

Report to : PENSION FUND MANAGEMENT PANEL

Date : 24 March 2023

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 9A	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 Legal & General Investment Management, GMPF's passive public market manager, presented at the January Investment Monitoring & ESG Working Group meeting. They reported on their approach to investment stewardship and how they engage globally to deliver positive change, raise market standards and safeguard client assets for the long term. They presented their 'Identify, Engage, Change' approach to stewardship demonstrating this with case studies of engagements on a range of themes they have identified. These include diversity, climate change and health which are aligned to themes GMPF has noted in its RI Policy.
- 2.4 The GMPF Investment Committee approved a commitment of £20m for the Impact portfolio to a social infrastructure fund focused on buying on or building impact rented housing and specialist accommodation. This includes affordable housing, homes for keyworkers, supported living and care homes. The UK has a shortage of affordable housing and accommodation for adult social care. The fund's investment strategy targets additionality, intentionality and inclusivity to bring about systemic change within the wider housing sector. It seeks to deliver high quality residential housing solutions for general needs accommodation and adult social care, with a core focus on mixed tenure new developments. A recent Big

Society Capital report estimates the shortfall of affordable housing as being 101,000 new homes per annum and this equates to a capital shortfall of £253 billion.

- 2.5 As part of its overseas property allocation GMPF committed £100m to Heimstaden Bostad (HSTB) which is the largest unlisted owner of residential housing across Europe. HSTB focusses on mid-level affordable homes in countries with stable economic environments and in cities and suburbs with favourable supply and demand dynamics. HSTB's sustainability strategy is qualified by 25,000 tenants who responded to a survey which highlighted their preference of a focus on people and sustainability. Homes are designed to suit different needs, an ability to have green areas and on-site renewable energy sources.

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 below.
<https://votingdisclosure.pirc.co.uk/?cl=Uyc0NScKLg==&pg=1>
- 2.7 Slavery was formally abolished in the US and Europe in the 19th century, but the abuse and exploitation of vulnerable people continues in many workplaces and other settings around the world today. Modern slavery is an illegal, covert activity supported by crime and corruption. This makes it hard to precisely detect or measure the scale of the problem. According to the ILO and Walk Free Foundation it is estimated that \$150 billion of profits is generated from forced labour. Officers attended a seminar hosted by Alliance Bernstein where speakers discussed the steps investors can take to assess and reduce the risks of modern slavery.
- 2.8 Themis, a platform that helps organisations identify and manage financial crime presented at the seminar developed a freely available online course in partnership with the UK Independent Anti-Slavery Commissioner and the UK Modern Slavery Training Delivery Group, a UK government initiative. The course provides individuals working in the financial services sector the tools they need to be able to help tackle modern slavery and human trafficking. The course can be accessed using the link below.
https://themisknowledge.com/shop/Modern_Slavery_and_Human_Trafficking.php?mkt_tok=NDMzLURLQS02NDkAAAGJ6ied2IYBYoIQJRzNroGhxSxneEaZuZm4Vqlvd6QtCuCjDbyDLpO585H1rn76GVKmkwKizzsQ4Qj05iFQi79i_gLSx5C2lhMsY3PX5Gc
- 2.9 On the fourth anniversary of the Brumadinho tailings dam disaster Officers attended the Global Investor Summit on Minding 2030 and Tailings. The first half of the summit concentrated on the lessons learnt from the work investors have led on tailings dam safety following the disaster. Supported by the UN, the creation of the Global Tailings Management Institute was announced to oversee the auditing and effective implementation of the new Global Tailings Industry Standard.
- 2.10 The second part of the summit saw the announcement of a Global Investor Commission on Mining 2030 developed in partnership with the United Nations Environment Programme. The multi-stakeholder Commission will seek to develop a global consensus across the finance and corporate world of a reformed mining sector that supports a positive vision for mining and does not cause harm to people, communities and the environment.
- 2.11 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/q4-2022-esg-impact-report--final.pdf

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

- 2.12 LAPFF and the Northern LGPS signed on to the World Benchmark Alliance Investor Statement for a just transition calling for companies to take urgent action to plan for a just transition. The statement follows findings from the WBA's 'Just Transition Assessment' showing high emitting companies were failing to identify, prepare and mitigate the social impacts of their decarbonisation plans.
- 2.13 54 signatories from around the globe are sending a strong signal to oil and gas companies that planning for a just transition is a significant part of making the low carbon transition a success. As a first step, the oil and gas sector is required to engage in robust transition planning, which involves anticipating how decarbonisation will affect people and communities, and plan accordingly to ensure their fundamental rights are respected while undertaking low carbon strategies. This statement and the full list of signatories can be accessed using the link below.
<https://www.worldbenchmarkingalliance.org/impact/investor-statement-for-a-just-transition/>
- 2.14 In February, the Local Authority Pension Fund Forum (LAPFF), Sarasin & Partners LLP, CCLA and Ethos Foundation wrote to the chairs of all FTSE listed companies requesting that companies allow for a shareholder vote on their greenhouse gas emission reduction strategy. Having a 'Say on Climate' vote aims to enhance transparency and accountability on one of the most pressing financially material risks facing investee companies.
- 2.15 Ahead of the 2023 AGM season, the letter welcomed those Boards that have already enabled shareholders to have a 'Say on Climate' via a resolution on the ballot paper. However, the letter urged all companies to follow suit by disclosing their transition plans aligned to a 1.5°C temperature outcome and allowing investor oversight on the robustness of plans through a vote on the strategy and any associated capital expenditure requirements.
- 2.16 The intervention comes against the backdrop of increasing pressure from government and regulators to draw up plans and take action to reduce emissions. The letter's signatories noted the HM Treasury's launch of the UK Transition Plan Taskforce to develop the 'gold standard' for private sector climate transition plans in the UK. The taskforce states that a transition plan should be integral to the company's overall strategy, setting out how it aims to prepare and contribute to a rapid shift towards a decarbonised economy. The full press release can be accessed using the link below.
<https://lapfforum.org/engagements/2023-say-on-climate/>
- 2.17 A number of the companies where workers are seeking to organize, and face resistance, claim adherence to fundamental rights at work such as freedom of association and collective bargaining. Some companies that cite support for ILO core conventions in their workplace and human rights policies also actively campaign against the exercise of these rights. Investors have responded by filing resolutions at a number of US companies that call on them to undertake an independent review of the application of their existing workplace rights policies.
- 2.18 PIRC hosted a webinar on workplace rights focusing on the conflict between companies' stated policies on workplace rights and their practices on the ground. It explored the importance of non-interference by employers when employees are considering representation by a union. There was a representative from the ILO who briefly explained the core conventions and attendees heard from workers at Starbucks who sought to unionise and their experiences of the company's response to organising and bargaining.

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

- 2.19 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.

- 2.20 There have been calls for LGPS funds to further scale up investment in alternative assets and invest more in affordable housing. The Government is also calling on the LGPS to increase local investment and the chancellor has stated that the government will consult on requiring LGPS funds to consider illiquid asset investment opportunities. GMPF's Assistant Director of Pensions spoke at the All-Party Parliamentary Group's discussion on Local authority pension fund investment in affordable housing where he provided an insight into GMPF's approach to local investments and its affordable housing investments. He shared GMPF's experience and what more can be done to maximise investment opportunities and of the barriers and constraints to investing in affordable housing.
- 2.21 GMPF and Avison Young co-hosted a morning of presentations showcasing the investments made in GMPF's Local Investments portfolio. Avison Young presented some of the trends they see that have been incorporated into the portfolio such as the growth of place-based investments and being part of the solution in addressing local challenges while ensuring the investments remain attractive from a financial point of view. They emphasised that creating a positive impact is not always instant and can take time.
- 2.22 Several of the Fund's external managers also presented some case studies highlighting the positive impact the investments have made. These include:
- An adult education scheme that delivers training courses to help long term unemployed people return to work, retrain or re-skill
 - An environmental consultancy that helps companies around air and water quality in Salford
 - A Manchester based circular economy business that specialises in refurbishing and recycling used IT hardware
- 2.23 In 2022, PIRC were commissioned by a group of NGOs to develop a methodology for analysing corporate disclosures of electric vehicle manufacturers and to score individual companies assessed against multiple indicators that seek to determine how companies are progressing in their efforts to ensure equitable, sustainable and fossil-free supply chains. This resource is publicly available and the benchmark and individual scorecards for each of the 18 companies are available online.
<https://leadthecharge.org/>
- We will work together to enhance our effectiveness in implementing the Principles.**
- 2.24 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**.
- 2.25 The food sector is one of the biggest sources of greenhouse gas emissions. Investors, consumers, governments and other stakeholders are putting increasing pressure on the sector's biggest emitters to reduce their contribution to climate change. Food companies have responded by disclosing more information about their GHG footprints, and more importantly by setting emissions reduction targets. Recognising the need for greater scrutiny of corporate climate ambition in the food sector, TPI has developed a new Carbon Performance methodology for food producers, which quantifies companies' current emissions and assesses whether their targets are enough to align with low carbon scenarios to limit the global temperature increase to 1.5°C. The discussion paper and methodology can be accessed using the link below.
<https://www.transitionpathwayinitiative.org/publications/110.pdf?type=Publication>
- 2.26 In December HSBC announced it would no longer provide direct financing to new oil and gas fields, making it the world's biggest bank to do so. This sends a strong market signal that banks appetite for financing new oil and gas is diminishing, as well as sets a new minimum standard for major European banks committed to net zero. HSBC's announcement was in direct response to engagement by ShareAction and investors, including the filing of two

resolutions.

- 2.27 Building on this momentum ShareAction organised for a series of letters to be sent to a number of European banks requesting that they also halt the direct financing of new oil and gas fields. GMPF signed on to letters sent to BNP Paribas, Deutsche Bank and Societe Generale. The letters as well as the media traction these letters garnered can be seen using the links below.

<https://api.shareaction.org/resources/reports/BNP-Paribas-Letter-from-ShareAction-and-investors-07.02.2022.pdf>

<https://api.shareaction.org/resources/reports/Deutsche-Bank-ShareAction-and-investor-letter-on-no-new-oil-and-gas-fields-07.02.2022.pdf>

<https://api.shareaction.org/resources/reports/Societe-Generale-ShareAction-and-investor-letter-on-no-new-oil-and-gas-fields-07.02.2022.pdf>

<https://www.standard.co.uk/business/business-news/major-investors-urge-big-european-banks-to-stop-financing-fossil-fuels-b1059300.html>

<https://www.itv.com/news/2023-02-09/major-investors-urge-big-european-banks-to-stop-financing-fossil-fuels>

- 2.28 As part of GMPF's focus on health, the Fund sought to co-file a shareholder resolution coordinated by ShareAction at Nestle in January. The resolution was requesting the company to better disclose revenue that is generated from healthier products and its strategic plans to increase these sales. ShareAction held a number of meetings with the company and as a result decided that sufficient progress had been made with the company that the resolution was withdrawn with the intention further meetings to monitor progress.
- 2.29 GMPF also sought to co-file a shareholder resolution with Apple requesting an independent third-party assessment of the company's adherence to its stated commitment to workers' freedom of association and collective bargaining rights as contained in the ILO's declaration on fundamental principles and rights at work. The resolution was also withdrawn following positive engagement and agreement from the company to carry out the assessment.
- 2.30 In June, GMPF filed a shareholder resolution at Cisco Systems relating to tax practices and requesting the companies to adopt the Global Reporting Initiatives tax standard and publish tax transparency reports for shareholders. At the AGM, the resolution received 27% of the votes in favour building on the breakthrough result at Amazon for a similar resolution and also sent a clear signal to the company that investors expect meaningful data on issues such as tax which is financially material.

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

- 2.31 The Northern LGPS Stewardship Report for the latest quarter can be found using the link below.

<https://northernlgps.org/taxonomy/term/15>

- 2.32 The LAPFF Quarterly Engagement Report for the latest quarter can be found using the link below.

<https://lapfforum.org/publications/category/quarterly-engagement-reports/>

3. RECOMMENDATION

- 3.1 As per the front of the report.