GREATER MANCHESTER PENSION FUND - INVESTMENT MONITORING AND ESG WORKING GROUP

20 January 2023

Commenced: 09:00am **Terminated:** 10:38am

Present:	Councillors Ryan (Chair), Andrews, Barnes, Drennan, Jabbar, Lane, Massey, North, Quinn, Ricci, Smart and Ward	
	Mr Caplan Drury, Flatley, Llewellyn	
	Fund Observers Pantall and Taylor	
In Attendance:	Sandra Stewart	Director of Pensions
	Tom Harrington	Assistant Director of Pensions (Investments)
	Michael Ashworth	Principle Investments Manager
	Richard Thomas	Investments Manager
	Mushfiqur Rahman	Investments Manager
	Lorraine Peart	Investments Officer
	Reka Todor	Investments Officer
	Alex Jones	Investments Officer
	Alan MacDougall	PIRC
	Janice Hayward	PIRC
	Tom Powdrill	PIRC
Apologies for Absence:	Councillor Cowen	

14. DECLARATIONS OF INTEREST

There were no declarations of interest.

15. MINUTES

The minutes of the Investment Monitoring & ESG Working Group meeting on the 7 October 2022 were approved as a correct record.

16. LEGAL & GENERAL ESG REVIEW

Consideration was given to a presentation of Legal & General on Environmental, Social and Governance activity in the last 12 months including an update on split voting.

Members of the Working Group were reminded that Legal and General had been working with the Greater Manchester Pension Fund since 2000. Legal & General looked after approximately £3.5bn of the funds' assets, predominantly index equity government and corporate bond funds, plus liquidity and corporate bond mandates (active) and provided a return in line with the appropriate market index.

The Senior Global ESG Manager explained that the purpose of LGIM was to create a better future through responsible investing. LGIM had a responsibility to many stakeholders. When capital was allocated LGIM conduct extensive research into potential environmental and societal outcomes. LGIM believed ESG factors were financial material. Responsible investing was essential to mitigate risks, unearth opportunities and strengthen long-term returns. LGIM strived to effect positive change in the companies and assets in which they invested, and for society as a whole.

It was explained that LGIM engaged globally to deliver positive change, aiming to raise market standards and safeguard clients' assets for the long term. Stewardship within LGIM had an independent structure, LGIM had the same voice across investments and stewardship. LGIM believed in structured engagement with clear communication of policies, expectations and consequences.

The Senior Global ESG manager presented a chart of LGIM's structured engagement with consequences. It was highlighted that LGIM publish their policies, votes and views on individual companies including ESG Score and Climate Score. In 2021, LGIM held 773 engagements with 571 companies, in 2021 LGIM engaged with policy makers on over 30 topics. Further, LGIM filed 3 shareholder resolutions in 2021, one of which LGIM were able to withdraw.

In regards to LGIM's Climate Impact Pledge, Members of the Working Group were advised that red lines that LGIM set in promoting Paris-alignment. Examples were presented to the Working Group of direct engagement and the impact that was had. The Working Group considered a case study where LGIM stewardship team highlighted serious concerns with regards to company's climate strategy. There were multiple engagements with the company since 2017, action was taken including voting against the chair. Changes were delivered in 2020/21 following engagement.

The Working Group was presented with LGIM's global stewardship themes, this included:

- Board Accountability
- Cyber Security
- Biodiversity
- Low-Carbon Solutions
- Transparency
- Diversity
- Tax
- Privacy & Data Security
- Climate Change
- Health
- Income Inequality
- Executive Pay

Members were presented with highlights from these stewardship themes. On deforestation, collaborative and policy maker engagement as a member of IPDD LGIM met with Brazilian Environment Ministry on current and upcoming projects and plans to tackle deforestation in Brazil. LGIM would be co-chairing a recently-launched working group established by the IPDD. This group would engage on the deforestation-free commodity regulations being debated and implemented in the UK, Europe, the United States, and China. Deforestation was not just a company issue: national policymakers had a significant role to play through the development and enforcement of appropriate regulation.

In regards to Health, in 2020, with AXA Investment Management and the Access to Medicine Foundation, LGIM wrote an open letter to global pharmaceutical companies, asking them to undertake practical steps to accelerate research & development and overcome potential barriers to access to COVID-19 medicines and vaccines. LGIM filed a shareholder proposal at Moderna's 2022 AGM, requesting that they disclose how government financial support for development & manufacture of COVID-19 vaccine was considered in decisions affecting access. Following Moderna's agreement to improve its transparency by publishing the requested report, LGIM were able to withdraw the shareholder resolution.

Members discussed LGIM's approach to diversity and how the approach changed depending on the country in which a company operated. Further discussion took place on the increased use of voting as part of LGIM's structured engagement, it was explained that LGIM had built out their reporting capabilities to be transparent on their voting intentions and to indicate where companies had not met their climate targets.

Following request by the Assistant Director for Investments the Senior Global ESG Manager for Legal and General provided an update on split voting. It was explained that LGIM knew voting was important to clients, and that they were aware of what competitors were offering, LGIM sought to listen to all their clients to ensure their voting policy aligned with their clients. It was further explained that most clients were happy with being aligned with LGIM voting policy, if a client wanted to vote in a different manner, LGIM would support that in a segregated arrangement.

RECOMMENDED
That the presentation be noted.

17. RESPONSIBLE INVESTMENT UPDATE

Consideration was given to a presentation of representatives of PIRC, which summarised the report "*Not By The Numbers"*. Workforce related risks companies report and the data they (don't) disclose' which was attached to the report at Appendix 1.

It was explained that when investors sought to understand the extent to which workforce related ESG issues were a material risk which required monitoring or intervention, one of their key sources of information was companies' own reporting. In UK financial reporting, this required reviewing what companies themselves have identified and disclosed as 'principal risks'.

It was stated that principal risks were defined by the Financial Reporting Council (FRC) as a risk or combination of risks that could seriously affect the performance, future prospects or reputation of the entity. These should include those risks that would threaten its business model, future performance, solvency or liquidity.

Companies were also expected to provide an explanation of how they manage or mitigate the risk. The FRC states that Information on how the principal risks are managed was therefore important to shareholders when making resource allocation decisions and assessing management's stewardship. Given how important these risks were to a company's future, it would make sense for a company to disclose data relating to them to demonstrate to investor how they were managing them.

In 2022, PIRC conducted a comprehensive review of the workforce related data disclosure for companies in the FTSE All-Share (excluding investment trusts). PIRC identified three key workforce-related principal risks - Labour Retention and Recruitment, Health and Safety, Labour Disruption - and analysed the level of disclosure of data where companies had listed one or more of these. In addition, PIRC looked for disclosure of a workforce issue as a principal risk where other data suggested that this might reasonably be expected. The key findings of this review included:

- 233 out of 388 (60%) FTSE All-Share companies listed Labour Retention and Recruitment as one of their principal risks. Only 55 (24%) of these companies provided any kind of turnover data, whether that be voluntary, involuntary, or overall turnover rates.
- 121 out of 388 (32%) FTSE All-Share companies listed Health and Safety as one of their principal risks. 95 (79%) of these companies provided some level of H&S data, although as previous analysis by PIRC had shown, the lack of consistent measures used in H&S data made comparative analysis very difficult.
- 5 out of 388 (1%) FTSE All-Share companies listed Labour Disruption/Poor Industrial Relations as one of their principal risks. Only one of these companies (Go-Ahead Group) did not provide any data/information on unions or collective bargaining coverage.

Providing data on workforce principal risks demonstrated to the investor that risks were being seriously considered and meaningfully addressed; conversely, a lack of disclosure may concern the investor that the data was too unfavourable to publish. Companies should ensure that principal risk disclosure reflected all the major workforce-related principal risks faced. The recommendations of the report were summarised to the working Group:

- Where Labour Retention and Recruitment was listed as a principal risk, companies should disclose turnover, in as much granularity as is practical.
- Where Health and Safety was listed as a principal risk, companies should disclose safety data along with an explanation of why disclosed metrics had been chosen.
- Where Labour Disruption had been disclosed as a principal risk, companies should disclose information on union relations including collective bargaining coverage, density and unions with whom the company had a relationship.
- Where companies had high turnover, there was an expectation to see commentary in the annual report and for boards to consider its inclusion as a principal risk.
- Where companies had faced sanction by the HSE it was expected to see commentary in the annual report and for boards to consider its inclusion as a principal risk; and
- Where companies had, or expected difficult industrial relations it was expected to see commentary in the annual report and for boards to consider its inclusion as a principal risk.

RECOMMENDED
That the report be noted.

18. URGENT ITEMS

There were no urgent items.

CHAIR