

Report to : PENSION FUND MANAGEMENT/ADVISORY PANEL

Date : 1 December 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 :

APPENDIX 8A	GMPF’s Responsible Investment Partners and Collaborations
--------------------	------------------------------------------------------------------

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 In September, PIRC provided an update to the IMESG Working Group on the work they have carried out on issues such as tax transparency, collective bargaining and workers' rights. Tax avoidance by companies continues to be significant which can have an impact on public finances and put investors at risk. PIRC are continuing to request companies such as Cisco Systems and Microsoft adopt the Global Reporting Initiative which includes public country by country reporting, providing more transparency on tax practices.
- 2.4 PIRC also continue to engage with Apple and other US companies over labour rights and recommended support of shareholder resolutions on Freedom of Association and Collective Bargaining which GMPF co-filed at Apple. There is ongoing concern around firms advising employees to avoid unions, which is considered incompatible with their commitment to decent work. PIRC have been raising awareness and understanding of International Labour Organisation (ILO) conventions amongst investors to ensure they can hold to account investee companies that are not adhering to their responsibilities.
- 2.5 In October, UBS organised their annual Trustee training day in Manchester. The day had a strong focus on Stewardship and ESG-related sessions. The training was developed to be

useful to all members and included an introduction to Stewardship, and what it means. This included linking Stewardship to GMPF's fiduciary duty, how UBS identify key ESG issues facing companies, their approach to Stewardship and the tools they use to implement their Stewardship activities. They explained how they prioritise engagement activities, the steps they take to escalate engagement, and provided engagement case studies on holdings held to show how engagement works in practice.

- 2.6 GMPF's specialist equity manager, Ninety One, held a sustainability event at their offices in September. They invited the Director of Investor Strategies, Mahesh Roy, from the IIGCC to talk about how portfolio alignment metrics are evolving and how they can drive net zero ambitions in the real economy. Mahesh outlined the four types of Paris-aligned targets the IIGCC framework uses:
- Portfolio coverage target
 - Engagement threshold target
 - Portfolio decarbonisation target
 - Climate solutions target
- 2.7 Mahesh also reiterated that the extensive focus the industry places on carbon footprints and emissions reductions leads to many decarbonised portfolios, but not necessarily to positive climate impact. There were also sessions on sovereign exposure, net-zero alignment and ways in which asset owners can support investing in emerging markets.

We will be active owners and incorporate ESG issues into our ownership policies and practices.

- 2.8 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 here: <https://votingdisclosure.pirc.co.uk/?cl=Uyc0NSckLg==&pg=1>
- 2.9 GMPF considers voting rights as one of the levers at its disposal to carry out its stewardship activities. The Fund votes in line with its voting policy for its actively managed equities via PIRC. For GMPF's passively managed equities, the assets are pooled with other asset owners which leaves LGIM with control over voting. Voting in a pooled way provides GMPF the benefit of scale when voting. Additionally, GMPF can ask LGIM to vote in certain way if and when it feels the need to. For a number of years GMPF and other asset owners have pushed passive managers to develop the technology to allow for asset owners to vote on their share of the pooled assets.
- 2.10 Currently, the "Big Three" fund managers (BlackRock, Vanguard and State Street) cast about 23.5% of the votes at companies listed on the S&P 500. Experts also predict that the Big Three's influence will rise to 40.8% by the mid-2030s if current trends continue, making them the most powerful actors in the corporate governance world. Even today, ShareAction's 2022 Voting Matters Survey found that 49 additional resolutions would have received majority support if BlackRock, Vanguard, and State Street Global Advisors had voted in favour of them.
- 2.11 In November, PIRC organised a webinar on "Pass Through Voting", which enables pooled fund investors to vote their shares in proportion to the value of their investment within a fund and give them flexibility to engage in voting. LGIM, BlackRock and other major asset managers have introduced various options for clients that are seeing more asset owners enfranchised. Asset owners gave their perspective on why they want to apply their voting policies and Tumelo, a provider of technology which facilitates pass through voting, demonstrated their technological capabilities. PIRC also provided an overview of market demand, regulatory developments and governance issues that are driving the uptake of Pass Through Voting.

- 2.12 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-q3-2023.pdf>

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

- 2.13 Financial institutions play a key role in society, allowing businesses and individuals to access essential economic opportunities through a range of financial products and services, including credit and loan services, savings accounts, and investment management. Financial institutions have the responsibility to ensure that their business operations do not have adverse impacts on communities of colour and Indigenous people.
- 2.14 An estimated 2% of Canadians are unbanked, while 15-25% are underbanked. Unbanking and underbanking have a disproportionate effect on Indigenous peoples. The Financial Consumer Agency of Canada found that racialized or Indigenous bank customers are subjected to discriminatory practices, were more likely than other customers to be recommended inappropriate products, were not presented information in a clear and simple manner and were offered optional products such as overdraft protection and balance protection insurance.
- 2.15 In recent years, Royal Bank of Canada (RBC) has been subject to negative media coverage regarding discrimination against customers and employees. In January 2023, the U.S. Justice Department announced a US\$31 million settlement with RBC subsidiary City National Bank over allegations of lending discrimination in Los Angeles. In November, GMPF co-filed a shareholder resolution at RBC requesting the bank conducts and publishes a third-party audit analysing RBC's adverse impacts on communities of colour and indigenous people. As part of ongoing engagement, the group of investors, led by British Columbia General Employees Union, has met with RBC in order to resolve this issue without the need for a vote at RBC's 2024 AGM.

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

- 2.16 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.
- 2.17 LAPFF, as a representative of 87 LGPS funds, supported a letter to companies in high emitting sectors setting out their expectations for shareholder votes on climate transition plans ahead of next year's AGM season. Investors have for several years called on companies to provide such votes to enhance transparency and accountability given the substantial climate-related financial risks. While encouraging companies to provide a climate transition plan vote, the letter, signed by 18 investors representing £1.8 trillion AUM, urges those who are not mandated do so by stating: "Having such a vote will enable shareholders in the first instance to express their view on transition plans through a specific resolution rather than immediately voting against the chair or another board member." The letter focuses on companies within sectors considered to face heightened climate risks, whose actions are essential to the accelerated action required to meet the Paris goals and where the risks we face as investors are substantial. The letter can be accessed via the link here.
<https://lapfforum.org/wp-content/uploads/2023/10/Climate-transition-plan-vote-letter.pdf>
- 2.18 LAPFF supported a letter from the CEOs of IIGCC, PRI and UKSIF to UK Prime Minister Rishi Sunak focused on the importance of an enabling policy environment to create the conditions for investors to be able to make long-term investment and asset allocation decisions. The letter, supported by 32 investors and financial institutions, argues that delaying key targets and lowering the ambition of existing government policies would be 'misguided'. The letter acknowledges that while the government announcement included some positive policies, like the commitments to provide greater levels of financial support

under the Boiler Upgrade Scheme and plans to speed up and enhance grid connectivity. Overall, the delay to key targets and lowering of ambition on existing government policies risks the UK missing out on investment to other regions and nations that are taking a more consistent, long-term approach. The letter can be accessed using the link here:

<https://139838633.fs1.hubspotusercontent-eu1.net/hubfs/139838633/2023%20resource%20uploads/Letter%20to%20UK%20PM.pdf>

- 2.19 LAPFF responded to the UN Working Group on Business and Human Rights Consultation on Investors, ESG, and Human Rights. LAPFF called for ESG approaches to be used to re-think business cultures and strategies as opportunities to further efficiency and sustainability. LAPFF also discussed the inadequacy of existing regulations in ensuring that investors receive substantial ESG disclosures from companies, outlined the need for states to align corporate law and human rights to better advance human rights-compatible incentives and policies for investors, and reiterated its experience that investors can gain leverage through collaborative initiatives. The response can be viewed using the link below.

<https://lapfforum.org/wp-content/uploads/2023/10/2010-Consultation-Response-final-1.pdf>

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

- 2.20 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**.

- 2.21 Climate Action 100+ has released its latest round of company assessments against its newly updated Net Zero Company Benchmark. This enhanced benchmark has assessed focus companies on their net zero transition plans, drawing on distinct analytical methodologies and datasets from public and self-disclosed data from companies. Overall results show a growing number of companies are progressing ambition on long-term targets, yet the majority of companies lack detailed plans of action. Driven by engagement from Climate Action 100+ investor signatories, key results show that:

- More focus companies are disclosing details on their net zero transition plans (up from 52% to 59% since October 2022). Yet a quantification of individual decarbonisation levers is lacking – specifically on actions to achieve their GHG reduction goals and disclosures on the use of offsets and abatement technologies
- Companies are making steady progress on long-term and medium-term target setting. However, most of these targets are not sufficiently comprehensive or Paris Agreement aligned, with only 37% of long-term and 33% of medium-targets covering material Scope 3 emissions
- New climate solutions disclosures show positive potential. Approximately a third of focus companies disclose how much they invested in climate solutions in the past year, with 32% specifying the value of CapEx they plan to allocate to these in the future

- 2.22 A summary of results can be found using the link below.

<https://www.climateaction100.org/net-zero-company-benchmark/findings/>

- 2.23 GMPF has a long history of investing locally and currently has a 5% allocation to local investments. The Greater Manchester Property Venture Fund was established over 30 years ago with the twin aims of achieving a commercial return and a beneficial economic, social or environmental impact in the local area. The Impact portfolio was set up 10 years ago to meet the same twin aims with the impact aims based around people and place. These include:

- Targeting underserved markets
- Promoting health and wellbeing
- Supporting improvement in education and skills
- Supporting sustainable living
- Renewable energy generation
- Job creation/safeguarding

- 2.24 While financial returns can be measured relatively easily, the positive impact that has been achieved can be a little more difficult to measure. The Good Economy are a respected Impact Advisor, producing Impact Reports for some of GMPF's Local Investment Fund Managers and other LGPS Funds. GMPF commissioned The Good Economy to prepare an independent report to assist in measuring the impact that has been achieved from the Local Investment Portfolios. The report concludes that 'GMPF has a balanced local investment portfolio across asset classes that is meeting its impact objectives of contributing to job creation and place-based local and regional economic development'. The report was presented to the Management Panel in September and a link to the full report is here on GMPF's website: <https://www.gmpf.org.uk/about/News/The-Good-Economy>
- 2.25 GMPF is a member of Pensions for Purpose via the Northern LGPS which held a place-based impact investing webinar in November. GMPF was invited to share its experience and knowledge on impact investing with a local dimension and review the assessment of the Good Economy's Impact report. The webinar was recorded and is publicly available and can be accessed with the link here: <https://www.youtube.com/watch?v=0XbtqJlCrQw>
- 2.26 In October, the IIGCC wrote to the COP28 President to present the investor perspective on climate negotiations and to urge ambitious climate action at COP28 in Dubai. IIGCC has over 400 members across 27 countries, representing more than €65 trillion in assets. The organisation brings the investment community together to work towards a net zero and climate resilient future. The letter highlights that investors are uniquely placed to support the climate transition, although their ability to do so is in part predicated on there being a supportive and conducive political and regulatory environment. The open letter highlights three key areas of focus:
- Phasing out fossil fuels and speeding up global decarbonisation efforts
 - Building resilience and reducing vulnerability
 - Scaling up, accelerating and aligning finance for climate action
- 2.28 The letter can be accessed using the link below.
[https://139838633.fs1.hubspotusercontent-eu1.net/hubfs/139838633/2023%20resource%20uploads/IIGCC%20letter%20to%20COP28%20President%20Designate%20\(corrected\).pdf](https://139838633.fs1.hubspotusercontent-eu1.net/hubfs/139838633/2023%20resource%20uploads/IIGCC%20letter%20to%20COP28%20President%20Designate%20(corrected).pdf)

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

- 2.29 The Northern LGPS Stewardship Report for the latest quarter can be found using the link here: <https://northernlgps.org/taxonomy/term/15>
- 2.30 The LAPFF Quarterly Engagement Report for the latest quarter can be found using the link here: <https://lapfforum.org/publications/category/quarterly-engagement-reports/>

3. RECOMMENDATION

- 3.1 As per the front of the report.