

Report to : PENSION FUND MANAGEMENT/ADVISORY PANEL

Date : 2 December 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 The GMPF Investment Committee approved a commitment of £100m for the Impact portfolio to support sustainable infrastructure in the UK. The Local investments team proposed a 70:30 split of this commitment to favour a North West bias over national investments to support local infrastructure within the region. The manager focuses on the five areas of alternative investments which complement GMPF's approach to sustainable investments with a local dimension
- Forestry
 - New Energy (renewables and battery energy storage)
 - Housing
 - Sustainable Infrastructure
 - Public and Private Equity

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

- 2.4 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>

2.5 The Chair of LAPFF visited the communities affected by the Mariana (2015) and Brumadinho (2019) tailings dam collapses in Brazil. Having spent time with members of the affected communities he spent two days with the Chair of Vale and senior executives from the company to discuss the issues of water quality, housebuilding and the pace of reparations that were raised by affected community members. At the end of the trip the Chair met with a number of Brazilian investors and ESG-focused asset manager, JGP Asset Management who collectively worked with Vale to set in motion a process to increase the pace and quality of reparations. More context of the trip is available in LAPFF's [Mining and Human Rights report](#).

2.6 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/q3-2022-esg-impact.pdf

2.7 Legal and General also published an article which explores sustainability themes ahead of COP27 arguing they are not mutually exclusive, rather, that they are inextricably linked. The report also covers

- The underlying causes of the energy shock
- What Europe's return to coal means for climate targets and investors
- How energy infrastructure can and must play a pivotal role in the transition

https://www.lgim.com/landg-assets/lgim/_document-library/insights/market-insights/cro_q3-cio-outlook-autumn-update_v0.5.pdf

We will seek appropriate disclosure on ESG issues by the entities in which we invest.
2.8 LAPFF co-hosted a webinar with IndustriALL Global Union exploring the recently launched Employment Injury Scheme (EIS) for ready-made garment workers in Bangladesh. Employment injury insurance is one of the most basic forms of social protection. The Bangladesh pilot, which involves the government, workers, employers and the ILO, is an example of what is possible in the realm of social protection and of how brands are already participating in the effort. Speakers in the webinar included Primark and H&M, who are participating in the EIS pilot, the ILO, which supported the pilots design and IndustriALL. The webinar is aimed primarily at institutional investors interested in working towards a more sustainable garment industry built on respect for workers' fundamental rights.

2.9 PIRC also co-hosted a panel discussion with the United Food and Commercial Workers Pension for Employees on the materiality of labour rights featuring a wide-ranging discussion from multiple perspectives that are relevant to investors. With increasing unionization efforts at companies such as Starbucks and Amazon, labour rights have become a major topic not only for workers but also for investors. Professor Richard Freeman, an expert in the economics of labour, shared research from the United States and Europe on the risks and opportunities associated with worker organization and provided a factual foundation for the discussion. Frontline workers from Starbucks and Amazon shared their experiences of the impact of worker organization on employees and firms. Sylvain Lobry, from the global food company Danone, provided an issuer's perspective on how his company respects and implements labour rights. Finally, Christine Shaw, an experienced corporate governance and sustainable investment leader at the Connecticut Treasurer's Office, offered an asset owner view of her fund's engagements with portfolio companies on labour rights.

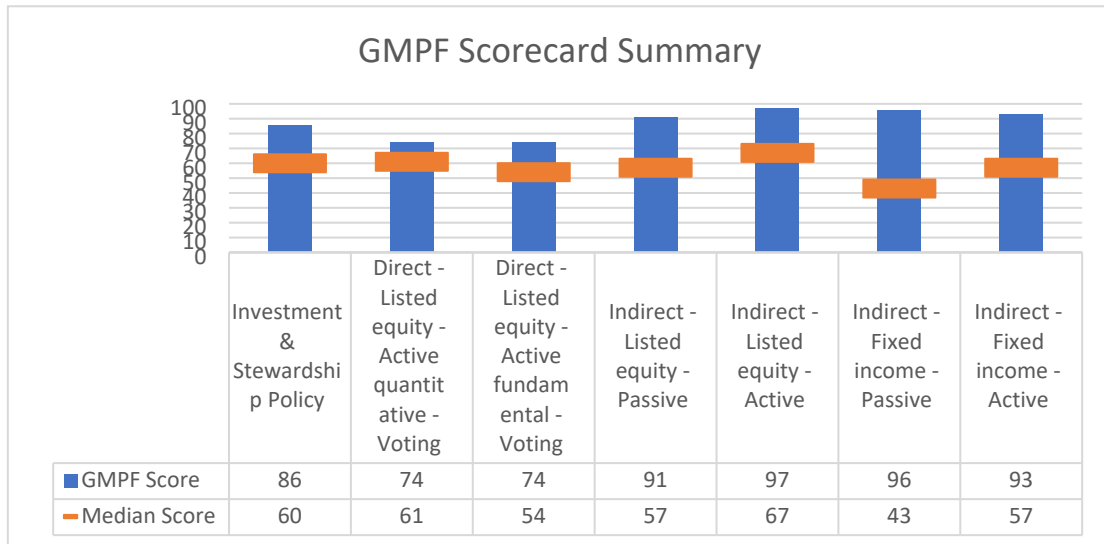
We will promote acceptance and implementation of the Principles within the investment industry.

- 2.10 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.
- 2.11 A Senior Investments Manager from the Local Investments team represented GMPF on a panel discussion organised by Room 151 on the topic of impact investing. Room151 is an online news, opinion and resource service for local authority Section 151 and other senior officers covering treasury, strategic finance, funding, resources and risk. The Officer gave an insight into GMPF's approach to investing locally and described what a positive local impact means for GMPF. The audience at this discussion included other investment professionals from pension funds for whom it would be beneficial for them to implement similar investments. The Fund has had an allocation to Local Investments for a number of years which is a current area of focus for the Department for Levelling Up, Housing and Communities.
- 2.12 Climate Action 100+ (CA100+) is a global initiative that brings together investors committed to ensuring the world's largest corporate greenhouse gas emitters take necessary action on climate change. The initiative was initially established for a period of five years on the premise that a deadline for meaningful action is required given the pressing nature of the challenge. The initiative focuses on the top 100 companies with the highest combined direct and indirect emissions globally. The initiative set out with a goal to unify the investor voice on climate around three key core asks of companies, to:
- Implement a strong governance framework on climate change;
 - Take action to reduce GHG across the value chain and;
 - Provide enhanced corporate disclosure
- 2.13 As the initiative moves into its final year of phase one, the CA100+ Steering Committee is proposing to update its strategy in the four areas below and seeking signatory views in preparation of phase two. LAPFF responded to the consultation on behalf of members.
- Updating the three goals and scope
 - Expanding the ways in which investors can contribute
 - Enhancing benchmarking
 - Recalibrating signatory participation
- 2.14 The Paris Aligned Investment Initiative (PAII) is a collaborative investor-led global forum enabling investors to align their portfolios and activities to the goals of the Paris Agreement. GMPF, as part of the Northern LGPS signed up to the initiative and committed to PAII Net Zero Asset Owner Commitment. As part of the initiatives first update, the Northern LGPS submitted a case study highlighting some of the ways it is investing to achieve its net zero target. The Asset Owner Commitment targets disclosure and the Progress Report can be found on using the link : <https://www.parisalignedinvestment.org/>

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

- 2.15 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**.
- 2.16 GMPF was one investor amongst others representing \$18tn in assets that signed a letter calling on the Food and Agriculture Organisation of the United Nations (FAO) to produce a global roadmap to 1.5°C. The letter recognises the risks the food system is exposed to from climate change, biodiversity loss and also the material impacts that the food system activities have on the environment. The letter urges the FAO to produce a global roadmap to 2050 that mitigates these risks and sets out a standard for the industry that aligns with the Paris Agreement. The full letter can be found using the link below.
<https://www.fairr.org/article/roadmap-to-2050/>

- 2.17 CA100+ released updated Net Zero Company Benchmark assessments in September for 14 Australian companies on its focus list. These assessments were released early to provide investors engaging these companies with critical benchmarking data ahead of upcoming annual general meetings during the Australian proxy season, which starts imminently. The Net Zero Company Benchmark measures focus companies on their progress against the initiative's three engagement goals and a set of key indicators related to business alignment with the goals of the Paris Agreement. Below is the link to the 166 company assessments.
<https://www.climateaction100.org/whos-involved/companies/>
- 2.18 In June, GMPF filed a shareholder resolution at Cisco Systems and co-filed a similar shareholder resolution at Microsoft relating to tax practices and requesting the companies to adopt the Global Reporting Initiatives tax standard and publish tax transparency reports for shareholders. This generated some media attention an example of which is below.
https://www.theregister.com/2022/09/27/cisco_tax_transparency/
- 2.19 More than 600 investors including GMPF managing almost \$42 trillion in assets co-signed the 2022 Global Investor Statement to Governments on the Climate Crisis. The statement calls on governments to take a number of actions including:
- Ensure that the 2030 targets in their Nationally Determined Contributions align with the goal of limiting the global temperature rise to 1.5°C
 - Implement domestic policies to deliver these targets
 - Contribute to the reduction of non-carbon greenhouse gas emissions
 - Build upon the agreed outcomes of COP26
 - Strengthen climate disclosures across the financial system
- 2.20 The full Statement and the press release can be found using the links below.
<https://theinvestoragenda.org/wp-content/uploads/2022/08/2022-Global-Investor-Statement-.pdf>
<https://theinvestoragenda.org/press-releases/2-november-2022/>
- We will each report on our activities and progress towards implementing the Principles.**
- 2.21 The Northern LGPS Stewardship Report for the latest quarter can be found using the link below.
<https://northernlgps.org/taxonomy/term/15>
- 2.22 The LAPFF Quarterly Engagement Report for the latest quarter can be found using the link below.
<https://lapfforum.org/publications/category/quarterly-engagement-reports/>
- 2.23 As a signatory to the UN PRI, the Fund is required to publicly report annually on its responsible investment activities via the PRI's reporting framework under the six Principles as set out in 1.3. Officers submitted a report of GMPF's activities in April 2021 covering the activities of 2020. The UN PRI updated its reporting and assessment process which caused delays. In September 2022, GMPF received feedback on its reporting to the UN PRI. Under the new framework, GMPF exceeded the UN PRI median score in all modules where it was assessed. These include the 'Investment & Stewardship Policy', 'Listed Equity Voting' and 'Manager Selection, Appointment and Monitoring' modules. The chart below summarises GMPF's assessment results for the reporting period ending 31 December 2020.



2.24 The Fund's responses are published on the PRI website and publicly available at:

[https://stpublic.blob.core.windows.net/pri-ra/2020/Investor/Public-TR/\(Merged\)_Public_Transparency_Report_Greater%20Manchester%20Pension%20Fund_2020.pdf](https://stpublic.blob.core.windows.net/pri-ra/2020/Investor/Public-TR/(Merged)_Public_Transparency_Report_Greater%20Manchester%20Pension%20Fund_2020.pdf)

2.25 Officers previously reported that 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 consultation was seeking 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. Officers responded to the consultation welcoming the need for mandatory reporting on this issue. LAPFF and the Scheme Advisory Board also submitted responses which GMPF contributed to and supports.

3. RECOMMENDATION

3.1 As per the front of the report.