

Report to : PENSION FUND MANAGEMENT PANEL

Date : 11 December 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	RI Partners and Collaborations
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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.
- 2.2 **We will incorporate ESG issues into investment analysis and decision-making processes.**
- 2.3 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 (IMESG).
- 2.4 Avison Young, GMPF's adviser for the Greater Manchester Property Venture Fund, presented at the IMESG Working Group during the quarter. They stated that the focus for the coming year is affordable and suburban housing and sustainable building to achieve net zero carbon in construction.
- 2.5 New projects under consideration include Stockport, Manchester, Chorlton and Eccles which make up approximately 1,200 units. Avison Young also presented some of their thoughts on ways they could achieve net zero carbon in the construction process which include operational changes, efficient insulation, heating decarbonisation and the use of carbon off-setting.
- 2.6 **We will be active owners and incorporate ESG issues into our ownership policies and practices.**

- 2.7 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>

- 2.8 The Fund was represented on a webinar organised by the Local Authority Pension Fund Forum to hear concerns from Roger Featherstone of the Arizona Mining Reform Coalition and an affected community member from BHP and Rio Tinto's mining activities at a heritage sight in Arizona, USA. This follows recent engagement with Rio Tinto relating to their activities at Jukkan Gorge in Western Australia.

- 2.9 The Fund 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. During the quarter the Fund co-filed a shareholder resolution at Johnson & Johnson requesting that the company's Chair of the Board of Directors, whenever possible, be an independent member of the Board. The Fund also co-filed a shareholder resolution at Citigroup requesting more transparency on the company's lobbying activities which would make it easier to assess whether Citigroup's lobbying is consistent with its expressed goals and stockholder interests.

- 2.10 The Fund's passive investment manager, Legal and General, published the document below renewing their climate impact pledge during the quarter.

https://www.lgim.com/landg-assets/lgim/_document-library/responsible-investing/climate-impact-pledge-brochure-uk-eu.pdf

- 2.11 Through the summer the Black Lives Matter movement gained prominence highlighting inequalities in society. The Fund was represented at a number of events on topics such as black and minority ethnic people being disproportionately affected by COVID-19 and inequality in the workplace. In October, during Black History Month, Officers of the Fund joined a Talkaboutblack webinar organised by Legal and General focusing on diversity within the investment industry.

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

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

- 2.14 The Fund, via the Northern LGPS, is a member of the Workforce Disclosure Initiative. 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. With the WDI's deadline approaching for companies to submit their disclosures there were confirmations from 122 companies that they will take part in this year's survey.

- 2.15 **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 do so.
- 2.17 **We will work together to enhance our effectiveness in implementing the Principles.**
- 2.18 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**.
- 2.19 The Northern LGPS committed to partnering with the Make My Money Matter initiative which aims to collaborate on working towards the pool's ambition to invest all of its assets in line with the Paris Agreement and raise member engagement to increase positive impact. By raising awareness and engaging members with their pensions, MMMM seeks to align the investment of trillions of pounds in assets with building a better world. The press release is can be viewed using the link below.
- <https://northernlgps.org/node/81>
- 2.20 The Northern LGPS responded to the Department for Work and Pensions consultation relating to governance and reporting by occupational pension schemes on climate risk. Although Northern LGPS is not currently covered by the reforms the Northern LGPS wished to provide its views given its size and profile as a responsible investor. The response can be viewed using the link below.
- <https://lapfforum.org/wp-content/uploads/2020/09/Response-to-DWP-climate-risk-consultation.pdf>
- 2.21 The Local Authority Pension Fund Forum responded on behalf of its members, including GMPF, to a Government consultation on the introduction of a new law to prevent forests and other natural areas from being converted illegally into agricultural land. The response can be found using the link below.
- <https://lapfforum.org/wp-content/uploads/2020/09/LAPFF-Response-to-Forest-Risk-Commodities-Consultation.pdf>
- 2.22 Northern LGPS became a signatory to an investor initiative for sustainable forests in collaboration with CERES. The initiative, endorsed by Local Authority Pension Fund Forum, aims to understand how deforestation within cattle and soybean supply chains represent a material risk to companies and engage with companies in the soy and cattle value chain. While there is a growing awareness of cattle and soybean production being a large driver of the change in land use this engagement also hopes to address wider ESG issues such as land rights, working conditions and the impact on indigenous people. The two investor statements can be found using the link below.
- <https://www.unpri.org/sustainable-land-use/pri-ceres-investor-initiative-for-sustainable-forests/5872.article>
- 2.23 The Fund, via its membership in LAPFF, signed a letter from the Institutional Investors Group on Climate Change to 36 of Europe's largest companies requesting them to take into consideration decarbonisation and climate change risk as they complete their financial statements. The letter can be found using the link below.

<https://www.iigcc.org/resource/investor-expectations-for-paris-aligned-accounts/>

- 2.24 The Institutional Investors Group on Climate Change published a background paper to help inform thinking around shared opportunities to drive the power sector decarbonisation by both utility companies and investors. This can be accessed using the link below.

<https://www.iigcc.org/download/iigcc-background-paper-accelerating-power-sector-decarbonisation/?wpdmdl=4007&refresh=5fb520e5726811605705957>

- 2.25 During the quarter, Climate Action 100+ sent a letter to CEOs and Chairs of boards at 161 global companies setting out a benchmark and calling on firms to commit to net-zero business strategies. The benchmark has 8 indicators that will be used to evaluate company action and ambition demonstrated in tackling climate change. The indicators pull together data from several providers, including the Transition Pathway Initiative (TPI) and Investing for a Just Transition. Further details are available with the link below.

<https://climateaction100.wpcomstaging.com/news-and-events-2/>

- 2.26 The TPI is an initiative led by asset owners that assesses the progress that companies are making on the transition to a low-carbon economy using publicly disclosed data. GMPF utilises this tool as part of its annual carbon reporting and Officers of the Fund keep up to date with updates provided by the TPI. The latest update relating to energy companies from September 2020 can be found using the link below.

<https://www.transitionpathwayinitiative.org/publications/61.pdf?type=Publication>

- 2.27 The TPI is currently used to assess companies based on equity holdings. It has consulted signatories which GMPF has provided feedback, with the aim of broadening its scope to include the fixed income asset class. The feedback from the consultation can be found using the below link.

<https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2020/07/Final-Fixed-Income-Presentation.pdf>

- 2.28 While fossil fuel companies have made significant climate related announcements this year, research carried out by the TPI suggests that no fossil fuel company has yet set out an emissions target in line with limiting climate change to 2°C or below. Shell, Total and Eni were found to be approaching a 2°C pathway. The TPI assessed 59 oil, gas and coal mining companies and found that 7 companies have set emissions targets in line with pledges made by governments as part of the Paris Agreement in 2015. All seven of these companies are European. Further reading on this assessment can be found using the link below.

<https://www.transitionpathwayinitiative.org/publications/60.pdf?type=Publication>

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

- 2.30 The Northern LGPS Stewardship Report for Q3 2020 can be found using the link below.

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

- 2.31 The LAPFF Quarterly Engagement Report for Q3 2020 can be found using the link below.

https://lapfforum.org/wp-content/uploads/2020/10/LAPFF_QER3_2020.pdf

- 2.32 During the ongoing COVID-19 crisis GMPF's responsible investment advisor, PIRC, has been engaging with companies in sectors that have been disproportionately exposed to the negative impacts of the pandemic. PIRC has been engaging with food production companies whose 430,000 strong workforce classed as essential workers have operating throughout the pandemic where it has emerged labour rights issues and safety breaches. This briefing can be found using the below link.

http://www.pirc.co.uk/wp-content/uploads/2020/09/PIRC_sector_food_processing.pdf

3. RECOMMENDATION

- 3.1 As per the front of the report.