

Report to : PENSION FUND MANAGEMENT/ADVISORY PANEL

Date : 16 September 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 : 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 RI 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 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 UBS presented their annual ESG update at the July Investment Monitoring & ESG Working Group meeting. Their presentation highlighted how they integrate ESG factors into their investment decisions and their approach to stewardship. They demonstrated how factors such as being outcome focused, knowing company specific issues and having a top-down thematic approach inform their stewardship activities. They provided examples of engagements for companies held within the GMPF portfolio on a range of issues from access to healthcare to climate change and also a summary of their activities. Further details of their approach to sustainable investing and their activities can be found in their annual Stewardship Report.
<https://www.ubs.com/content/dam/assets/asset-management-reimagined/global/insights/thematic-viewpoints/sustainable-and-impact-investing/docs/esg-stewardship-annual-report.pdf>
- 2.4 In July 2022, GLIL Infrastructure acquired a stake in Hornsea One, the world's largest operational offshore wind farm, which is located off the north-east coast of England. GLIL and its partner jointly acquired a 12.5% stake in the project as a 50:50 equity partner. Ørsted, which constructed the offshore wind farm, has retained its 50% shareholding in the project,

continuing to provide operations and maintenance services and remains as an offtaker to energy generated by the project under a Power Purchase Agreement.

Hornsea One is operational and comprises 1.2GW of installed wind capacity

- The wind farm consists of 174 turbines located 120km off the north-east coast of England and spans an area of 407km²
- The project benefits from contracted revenue through a 15-year Contract for Difference with inflation linkage, ending in 2036
- The wind farm generates enough electricity to power over 1 million homes

- 2.5 GMPF approved a commitment of £105m to Northern Gritstone, which forms part of the Fund's allocation to the Impact Portfolio. Northern Gritstone is a new investment company based in the north of England, founded by the Universities of Leeds, Manchester and Sheffield, three of the UK's leading educational research establishments. It intends to be one of the largest investors into academic spinouts in the United Kingdom, dedicated to financing companies in some of the UK's fastest growing sectors such as advanced materials, energy, health technology and cognitive computation. Having reached its first milestone of £215m of fundraising, Northern Gritstone issued a press release, which can be seen below where a number of comments were made in support of the company's intention to bring economic growth and prosperity to the North of England.

<https://northern-gritstone.com/northern-gritstone-secures-first-close-of-215m-ahead-of-making-its-first-investments/>

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

- 2.6 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: <https://votingdisclosure.pirc.co.uk/?cl=Uyc0NScKLg==&pg=1>
- 2.7 The Chair of LAPFF visited the communities affected by the Mariana (2015) and Brumadinho (2019) tailings dam collapses in Brazil. He spent time visiting seven communities and meeting other stakeholder groups still dealing with the fallout from the dam collapses. The trip comes after three and a half years of engagement with both affected communities and the shareholding companies involved BHP and Vale in relation to the Samarco (Mariana) collapse and Vale in relation to the Brumadinho collapse. The current status of these engagements has been set out in a report from LAPFF entitled [Mining and Human Rights: An Investor Perspective](#). Engagements with Anglo American, Glencore, and Rio Tinto are also covered in this report.
- 2.8 During his trip, Cllr McMurdo met with Vale Chair, Mr. José Penido, and CEO of the Renova Foundation, André de Freitas. The Renova Foundation is an organisation set up by BHP, Vale, and Brazilian authorities to administer compensation, reparations, and resettlement after the Mariana collapse.
- 2.9 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/responsible-investing/q2-2022-esg-impact_uk.pdf
- 2.10 In 2016, LGIM launched the Climate Impact Pledge with targeted voting and investment sanctions for companies, creating an annual ranking of corporate leaders and laggards on climate change. The pledge now includes 1,000 companies in 15 climate-critical sectors that LGIM assess and report on. In July, LGIM also renewed their climate impact pledge which can be found using the link: https://www.lgim.com/landg-assets/lgim/document-library/responsible-investing/lgim_climate_impact_pledge_2022_report---final.pdf

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

- 2.11 The Fund supported the CDP's Non-Disclosure Campaign, which ran until the end of September. 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. The table below shows the early results for companies targeted in the Non-Disclosure Campaign following GMPF's engagements.

	Current engagements status		
	Climate change	Forests	Water security
Submitted	23.8%	9.1%	17.2%
Activated questionnaire	6.5%	7.6%	5.4%
Intends to respond	1.5%	5.2%	2.5%
Considering response	1.0%	0.5%	1.1%
Intends to decline	4.2%	3.7%	4.9%
Declined to respond	1.6%	3.0%	1.8%
No response	61.1%	70.7%	66.8%

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

- 2.12 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 become so.
- 2.13 The UK Transition Plan Taskforce (TPT) was launched by HM Treasury to develop a gold standard for climate transition plans. The TPT's work will help to drive decarbonisation by ensuring that financial institutions and companies prepare rigorous plans to achieve net zero and support efforts to tackle greenwashing.
- 2.14 LAPFF responded the Transition Plan Taskforce's call for evidence on a framework for private sector climate transitions. A link to LAPFF's response is below. The principles that LAPFF wish to see embedded throughout this consultation are:
- ensuring plans are comparable to a 1.5°C scenario, covering Scope 1-3 emissions
 - include short, medium and long-term targets (with a definition of what time periods they cover)
 - that plans focus on actual emission reductions (real zero) rather than offsetting and carbon capture
 - that there is external verification of emission numbers
 - that the social dimension is included in transition plans, effectively ensuring they are also 'just' transition plans

<https://lapfforum.org/wp-content/uploads/2022/07/LAPFF-Response-to-the-Transition-Plan.pdf>

- 2.15 GMPF considers certain tax arrangements, whilst beneficial to shareholders in the short-term, can be a source of regulatory, financial and reputational risk to companies and their investors. Aggressive corporate tax avoidance may have a negative effect on public finances and by extension on public services. Therefore, GMPF seeks to monitor the behaviour of investee companies in respect of their tax planning. GMPF co-filed shareholder resolutions relating to tax transparency with Microsoft and Amazon which was reported in the previous RI update. To continue to raise awareness and help tackle this issue GMPF joined the UN PRI's Tax Reference Group which convened for its first meeting in July.

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

- 2.16 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**.

- 2.17 GMPF's RI Policy covers a wide range of issues that have been identified as being important themes to focus its RI activities. Water stewardship is one of these themes. The supply and availability of fresh water underpins virtually every transaction on earth, financial or otherwise. As the global demand for fresh and dependable sources of water increases, driven largely by population growth, preserving the supply of reliable freshwater becomes ever more challenging. There are significant physical and transitional risks facing companies in future scenarios of high-water stress. The World Economic Forum has consistently identified water crises as one of the top risks to economic prosperity. In its continued efforts to raise awareness of this issue GMPF via Northern LGPS joined the Valuing Water Finance Initiative (VWFI) in July. The initiative is a new global investor led effort to engage companies with a high water footprint to value and act on water as a financial risk and drive the necessary large-scale change to better protect water systems. The initiative calls on companies to meet Corporate Expectations for Valuing Water that align with the United Nations' 2030 Sustainable Development Goal for Water and the actions laid out in the Ceres Roadmap 2030. The Corporate Expectations for Valuing Water and link to the initiative can be found using the links below.

<https://www.ceres.org/sites/default/files/Ceres%20Corporate%20Expectations%20for%20Valuing%20Water%202022.pdf>

<https://www.ceres.org/water/valuing-water-finance-initiative>

- 2.18 Officers previously reported that GMPF had signed a statement recognising the role UK asset owners can play in supporting emerging economies in achieving their climate targets. Signatories to the initiative, including representatives from GMPF, met with the Pensions Minister, Guy Opperman MP, and representatives from South Africa, Kenya, Vietnam, Indonesia and India who shared their thoughts and ideas on areas of opportunity and the help they require for a successful transition to a low carbon economy.

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

- 2.19 The Northern LGPS Stewardship Report for the latest quarter can be found using the link: <https://northernlgps.org/taxonomy/term/15>
- 2.20 The LAPFF Quarterly Engagement Report for the latest quarter can be found using the link: <https://lapfforum.org/publications/category/quarterly-engagement-reports/>
- 2.21 Officers reported in the previous Quarterly Responsible Investment Activity Report that the application for the 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

2.22 The Fund’s application to renew its signatory status has now been assessed by the Financial Reporting Council and was accepted. This is an important external and independent validation of the Fund’s approach. 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. The signatory list as well as GMPF’s Stewardship Code statement is available at the following link:

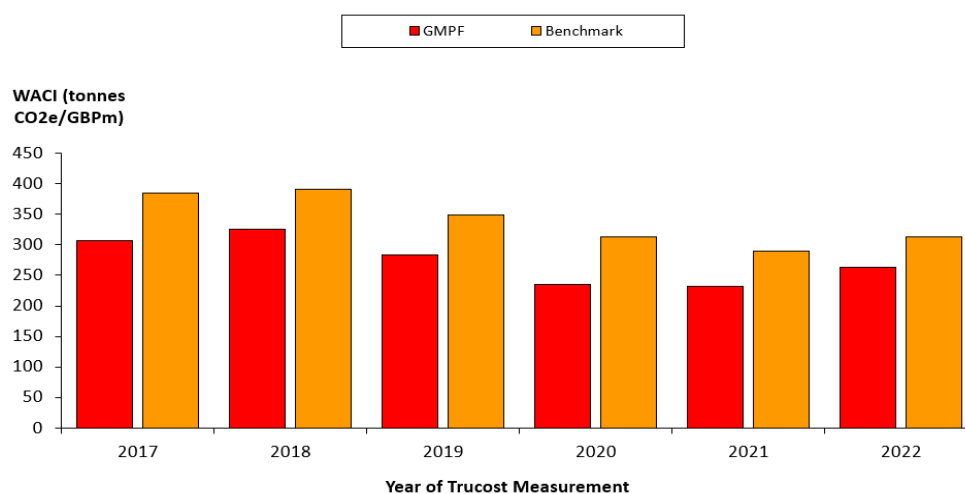
<https://www.frc.org.uk/investors/uk-stewardship-code/uk-stewardship-code-signatories>

2.23 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.

2.24 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.

2.25 The graph below shows the WACI of the Fund’s Active Equities over time. Over the six years the Fund has measured this metric, the Fund’s WACI has been below the benchmark WACI.

GMPF WEIGHTED AVERAGE CARBON INTENSITY (WACI)



2.26 On 1 September 2022, the Department for Levelling Up, Housing and Communities opened a consultation, “Local Government Pension Scheme (England and Wales): Governance and reporting of climate change risks”. The topic of the consultation is described as follows, “This consultation seeks views on proposals to require Local Government Pension Scheme (LGPS) administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD)”. The Fund has been reporting on a voluntary basis in line with the TCFD recommendations since 2018, and will be responding to the consultation.

3. RECOMMENDATION

3.1 As per the front of the report.