19 reports.

Members were advised that PIRC were able to identify and engage with key sectors and push against the under-reporting of cases.

In regards to executive pay and safety, the average loss of earnings suffered for FTSE 350 highest paid directors as a consequence of an employee fatality during the 2019/20 reporting year was £33,628. It was explained that the average total income of the highest paid directors at companies where pay was reduced as a result of a fatality was £3,942,236. Therefore, on average, loss of income as a result of a fatality accounted for 0.85% of total pay.

Following an analysis of HSE fines, notices and reporting on OHS in the FTSE 350 annual reports PIRC found that of 57 companies receiving HSE enforcement notices since 2019 only 30 listed OHS as a principal risk. Further, 60% of the FTSE 350 disclose information on safety incidents, but there was no standardisation of reporting. Company's self-select form more than 40 distinct safety metrics, most only chose to report against one or two. Also some companies switch metrics from year to year, impeding analysis.

In regards to contingent workforces, only 12% of FTSE 350 disclosed data on their contingent workforce. Only 19 of the 57 PLCs that were served HSE notices disclosed safety data on contingent workers. There was more data in sectors historically relying heavily on contractors such as mining, construction and manufacturing. There was no data for 800,000 self-employed couriers working for Deliveroo, Just Eat and Grubhub.

It was explained that there was a gap between what companies say was important and what they reported on. Companies had more data than they disclosed. Contingent workers were invisible in a lot of reporting. Further there was too much variation in company reporting and there was too little investor interest in that reporting.

It was reported that PIRC would engage with PLCs over existing safety data including on annual reports and enforcement. PIRC would promote standardisation in reporting and push analysis of workforce data into the FTSE-Allshare and the capturing of greater granularity in safety data.

RECOMMENDED

That the presentation be noted.

6. UNDERWRITING, STOCKLENDING AND COMMISSION RECAPTURE

Consideration was given to a report of the Director of Pensions / Assistant Director of Pensions for Investments. The report advised Members of the activity and income generated on Underwriting, Stocklending and Commission Recapture during the year ended March 2022.

RECOMMENDED

That the report be noted.