

GREATER MANCHESTER PENSION FUND - INVESTMENT MONITORING AND ESG WORKING GROUP

30 July 2021

Commenced: 09:00

Terminated: 10:33

Present: Councillors Cooney (Chair), Andrews, Newton, Ward, M Smith, O'Neill, Mitchell and Taylor,

Mr Llewellyn

Fund Observer Councillor Pantall

In Attendance:	Sandra Stewart	Director of Pensions
	Tom Harrington	Assistant Director of Investments
	Paddy Dowdall	Assistant Director of Local Investments and Property
	Abdul Bashir	Investments Manager (Public Markets)
	Lorraine Peart	Investment Officer
	Michael Ashworth	Senior Investments Manager
	Richard Thomas	Investment Manager (Private Markets)
	Mushfiqur Rahman	Investments Manager (Public Markets)

Apologies for Councillors Andrews, Barnes, Connor, Homer and Naylor

Absence:

Mr Drury, Flatley and Ms Fulham

Fund Observer Councillor Ryan

1. DECLARATIONS OF INTEREST

There were no declarations of interest.

2. MINUTES

The minutes of the meeting of the Investment Monitoring and ESG Working Group on the 16 April 2021 were approved as a correct record.

3. UBS ESG UPDATE

Consideration was given to a presentation of Malcolm Gordon, Managing Director and Paul Clark, Executive Director at UBS.

The presentation detailed the Environmental, Social and Governance activity in the last 12 months.

It was reported that during 2020 UBS held 1,200 meetings with prospective or investee companies, of these 429 met the UBS definition of engagement. This was a 20% increase from 2019, this was due to meetings being held virtually allowing for more engagements.

The engagements covered 277 companies across regions and sectors, this was also a 20% increase from 2019. It was stated that 10% of the engagements were collaborative with other investors. Members were presented with a chart showing the breakdown of companies engaged with by sector in 2020 and the level of access to companies during 2020.

Members were also presented with a breakdown of the topics raised during engagements. It was highlighted that Corporate Governance was raised on 50% of cases and Remuneration was raised

on 44% of cases. Mr Clark explained that Environmental Management and Climate Change was raised on 32% of cases, this was an important topic to UBS and was being raised in relation to a range of areas not only carbon emissions.

In regards to the identification, review and monitoring of ESG risks based on the propriety ESG risks Dashboard, it was explained that a number of companies were flagged by the UBS ESG Risk Dashboard for the UK Value portfolio with elevated sustainability risks. Analysis had confirmed that none of the ESG risks were severe and there was an active engagement with all of the impacted companies.

It was stated that in the 12 month period up to March 2021, UBS held 160 engagement meetings with companies in the actively managed portfolio. These covered 88 companies across regions and sectors. Members were presented with a breakdown of the engagements in UK & Europe, USA and APAC & Emerging Markets.

Examples were given of companies where there were high ESG risks. Mr Clark detailed how the risks were identified, reviewed and the decisions taken to mitigate against these risks. The Chair of the Working Group led a discussion on the progress of those engagements with companies that had high ESG risks.

Mr Pantall asked how UBS made sure that companies with operations in multiple countries applied ESG processes consistently. Mr Clark explained the certification of standards within supply chains, and the need for improved supply chain disclosure.

Councillor Jabbar asked for further information in relation to climate change engagement. Mr Clark made reference to UBS' three year thematic engagement on climate change from 2018 to 2021, which found that companies' strategies were improving. UBS would continue to engage for more improvements in practice. UBS were also expanding the scope of their climate change engagement to sectors beyond energy and mining.

Councillor Taylor highlighted particular risks from mining companies and the need to continue to push for increased board diversity. He endorsed the Fund's approach to managing climate risks and opportunities.

RECOMMENDED

That the report be noted.

4. UBS TRADING COSTS

Consideration was given to a presentation of Managing Director and the Executive Director at UBS. The presentation detailed UBS's trading costs for the period 1 January 2020 to the 31 December 2020.

The volume of equities traded was reported, along with the total commission paid and the average commission rate, which had fallen from the previous year, due to an increase in programme trades which had a lower rate. .

Members were advised that all trades were conducted under the UBS's Best Execution and Order Handling Policy, which was attached to the report at Appendix A.

RECOMMENDED

That the report be noted.

5. RESPONSIBLE INVESTMENT UPDATE

Consideration was given to a presentation from PIRC which detailed the Northern LGPS

Responsible Investment Policy Update and the PIRC Competition and Concentration Report.

Members of the Working Group were advised that PIRC had been tasked with updating and expanding the Northern LGPS Responsible Investment Policy. PIRC mapped existing RI policies of both other LGPS pools and leading international pension funds. It was explained that the policy had been updated to reflect recent developments in the responsible investment landscapes as well as to provide a more substantive guidance on responsible investment issues included in the original documents.

The policy framework had been guided by the recommendations of the Principles for Responsible Investment (PRI) as well as a request from funds to provide more detailed policy text on environmental and human rights issues. It was also explained that the updated policy sought to provide a recognisable link between Pool's responsible investment activity and the unique cultural heritage of the regions it represents.

Members were presented with Responsible Investment Policy mapping, which looked at a range of issues and their inclusion in LGPS pools RI policies. It was stated that revised RI policy had revised or expanded text on Climate change, Deforestation, Water Stewardship, Occupational Health and Safety, Human Rights and Public Health. The updated RI Policy was attached to the report at Appendix A.

It was reported that PIRC had been looking into ESG risks in relation to competition policy and market concentration. It was stated that competition and antitrust policy enforcement was being reinvigorated in several markets. Further, there was also growing interest in related ESG issues. It was reported that PIRC were undertaking engagements on competition-related issues.

Members were presented with concentration levels in a range of sectors in the UK over the last 20 years. Further, Members of the Working Group were presented with a table showing the Index Concentration in the US, it was highlighted that whilst there previously been a similar level of Index Weight given to the top 5 publicly traded stocks, this was the first time those 5 companies were from the same sector. It was further explained when looking at ownership concentration how big investors such as BlackRock, Vanguard and State Street had become the leading shareholders in many public companies.

It was stated that there were ESG risks that related to concentration. Dominant firms could act to delay or undermine regulations, sustainable profits could be overturned by reinvigorated competition policy. It was explained that monopsony undermined labour's share and lower level high margin output required fewer workers.

Therefore, PIRC engagement activities had been focused on issues relating to ESG risks relating to competition policy and market concentration. Examples were presented to the Working Group of PIRC engagements with a range of companies in sectors including pharmaceuticals, leaseholders and insurance.

RECOMMENDED

That the report be noted.

6. INVESTMENT STRATEGY STATEMENT

Consideration was given to a report of the Director of Pensions / Assistant Director of Pensions for Investments. The report considered comments received on the draft Investment Strategy Statement following a public consultation period and proposed an updated draft Investment Strategy Statement for endorsement by the Working Group.

It was reported that 11 responses to consultation had been received. All 11 responses were related to climate change. No comments were received on any other aspects of the ISS. It was explained that the debate around divestment of assets versus engagement was best addressed via means

other than the ISS as the ISS records GMPF policy, it did not set GMPF policy. The updated draft ISS was attached to the report at Appendix A.

RECOMMENDED

That updated draft Investment Strategy Statement be endorsed and adopted by the Management Panel.

7. UNDERWRITING, STOCKLENDING AND COMMISSION RECAPTURE

Consideration was given to a report of the Director of Pensions / Assistant Director of Pensions for Investments. The report advised Members of the activity and income generated on Underwriting, Stocklending and Commission Recapture during the year that ended March 2021.

RECOMMENDED

That the report be noted.

8. URGENT ITEMS

There were no urgent items.

CHAIR