

Report to : PENSION FUND MANAGEMENT PANEL

Date : 18 September 2020

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 7A	GMPF's Responsible Investment Partners and Collaborations
APPENDIX 7B	Press Release
APPENDIX 7C	Investor Collaboration Proposal – Marine Microplastic Pollution
APPENDIX 7D	Northern LGPS Stewardship Report
APPENDIX 7E	LAPFF Quarterly Engagement Report

All the background papers to this report contain exempt information. 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 Fund 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 managers' report annually on their Responsible Investment activity to the Investment Monitoring and ESG Working Group.
- 2.3 The Fund has allocated 1.5% to Impact Portfolio investments. In July a commitment of £40 million was approved from the Impact Portfolio and a further £10 million commitment was approved in August. The £40 million commitment made in July aims to support small and medium businesses in the UK by lending necessary funds for them to grow. The August commitment of £10 million is to purchase and refurbish residential properties in the North West region with the aim of accommodating families at risk of homelessness.

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

- 2.4 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>

- 2.5 The Fund joined at a webinar organised by the Local Authority Pension Fund Forum to hear from members of the Aboriginal community affected by the actions of Rio Tinto in the Jukkan Gorge, which destroyed the cultural heritage site. A recording of the webinar can be found in the link below. LAPFF and the Fund's investment managers have engaged with Rio Tinto, and the Chief Executive has announced he is stepping down.

<https://lapfforum.org/engagements/lapff-hears-from-community-devastated-by-rio-tinto-explosion/>

- 2.6 Following on from the climate related shareholder resolutions filed by the Fund, further engagement took place with Delta Airlines. The company recognised that technologies such as electric aircrafts are not yet available. They informed investors of the investments they are making to offset emissions, fly more efficiently and develop clean energy systems, in line with their aim to be carbon neutral for the decade from 2020 to 2029. Details of their commitment can be found below:

<https://news.delta.com/delta-commits-1-billion-become-first-carbon-neutral-airline-globally>

- 2.7 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/capabilities/cg-quarterly-report.pdf>

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

- 2.8 Improved disclosure means companies can better assessed for their long-term resilience and the Funds investment managers can make informed investment decisions.

- 2.9 Northern LGPS is a member of the Workforce Disclosure Initiative (WDI). The aim of this initiative is for greater transparency on workforce policies and practices in their direct operations and supply chains. During the quarter, Officers of the Fund attended a number of update meetings to discuss the companies being engaged with, and associated outcomes. The aims of this initiative complement the Fund's thematic Responsible Investment priority of employment standards and human capital management. The WDI also held a workshop on 'Fast Fashion', which gave an insight into the working conditions for employees in garment factories, including a discussion on best practice from industry experts.

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

- 2.10 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 do so.

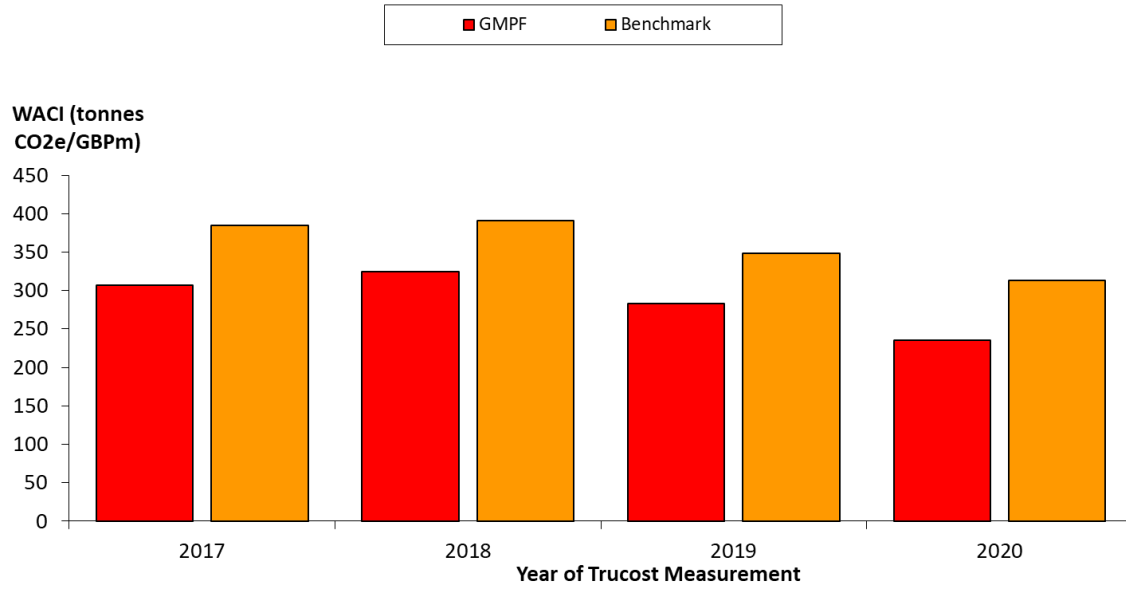
We will work together to enhance our effectiveness in implementing the Principles.

- 2.11 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 7A**.
- 2.12 In response to the letter to the Brazilian embassy on 22 June 2020 that the Northern LGPS supported, the investor group was invited to engage with the Brazilian government in July on the issue of the sustainable management of the Amazon Rainforest. This marks the beginning of the dialogue in which five main issues were raised as being important in assessing progress. Reaction to the original letter sent to the embassy was reported in the Financial Times, and the press release following the meeting with the Brazilian government can be seen at **Appendix 7B**.
- 2.13 The Northern LGPS joined a collaborative engagement on plastic waste during the quarter. The aim is to target washing machine manufacturers who have not integrated filters into their products which reduce the amount of micro plastics entering the ocean that have a negative impact on marine life. Background and research is attached at **Appendix 7C**.
- 2.14 The Institutional Investor Group on Climate Change's Paris Aligned Investment Initiative launched the Net Zero Investment Framework which asset owners can use to define and implement strategies to align their portfolios to the Paris Agreement. It provides recommendations for approaches and methodologies that investors can use to ensure portfolios are net zero. The Fund will seek to incorporate emerging best practice from the Net Zero Investment Initiative into its approach. Further details are available here:
<https://www.iigcc.org/download/net-zero-investment-framework-consultation/?wpdmdl=3602&refresh=5f3522b4ca1c91597317812>

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

- 2.15 The Northern LGPS Stewardship Report and the LAPFF Quarterly Engagement Report for Q2 2020 are attached as **Appendix 7D** and **Appendix 7E** respectively.
- 2.16 Officers of the Fund completed the annual carbon footprinting exercise of its listed equity and corporate bonds during the quarter. 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 measure takes the holdings as at 31 December each year and companies are assessed on their alignment to a sub-2°C global temperature increase based on publicly available plans.
- 2.17 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.
- 2.18 The graph below shows the Fund's WACI over time. Over the four years the Fund has measured this metric, the Fund's WACI has been significantly below the benchmark WACI, with both the benchmark and the Fund's WACI trending downwards since 2018.

GMPF WEIGHTED AVERAGE CARBON INTENSITY (WACI)



3. RECOMMENDATION

3.1 As per the front of the report.