

Report to : PENSION FUND MANAGEMENT/ADVISORY PANEL

Date : 15 September 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 : 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 :

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.

3. We will incorporate ESG issues into investment analysis and decision-making processes.

- 3.1 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).

- 3.2 UBS presented their annual ESG update at the July Investment Monitoring and ESG Working Group meeting. Their presentation included their observations on sustainable investing which included:

- Climate change – which has extended to finding opportunities
- ESG identity crisis – the politicisation and polarisation of ESG
- Regulation – more regulation but less clarity
- Engagement – being acknowledged and adopted as a critical tool for investors
- Future impact – transparent and robust reporting on both positive and negative impacts

- 3.3 UBS demonstrated how active ownership can enhance investment returns and ways in which engagement can enhance or protect investments and contribute to real-world change. They provided details of the UBS engagement programme which leverages the experience and skills of both their sustainability team and portfolio managers and how they prioritise their engagement activity. They provided examples of engagements for companies held within the GMPF portfolio on issues such as climate change and corporate governance.
- 3.4 UBS wrote an article titled “The Future of Stewardship” which asserts that more activity does not necessarily lead to greater effectiveness in achieving objectives. The article argues that to turn activity into outcomes that matter to owners and beneficiaries more clarity and alignment of objectives is required across the investment chain, better measurement of engagement outcomes, enhanced assessment of investor contribution as well as estimation of its impact. The full article can be found using the link below.
<https://www.ubs.com/global/en/assetmanagement/insights/investment-outlook/panorama/panorama-mid-year-2023/articles/stewardship.html?caasID=CAAS-ActivityStream>
- 3.5 UBS produced a Sustainable Investment edition of their regular “Panorama” reports which focused on a number of broad topics within sustainable investing. These include a discussion on potential resource misallocation due to large money flows towards sustainable investing and why there needs to be more focus on ensuring portfolio-level impact or real-world impact or ideally both, clean energy investment and securing a more productive and sustainable food supply. The full report can be accessed using the link below.
<https://www.ubs.com/global/en/assetmanagement/insights/investment-outlook/panorama/panorama-mid-year-2023.html?caasID=CAAS-ActivityStream>
- 3.6 The GMPF Investments Committee approved a £25m commitment from the Impact Portfolio allocation into a fund focussed on SME lending in sectors across the North of England with a focus on Greater Manchester. In line with the twin aims of the portfolio of generating a commercial return and supporting the area, it is anticipated that the investment will create or safeguard jobs.
- 4. We will be active owners and incorporate ESG issues into our ownership policies and practices.**
- 4.1 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>
- 4.2 LAPFF held their Mid-year conference in July where topics such as linking climate metrics to executive pay and modern slavery were presented. The UK’s Modern Slavery Act was hailed as one of the first pieces of legislation in the world to specifically address slavery and trafficking in the 21st Century. Yet despite placing specific requirements on companies there remain significant risks for investors. The session explored what investors can do to ensure companies are meeting their requirements and how legislation can be strengthened to help put a stop to modern day slavery.

- 4.3 The Northern LGPS is a signatory of the Workforce Disclosure Initiative (WDI). The initiative focuses on company disclosure and transparency on how they manage workers with the aim of improving the quality of jobs in multinational companies' operations and supply chains. In July, the WDI held a webinar in relation to Amazon, where there are concerns over workforce management, wages, health and safety and surveillance. Representatives from UNI Global Union from Germany and the United Food and Commercial Workers union discussed their concerns from both an American and European perspective. The discussion focussed on the issues at Amazon, how it is responding to those risks and also how investors are engaging with Amazon to improve workforce management. The WDI also organised a webinar dedicated to Walmart where workers are facing similar workforce management issues.
- 4.4 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/esg-impact-report-q2-2023_final.pdf
- 4.5 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 5,000 companies across 20 climate-critical sectors that LGIM assess and report on. LGIM have renewed their climate impact pledge which can be found using the link below.
https://www.lgim.com/uk/en/responsible-investing/climate-impact-pledge/?cid=emlClimate_Impact_Pledge_DB_2023
- 4.6 UBS recently published their Stewardship report reviewing their responsible activity in 2022 and their outlook for 2023. UBS met with 330 different companies and had 461 meetings with these companies on issues such as climate change, inequality, human and labour rights and remuneration. UBS deemed 62% of their engagement activity to be progressive against pre-defined objectives. The full and shorter version of the report can be accessed using the link below.
<https://www.ubs.com/global/en/assetmanagement/capabilities/sustainable-investing/stewardship-engagement.html>
- 5. We will seek appropriate disclosure on ESG issues by the entities in which we invest.**
- 5.1 The Northern LGPS co-signed a letter to the International Sustainability Standards Board (ISSB) co-ordinated by ShareAction calling for human capital and human rights standards to be developed as a priority. There were 25 signatories with over 1 trillion US dollars in assets under management. This is a strong public statement to the ISSB that investors are looking to it to help deliver comprehensive and comparable social data. The letter and some of the media coverage the letter generated can be accessed using the links below.
- <https://shareaction.org/news/issb-urged-to-prioritise-international-standards-for-reporting-on-human-and-worker-rights>
- https://cdn2.assets-servd.host/shareaction-api/production/resources/stock-photography/2023_WDI_Investor-RFI-open-letter_For-publication-4.pdf
- <https://www.ipe.com/news/investors-urge-issb-to-focus-on-human-and-labour-rights/10068524.article>

<https://esgclarity.com/investor-coalition-urges-issb-to-prioritise-reporting-on-human-and-worker-rights/>

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

6.1 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.

6.2 LAPFF responded to the UN Working Group on Business and Human Rights Consultation on extractive industries, just transition, and human rights. LAPFF's engagement on human rights with both mining companies and affected communities has increased significantly over the past five years, and LAPFF has noted how companies consistently see climate and human rights considerations as competing objectives, mining more to meet 'sustainability targets' whilst only moving as quickly on climate as existing regulation allows. The response can be viewed using the link below.

<https://lapfforum.org/wp-content/uploads/2023/05/LAPFF-Response-to-UN-Working-Group-on-Business-1.pdf>

6.3 LAPFF published a report titled "Understanding Investment Risk in the Mining Sector". The report follows on from the Chair of LAPFF's visit to Brazil to understand how those affected by the three tailings dam failures have been affected and the lack of progress for affected communities. LAPFF's concerns include:

- a lack of engagement by the companies with affected communities
- the slow pace and inadequate nature of reparations
- environmental impacts and particularly compromised water resources
- safety of tailings dams

6.4 The full report is available on the LAPFF website and a link to this is below.

https://lapfforum.org/wp-content/uploads/2023/05/LAPFF_MINING_INVESTMENT-RISK-REPORT_FINAL.5thjune-1.pdf

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

7.1 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**.

7.2 Whilst certain tax arrangements can potentially be beneficial in the short-term, GMPF considers these as a potential source of regulatory, financial and reputational risk to companies and investors. Aggressive corporate tax avoidance may have a negative effect on public finances and by extension on public service provision. GMPF monitors the behaviour of investee companies in respect of tax planning and challenge companies where necessary. GMPF co-filed shareholder resolutions at Cisco Systems and Microsoft relating to tax practices and requesting the companies to adopt the Global Reporting Initiatives tax standard and publish tax transparency reports for shareholders.

7.3 The Transition Pathway Initiative published a research paper in relation to the Steel sector. The paper proposes an update to the methodology used to assess the carbon performance of steelmakers. The change is to separate the assessment of primary and secondary steelmakers as they use different technologies to produce steel and so they face different decarbonisation challenges. Primary steelmaking using mined iron ore can be up to 10 times more energy-intensive than secondary steelmaking using scrap metal. This paper builds on our steel Carbon Performance methodology to provide investors with more accurate net zero aligned assessments.
<https://www.transitionpathwayinitiative.org/publications/117.pdf?type=Publication>

7.4 IIGCC released an Asset Owner Stewardship Questionnaire which is a resource that can be used internally by asset owners in meeting their own individual net zero goals by incorporating climate stewardship into selection, appointment and monitoring of external asset managers. The questionnaire provides asset owners with qualitative questions for due diligence when selecting an asset manager and quantitative reporting when monitoring asset managers. The questionnaire will support a more consistent approach to the relationship between asset owners and asset managers in terms of climate-related stewardship responsibilities and reporting on climate engagement.
<https://www.iigcc.org/media-centre/iigcc-publishes-asset-owner-stewardship-questionnaire-a-new-tool-to-assist-asset-owners-and-asset-managers-with-climate-stewardship>

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

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

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

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

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

8.3 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

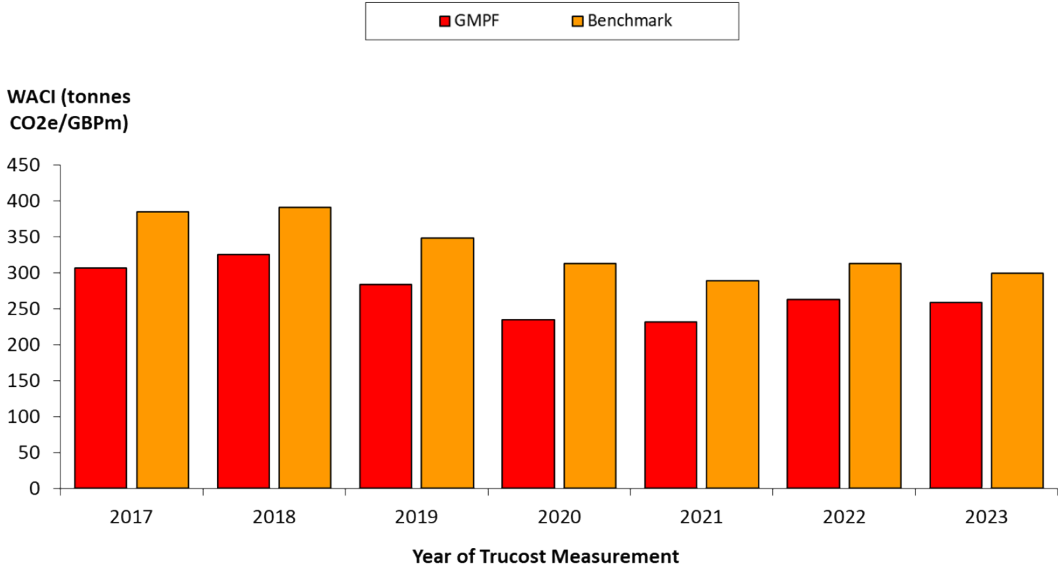
11. Escalation

Exercising rights and responsibilities

12. Exercising rights and responsibilities

- 8.4 The Fund's application to renew its signatory status has now been assessed by the Financial Reporting Council and has been accepted. This is an important external and independent validation of the Fund's approach to its responsible activities. 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>
- 8.5 In September, Officers will complete and submit the annual PRI reporting. The reporting covers all aspects of RI activity undertaken by the Fund in the reporting year from 1 January 2022 to 31 December 2022 and associated outcomes. The Fund is assessed relative to its peers and progress can be tracked via the grading system. The results are considered annually by the Investment Monitoring and ESG Working Group. The scoring methodology for the 2022 reporting framework has been recalibrated to make the assessment more challenging. The focus has expanded from providing examples of RI activity to include reporting on the outcomes of the activity.
- 8.6 Officers of the Fund completed the annual carbon footprinting exercise of its listed equity and corporate bonds during the quarter. This comprises both backward looking analysis and forward looking / scenario analysis. 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. The forward looking / scenario analysis projects these same holdings and uses publicly available company data to estimate future emissions and potential risks that a company may face.
- 8.7 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.
- 8.8 The graph below shows the WACI of the Fund's Active Equities over time. Over the seven years the Fund has measured this metric, the Fund's WACI has been below the benchmark WACI. The Fund has a target for the portfolio WACI to be 50% lower than the 2019 benchmark WACI by 2030.

GMPF WEIGHTED AVERAGE CARBON INTENSITY (WACI)



9. Recommendation

9.1 As per the front of the Report.