GREATER MANCHESTER PENSION FUND - INVESTMENT MONITORING AND ESG WORKING GROUP

14 April 2023

Commenced: 09:00am		**Terminated:** 10:30am
Present:	Councillors Ryan (Chair), Andrews, Butt, Cowen, Drennan, Jabbar, Lane, North, Ricci, Smart and Ward Mr Drury, Flatley, Llewellyn	
In Attendance:	Sandra Stewart	Director of Pensions
	Tom Harrington	Assistant Director of Pensions (Investments)
	Steven Taylor	Assistant Executive Director (Investment Special Projects)
	Paddy Dowdall	Assistant Executive Director (Local Investments and Property)
	Mushfiqur Rahman	Investments Manager
	Lorraine Peart	Investments Officer
	Abdul Bashir	Senior Investments Manager (Public Markets)
	Alan MacDougall	PIRC
	Conor Constable	PIRC
Apologies for Absence:	Councillor Barnes, Massey and Quinn Mr Caplan Fund Observers Pantall and Taylor	

19. DECLARATIONS OF INTEREST

There were no declarations of interest.

20. MINUTES

The minutes of the Investment Monitoring & ESG Working Group meeting on the 20 January 2023 were approved as a correct record with the amendment that Councillor Butt be recorded as present.

21. NINETY ONE ESG UPDATE

Consideration was given to a presentation of the Portfolio Manager and Head of Institutional Sales of Ninety One and the Sustainability Director for the 4Factor approach.

The Director, Head of Institutional Sales detailed the Evolution of Stewardship and Sustainability at Ninety-One. From 2008 to 2020 there was a focus on formal integration frameworks, awareness building, sustainability insights and training. From 2020 to 2022 there was a shift to scalable and efficient responses to integrating through investment teams and expanding sustainable product offerings. From 2022 there was a focus on the alignment and execution of sustainability approach across the firm whilst considering real world impact.

The Sustainability Director presented Ninety One's approach to sustainability as stewards of client's capital. There were 6 principles at the core of Ninety One's approach:

1. **Substance**. Pursue substance over form in all aspects of sustainability
2. **Differentiate between Integration and Impact**. Focus on high quality ESG integration standards for all strategies.
3. **High Quality Integration**. Ensure the range of ESG risks and opportunities were assessed and priced for.

4. **Strategic Engagements**. Enhance understanding of risks and provide the opportunity to improve outcomes.
5. **Continuous Learning**, to improve knowledge in a fast developing area and make use of external and internal expertise.
6. **Holistic approach**. Commitment to advocacy to influence and focus on Ninety One's sustainability credentials.

Ninety One detailed their approach to meeting net zero targets and transition plans. Ninety One prioritised heavy emitters, assessed transition plans using their own framework and undertook engagement over divestment to proactively drive transition. On transitioning their operations, Ninety One used location based accounting, reduced overall energy consumption, and gave specific focus on energy efficiency across offices.

The Working Group were presented with the TPAF a tool for measuring Transition across portfolios. The framework enabled Ninety One to assess where companies were on their transition journeys today and had influence over where they would be in the future.

The Portfolio Manager for Ninety One delivered a presentation on 4Factor Sustainability Credentials. It was explained that Ninety One believed markets were inefficient due to behavioural errors made by investors. They believed a disciplined bottom-up process could mitigate behavioural errors and capture opportunities. They also believed that finding successful investment required fundamental analysis incorporating financial and material non-financial information including sustainability considerations.

It was explained that sustainability analysis was essential to finding successful investments, Ninety One therefore incorporated it across their investment process through:

- **Universe Screening**. Ongoing evaluation into incorporating material non-financial information.
- **Fundamental Analysis**. Evaluating and pricing externalities using proprietary frameworks.
- **Engagement.** Ranging from regular interactions to challenge questions or raise awareness to strategic engagements with material potential to drive change.
- **Portfolio construction**. Monitoring portfolio exposure to carbon and other ESG metrics to identify key sustainability opportunities and risks.
- **Reporting**. Proving insight on key engagements and sustainability credentials of client portfolios.

It was further explained that carbon pathways were integral but only one part of wider sustainability assessments and Ninety-One did prioritise positive change over broad brush exclusions.

Members were presented with the Transition Plan Assessment (TPA) analysis of a case study of a heavy emitting company. It was explained that a transition plan assessment was conducted for all heavy emitters drawing on best-in class frameworks and assessment methodologies. The TPA examined the ambition, credibility and implement-ability of a transition and decarbonisation plan.

The Working Group were presented with a number of case studies and their stages in the journey to reaching targets. The Working Group were advised that over 50% of the Fund's portfolio was committed to science based targets. Members were also presented with the carbon intensity and footprint of the portfolio.

Members discussed how progress was managed along different companies' transition plans. It was explained that ultimately, Ninety One reserved the right to sell the shares in the portfolio but this would only be considered if all steps had been taken to encourage a company to progress with their targets and plan. There had yet to be that experience with any company in the Fund's portfolio. Where companies were taking steps that wound hinder their progress in regards to their carbon emissions targets the first steps that would be taken would be to engage quickly. Many steps or actions taken would be on a case by case basis.

RECOMMENDED
That the presentation be noted.

22. NINETY ONE TRADING COST UPDATE

Consideration was given to a presentation by the Director, Head of Institutional sales for Ninety One. The presentation detailed the transaction and research costs for the Fund's portfolio.

RECOMMENDED
That the presentation be noted.

23. RESPONSIBLE INVESTMENT UPDATE

Consideration was given to a presentation of Representatives of PIRC Ltd on the PIRC Shareholder Voting Guidelines 2023. A copy of the report was attached at Appendix A, and a document highlighting changes from the PIRC Shareholder Voting Guidelines 2022 was attached at Appendix B. PIRC also presented their work on electric vehicle supply chains, and specifically the creation of the "Lead The Charge" benchmark of leading EV manufacturers.

It was reported that the latest iteration of the shareholder voting guidelines included more prescription in relation to investment trusts. Also expectations of boards increased when assessing Say on Climate. For most significant emitters, PIRC was substantially expanding the scope of its analysis and recommendations. The main changes to the guidelines were on expectations on climate change for major emitters and holding board members responsible where companies were falling short and therefore creating potential investment risks.

It was explained that there was growing evidence and consensus to the economic cost. Companies were facing legal action on the climate and there was investor action through shareholder resolutions. Despite the scale of the risks, progress was still slow, it was now eight years since the Paris Agreement. Action was needed to deliver change, PIRC had taken strong positions but wanted to take a more systematic approach.

The focus of the new approach was on the biggest emitters, there was an expectation that companies commit to net zero by 2050, and an expectation that there should be short, medium and long-term targets, aligning to 1.5 degrees pathway. This would show a commitment to addressing risk and enable accountability for whether boards had met targets and successfully addressed climate related financial risks.

PIRC believed that the absence of adequate climate targets at major greenhouse gas emitters was an indicator of serious governance shortcomings. Voting would therefore reflect this. The strongest emphasis would be on the 2050 commitment and short term targets so that investors could hold boards to account on progress. Voting recommendations aimed to hold directors to account for failing to have adequate targets with voting guidelines designed to escalate.

In regards to the "Lead The Charge" benchmark of EV manufacturers, it was reported that the EV transition was taking place and tailpipe emissions were on their way out. However, if the 1.5C emissions pathway was to be achieved then focus would need to turn to the harmful business practices from mining and manufacturing which were all part of the auto supply chain. It was explained that as tailpipe emissions fade away, supply chain emissions end up comprising the bulk of autos lifecycle emissions. Additional emissions-intensive minerals, such as nickel in batteries and greater use of aluminium increases supply chain emissions overall. The Working Group were advised that the objective of the benchmark was to:

- Evaluate major automakers progress towards equitable, sustainable, and fossil free supply chains

- Establish a new expectation for what a "clean" car really is
- Complement existing EV scorecards and other initiatives, rather than duplicate, by focusing on companies' supply chains, not their own operations

To encourage supply chain transparency and disclosure, companies had been scored solely on publicly available official reporting which had received board level sign off. It was also explained that indicators were aligned with existing benchmarking initiatives and relevant legislation. Each category had the same indicator structure and scoring had been weighted towards implementation indicators.

Members of the Working group were presented with some examples of the scorecard and provided links to the full scorecard at leadthecharge.org.

RECOMMENDED
That the presentation be noted.

24. GMPF SUBMISSION TO THE UK STEWARDSHIP CODE REPORTING FRAMEWORK

Consideration was given to a report of the Director of Pensions / Assistant Director of Pensions (Investments). The report detailed the draft updated GMPF Stewardship Report for submission to the Financial Reporting Council.

The 2020 Stewardship Code consists of 12 Principles that were applicable to GMPF as an asset owner that are divided into four main categories (Purpose and Governance, Investment Approach, Engagement and Exercising Rights and Responsibilities). For each Principle, GMPF was required to provide a summary of:

- Context (why was this activity being undertaken?)
- Activities (what the activity was?)
- Outcomes (what were the desired outcomes and possible consequences?)

The Stewardship Report should be a single document structured to give a clear picture of how GMPF had applied the 12 Principles and should be fair, balanced and understandable. GMPF's draft updated Stewardship Report was attached at Appendix B.

In order to maintain its signatory status, asset owners such as GMPF, were required to demonstrate their stewardship activities for the reporting period between 1 January and 31 December each year with the deadline for submitting reporting this year being 31 May. There were currently no tiers in place when the reporting was being assessed.

Once the Stewardship Report was submitted and approved by the FRC, it was required to be a public document and must be made available on GMPF's website.

GMPF's second submission in April 2022 to the 2020 Code was accepted in September 2022. During the assessment of GMPF's submission, the FRC highlighted some areas the Fund could improve its reporting on. Attached as Appendix A was confirmation of GMPF's successful submission and the FRC's feedback where it could improve reporting.

RECOMMENDED
That the draft updated GMPF Stewardship Report be endorsed for submission to the FRC.

25. CLASS ACTIONS UPDATE

Consideration was given to a report of the Director of Pensions / Assistant Director of Pensions (Investments). The report provided Members with an update on litigation in which Greater

Manchester Pension Fund (GMPF) actively sought to recover losses in the value of its shareholdings in various companies as a result of actions taken by those companies.

The report provided a summary of outstanding or recently settled active class actions. It was stated that there were no major receipts within 2022 and there were 3 new cases detailed in the report.

RECOMMENDED
That the report be noted.

26. INVESTMENT CONSULTANTS OBJECTIVES FOR HYMANS ROBERTSON

Consideration was given to a report of the Director of Pensions / Assistant Director of Pensions (Investments). The report provided members of the Working Group with an update on investment consultant objectives and a review of Hymans Robertson's performance (versus objectives) for the year 2022.

The Working Group were reminded that the Management Panel agreed to delegate, to the Director of Pensions, the setting of detailed objectives for the Fund's investment consultant (Hymans Robertson) by 10 December 2019, such detailed objectives being in line with the broad framework as set out in the Hymans Robertson report. Hymans Robertson provided GMPF with an initial draft 'menu' of objectives, which formed the basis of the final set of objectives. Officers agreed the final set of bespoke objectives for the investment consultants, Hymans Robertson, on 6 December 2019, a copy of which has been provided to Hymans Robertson. The agreed objectives for the investment consultants were attached at Appendix A.

In June 2019, the CMA published its final order following a review of the investment consulting and fiduciary management markets. Consequently, pension scheme trustees must submit 'compliance statements' stating that they had complied with the above requirements. The most recent of which needed to be submitted between 10 December 2022 and 7 January 2023 and annually thereafter. On 6 January 2023, the Chair of the Greater Manchester Pension Fund Management Panel submitted the Fund's annual compliance statement to the CMA confirming the Fund's compliance with Part 3 and Part 7 of the Order.

As part of the Fund's annual review, Hymans Robertson's performance over the preceding year had been evaluated and a qualitative assessment versus objectives undertaken. To support the assessment of performance versus investment consultants objectives, Hymans Robertson provided 'evidence' of work undertaken and areas of focus over the year. This information was attached at Appendix B.

Officers concluded that Hymans Robertson had met their investment consultants objectives for 2022. As part of ongoing deliberations, areas of focus and specific projects, as well as feedback had been discussed. It is not proposed to make any changes to the agreed investment consultant objectives at this stage.

RECOMMENDED
That the report be noted.

27. URGENT ITEMS

There were no urgent items.

CHAIR