

GREATER MANCHESTER PENSION FUND - INVESTMENT MONITORING AND ESG WORKING GROUP

Friday, 27 January 2017

Commenced: 10.30 am

Terminated: 11.50 am

Present: Councillors Taylor (Chair), Middleton, Ricci, Brett, Grimshaw, Pantall, Stogia and Mr Allsop

In Attendance:

Sandra Stewart	Executive Director of Pensions
Steven Taylor	Assistant Executive Director of Pensions (Investments)
Tom Harrington	Senior Investments Manager
Raymond Holdsworth	Investments Manager
Michael Ashworth	Investments Officer
Lorraine Peart	Investments Officer

19. DECLARATIONS OF INTEREST

There were no declarations of interest.

20. MINUTES

The minutes of the meeting of the Investment Monitoring and ESG Working Group held on 14 October 2016 were approved as a correct record.

21. LEGAL & GENERAL CORPORATE GOVERNANCE REVIEW

The Working Group welcomed James Sparshott and Sacha Sadan from Legal & General who attended the meeting to present their corporate governance activity over the last 12 months.

It was reported that Legal & General were impacting company behaviour to generate sustainable and long-term returns. They were changing how the market valued long-term sustainable business strategies and improving efficiency and performance of the market as a whole to reduce the risk of investment. They explained that they were achieving this by using their scale to influence and change behaviour, by building trust and relationships and escalating concerns where necessary.

With regards to ESG, they were creating value by considering all risks and opportunities, conflicts were managed and mitigated and votes were used – between June and December 2016, 828 companies were voted at, over half of which covered ESG topics, with no abstentions in the UK and Europe. Long term ESG topics were outlined and included Board accountability, diversity and transparency. A discussion ensued around Board composition and gender representation. The Working Group were informed that an updated remuneration policy had been created with ongoing dialogue with the 350 FTSE companies. In the UK Legal & General had voted against 118 remuneration resolutions.

Legal & General were committed to encourage and accelerate the transition to a low carbon economy for the long-term benefit of all companies and had identified 90 of the largest companies that were pivotal to shift the market. They had been ranked using a proprietary methodology and the worst performers would be voted against.

Three case studies relating to SAB Miller, Sports Direct and Wells Fargo & Co were outlined and discussed with the Group.

RECOMMENDED:

That the presentation be noted.

22. CDP (FORMERLY CARBON DISCLOSURE PROJECT)

The Assistant Executive Director of Pensions (Investments) submitted a report outlining an invitation from the CDP, which was formerly the Carbon Disclosure Project, to become a signatory to four CDP information requests - the CDP, the CDP Water Disclosure, the CDP Carbon Action and the CDP Forest Footprint Disclosure.

It was reported that the CDP was an independent not-for-profit organisation, which held the largest database in the world of primary information on company policies and practices relating to climate change. The CDP sent out information requests to organisations on an annual basis. In order to encourage them to voluntarily respond, financial institutions were invited to become signatories to the information requests. Last year the Fund accepted an invitation to become a signatory.

RECOMMENDED:

That the working group accept the invitation to become a signatory subject to an annual administration fee of £745 plus VAT to the four Carbon Disclosure Project information requests outlined in the report.

23. UNDERWRITING, STOCKLENDING AND COMMISSION RECAPTURE

The Assistant Executive Director of Pensions (Investments) submitted a report advising Members of the activity and income generated on Underwriting, Stocklending and Commission Recapture during the quarter.

It was reported that Capital International did not participate in underwriting activity and the Fund did not participate in any sub-underwriting via UBS in the quarter ended September 2016. Stocklending income during the quarter was £104,568 and Commission 'recaptured' was £31,148.

The report outlined that income generated from these activities were very sensitive to market conditions, therefore the amounts generated were expected to vary from one quarter to another, and from one year to another.

RECOMMENDED:

That the report be noted.

24. ROUTINE PIRC UPDATE

The Working Group welcomed Alan MacDougall and Janice Hayward of PIRC Ltd, who attended the meeting to present PIRC's report "PIRC UK Annual Corporate Governance Review". The report provided an analysis of corporate governance principles and practice as applied in the FTSE 350 during 2015/16. It was highlighted that PIRC had its own policies and guidelines based on experience and clients' needs.

It was reported that the review focused on PIRC's own voting recommendations and annual general meeting outcomes in addition to in depth examination of topics as follows:-

- Board Structure
- Remuneration
- Audit and Accounts

- Capital Structure
- Shareholder Proposals

Director elections were a central element of annual general meetings with re-election for FTSE 350 companies being a requirement of the UK Corporate Governance Code. The review looked into board composition, focusing on independence, gender diversity and tenure. Data showed that progress had been made in overall board gender diversity but there were still discrepancies in different industries and board positions.

PIRC considered that an audit firm should be rotated on a five-year basis and non-audit fees should not represent more than 25% of total audit fees. The review showed that the four biggest audit companies were responsible for auditing 98% of the FTSE 350 companies and highlighted the difference and similarities in terms of average tenure and level of non-audit fees between each auditor.

With regards to remuneration, data showed that the level of opposition on companies' remuneration reports did not rise significantly in 2015/16 and the average pay ratio of CEOs to average employee pay was 52:1. PIRC were largely opposed to repurchasing shares or issuing shares for cash during the period.

RECOMMENDED:

That the report be noted.

25. CLASS ACTION UPDATE

The Assistant Executive Director of Pensions (Investments) submitted a report, which provided Members with an update on litigation in which Greater Manchester Pension Fund (GMPF) sought to actively recover losses in the value of its shareholdings in various companies as a result of actions taken by those companies.

A summary of active Class Action recommendations, which remained outstanding and recent developments of each action was provided. Discussion ensued about specific cases and associated evidential requirements.

RECOMMENDED:

That the report be noted.

26. URGENT ITEMS

There were no urgent items.