Report to :	**PENSION FUND MANAGEMENT/ADVISORY PANEL**
Date :	8 March 2024
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 10A	**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 January, PIRC provided an update to the IMESG Working Group on the voting outcomes from 2023. They highlighted that GMPF voted in favour of almost 400 shareholder resolutions and opposed over 450 company remuneration reports in 2023. GMPF co-filed shareholder resolutions relating to tax transparency at Amazon, ConocoPhillips, Cisco Systems and Microsoft which received 18%,15%, 20% and 21% of votes in favour of the resolution, respectively. The filing of these resolutions are considered an escalation to send a message to companies that engagement meetings have not been successful.

2.4 PIRC also presented case studies of Apple and Royal Bank of Canada (RBC) where shareholder resolutions were submitted where they were asked to conduct reviews on fundamental rights at work at Apple and a racial equity audit at RBC. On both occasions the engagement produced positive results where both companies agreed to the requests of the shareholder resolutions and subsequently the resolutions were withdrawn.

2.5 GLIL Infrastructure has adopted a new investment management framework to help it deliver on its target to become net zero by 2050. The Institutional Investors Group on Climate Change (IIGCC) Net Zero Investment Management (NZIM) framework sets out clear methodologies and approaches for investors to align their portfolio goals with the Paris Agreement, supporting them to make informed decisions and work towards achieving net zero global emissions. The NZIM framework was published in March 2023 and GLIL is one of the first investors to adopt the NZIM guidance for infrastructure, which builds on IIGCC's broader NZIM framework. It is the most implemented net zero methodology for investors across all financial institutions within the Glasgow Financial Alliance for Net Zero.

2.6 The GLIL Executive Committee has worked swiftly to select the new framework to support the business with structuring its net zero strategy and to allow for a consistent framework across its portfolio. GLIL believes the NZIM approach will enhance its work in the energy transition by providing further support for its existing portfolio companies to ensure they have achievable net zero pathways.

2.7 In December, GLIL Infrastructure formed a strategic partnership with Bluefield Solar Income Fund, the London-listed UK income fund, as part of a commitment to invest in UK-focussed solar energy assets. As a GLIL asset, this portfolio will be known as Lyceum Solar. Lyceum is a portfolio comprised of 58 operating solar PV assets with a 247MW capacity across two sub portfolios across southern and central England. Most of the portfolio is contracted under Feed in Tariffs until 2036, which provides a returns floor and reduces sensitivity to merchant power prices. These subsidies are inflation linked and generate a high cash yield. The 247MW assets include 183MW backed by Feed in Tariff subsidies, 15MW by Renewable Obligation Certificates (ROCs) and two subsidy-free projects with a total capacity of 48MW.

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 below.

https://votingdisclosure.pirc.co.uk/?cl=Uyc0NScKLg==&pg=1

2.9 GMPF's Assistant Director of Pensions spoke at the annual LAPFF conference in relation to how LGPS funds are managing climate-related financial risk. He raised the Fund's concern around the gap in government policy between current pledges and the required action to minimise the increase in global temperatures. In response to a question on whether the investment industry understands and estimates climate risk effectively, he mentioned recent research from the EDHEC Climate Risk Institute pointing to massive uncertainty in outcomes, and GMPF's consultant introducing new narrative scenarios for risk management. In terms of GMPF's approach he mentioned the Fund incorporating climate risk into the review of its strategic asset allocation.

2.10 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/engagement-report-q4-2023.pdf

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

2.11 GMPF considers shareholder resolutions a useful tool to proactively raise issues of concern either where boards of investee businesses are resistant to dialogue or change, or to amplify the shareholder voice where engagement with boards has been positive. PIRC have organised a number of webinars recently highlighting issues around workers' rights and collective bargaining. GMPF has co-filed a number of shareholder resolutions relating to tax transparency in recent years. In December, GMPF filed a shareholder resolution with Amgen requesting the company to issue a tax transparency report to shareholders. Officers and representatives from PIRC have met with the company to discuss the request and assess whether this is possible and if so the most likely next steps. Engagement with companies often takes time and numerous meetings and this is an example where GMPF and PIRC have worked together with a company to attempt to resolve an issue.

2.12 In January, GMPF co-filed a shareholder resolution at Amazon requesting the company commission an independent, third-party assessment of the company's adherence to its stated commitment to workers' freedom of association and collective bargaining rights as outlined in Amazon's Global Human Rights Principles, which explicitly reference the Core Conventions of the International Labour Organisation and the ILO Declaration on Fundamental Principles and Rights at work.

2.13 GMPF via Northern LGPS is a signatory to the Valuing Water Finance Initiative. The initiative is a new global investor-led effort to engage companies with a high water footprint to value and act on water as a financial risk and drive the necessary large-scale change to better protect water systems. Consumption of freshwater surpasses the rate at which it can be naturally replenished in many regions, creating water shortage risks for companies, communities, and ecosystems. Compounded by climate change, the World Resources Institute predicts the world will be unable to meet 56 percent of global water demand by 2030.

2.14 Companies without a plan to adapt could be exposed to risks including increased input costs, price volatility, shifting production zones, stranded assets, government targets, and loss of social license to operate. Barclays warns that the consumer staple sector, including agriculture, food, and beverage companies, faces a potential $200 billion impact from water scarcity risks. In January, GMPF filed a shareholder resolution with Constellation Brands requesting the company issue a report assessing the feasibility and practicality of establishing time-bound, quantitative goals to reduce supply chain water usage to mitigate value chain risks related to global water scarcity in high-risk areas.

2.15 GMPF was one of 27 investors, representing around 5% of the company's shares, to co-file a shareholder resolution at Shell demanding the company improve its environmental targets. Co-ordinated by Follow This, the resolution calls on Shell to align its "medium-term" greenhouse gas emissions target with the Paris agreement to limit global warming. Global emissions must fall by almost half by 2030 for those targets to be met. The filing of this resolution drew some media attention which can be seen below.

https://www.reuters.com/sustainability/group-27-shell-investors-co-file-new-climate-resolution-2024-01-15/

https://www.theguardian.com/business/2024/jan/16/shell-faces-shareholder-rebellion-over-climate-activist-resolution

2.16 The Northern LGPS believes the way companies manage their workforce is both important to value creation and an indication of an organisation's value and culture and workforce engagement is material to all companies. PIRC analysis has shown that many FTSE All Share companies list workforce related issues as principal risks. The FRC defines a principal risk as "a risk or combination of risks that can seriously affect the performance, future prospects or reputation of the entity". In order for investors and other stakeholders to assess how companies manage these risks it is important that they have sufficient information to enable them to do so

2.17 The Northern LGPS wrote to EasyJet requesting the company review whether their principal risk disclosures align with existing workforce-related reporting and better disclose workforce related risks. This aligns with the Northern LGPS commitment to decent work and effective human capital management.

2.18 In November, the London Mining Network and LAPFF hosted a seminar at the LGA in London where there were presentations from community members affected by Glencore's operations at Cerrejon in Colombia and Espinar in Peru. The objectives were two-fold. First, the community presentations helped investors understand better how social and environmental factors are financially material considerations for both mining companies and investors. Secondly, the seminar provided community members the opportunity to meet with investors which help ensure their input is considered by institutions and can influence mining companies to improve their social and environmental practices, thus creating the opportunity for improved shareholder returns.

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 Established in 1995 by the world's most influential investors, the International Corporate Governance Network (ICGN) is a leading voice for the highest standards of corporate governance and investor stewardship in pursuit of long-term value creation, contributing to sustainable economies, societies, and the environment. This is achieved through a comprehensive international work programme based around three core activities:

- Influence: Promoting ICGN Principles as investor-led global standards for governance and stewardship and influencing public policy and professional practice
- Connect: Delivering high-quality global events and webinars with unrivalled opportunities for networking, knowledge-sharing and collaboration
- Inform: Enhancing professionalism in governance and stewardship practice through information and education

2.21 The Northern LGPS signed on to the ICGN's statement on corporate governance concerns around shareholder protections relating to dual class share structures which would undermine the UK's economic growth and attractiveness as a global financial centre. The full statement is below.

https://www.icgn.org/icgn-statement-high-standards-corporate-governance-and-investor-protections-pre-requisites-uk

2.22 The Labour Rights Investor Network is a global investor network for exploring the risks and benefits associated with workers' rights to freedom of association and collective bargaining. The Network assists investors by acting as an education and exchange platform and a place to connect on issues related to freedom of association and collective bargaining. In carrying out its stewardship activities GMPF, as a signatory can learn and ensure it is incorporating the latest thinking and practices of this network. In February, GMPF joined this network to become a member. The member statement for signatories can be view using the link below.

https://www.workerscapital.org/labour-rights-investor-network/investor-statement/

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

2.23 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**.

2.24 GMPF's specialist equity manager, Ninety One, held a sustainability event at their offices in February dedicated to government bonds. Experts from the Transition Pathway Initiative, of which GMPF is a supporter, presented the Assessing Sovereign Climate-Related Opportunities and Risk (ASCOR) framework of indicators to assess how countries are managing the low-carbon transition and the impacts of climate change. There are three main pillars to the framework:

- Emissions pathways
- Climate policies
- Climate finance

2.25 Each pillar has a number of indicators which consists of questions that provide a clearer picture on whether the country is addressing this risk. The framework purposefully does not provide an overall score as there are both emerging market countries and developed countries being assessed that face very different challenges and leaves the decision to the user to determine which risks are most pertinent to them. The ASCOR tool can be accessed using the link below.

https://www.transitionpathwayinitiative.org/ascor#methodology

2.26 In November, the IIGCC published its guidance on climate solutions for listed equity and corporate bonds. A focus on secondary market holdings entails an emphasis on the role of investors (equity or bond holders) to influence real world emissions through stewardship and engagement, and shifting expectations of good governance and strategy for companies. Whilst finance can have the greatest and most direct impact through primary markets by providing new capital to the companies, projects, or governments involved in climate solutions activities, as defined in the paper, institutional investors play an important role in recycling capital back into primary markets and in turn shifting expectations of the attributes of assets that are created by issuers and originators. Regardless of the market, engagement with policymakers, regulators and industry stakeholders will be increasingly important to create the enabling environment for increased investment in climate solutions and the transition to net zero. The guidance can be accessed using the link below.

https://139838633.fs1.hubspotusercontent-eu1.net/hubfs/139838633/2023%20resource%20uploads/IIGCC_Investing%20in%20Climate%20Solutions_Listed%20Equity%20Fixed%20Income_Nov2023.pdf

2.27 Greenhouse gas (GHG) emissions, usually measured in carbon dioxide equivalent, has historically been the most commonly used quantitative metric to understand a company's impact on climate change. Scope 3 represents emissions from the value chain of the reporting entity, covering both the upstream supply chain and downstream customer activity. Presently, there are practical challenges with reporting, estimation and calculation of scope 3 data, which has led to a fragmented data landscape that lacks coverage and quality across the investable universe. Whilst the data is improving, it is unlikely to be consistent and credible across investors' whole portfolios in a timeframe consistent with the urgent need to address climate change issues and manage climate-related risks. To date, investors have mostly focused on the scope 1 and 2 emissions of their assets.

2.28 Without recognising the scope 3 emissions of a company, it is not possible to fully understand and assess its contribution to climate change. Scope 3 is often where major emissions sources exist within investment portfolios. For example, in the oil and gas sector scope 3 accounts for 80 to 95% of emissions. Beyond practical data and calculation concerns, there are several inherent challenges that arise when looking at scope 3 from an investment portfolio level. Within portfolios, there are often multiple companies exposed to the same tonne of GHG, given that one company's value chain emissions are another company's direct emissions. The purpose of measuring scope 3 emissions is not to assign emissions ownership but to assess one entity's carbon exposure. So, aggregation of multiple companies' scope 3 can lead to meaningless metrics that would incentivise undesirable outcomes and therefore cannot be used to underpin decision-making or track progress.

2.29 The IIGCC published a discussion paper that aims to articulate the challenges from an investor's perspective on both the importance and the complexity of value chain emissions and lay the foundations for an investor-led solution to addressing scope 3 emissions within investment portfolios in the year ahead. The paper can be found using the link below.

https://139838633.fs1.hubspotusercontent-eu1.net/hubfs/139838633/2024%20resources%20uploads/IIGCC_Investor-approaches-to-scope-3_Final_Jan-2024.pdf

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

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

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

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

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

2.32 GMPF carries out an annual carbon footprint of its holdings. Over time, the scope of assets included in the carbon footprint has expanded and the external provider's methodologies have evolved. Officers submitted historical data to the external provider to re-calculate GMPF's carbon footprint using the most comprehensive dataset and up to date methodologies for its equity and corporate bond assets. In re-calculating the expanded, historic carbon footprint using a consistent methodology, the data is more meaningfully comparable over time. GMPF's benchmark weighted average carbon intensity in 2019 was measured to be 338 tCO2e/mGBP. Below are the recalculated annual weighted average carbon intensity (WACI) metric and the percentage decrease relative to the 2019 benchmark baseline.

Year	2019	2020	2021	2022	2023
GMPF's Weighted Average Carbon Intensity (tCO2e/mGBP)	322	264	275	289	285
Reduction versus 2019 benchmark	5%	22%	19%	14%	16%

2.33 In February 2021, the Northern LGPS committed to the Paris Aligned Investment Initiative's Net Zero Asset Owner Commitment. As part of this commitment, signatories are expected to provide annual progress updates towards these commitments. Officers submitted the latest update to the IIGCC of the Northern LGPS's progress towards its WACI and climate solutions targets which will be published by the IIGCC in due course.

3. RECOMMENDATION

3.1 As per the front of the report.