

Report to : PENSION FUND MANAGEMENT/ADVISORY PANEL

Date : 10 December 2021

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 6A	RI Partners and Collaborative Bodies
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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 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).
- 2.4 Avison Young, GMPF's adviser for the Greater Manchester Property Venture Fund, presented at the October Investment Monitoring & ESG Working Group meeting. They reported on their approach to climate resilience highlighting the risks and opportunities that they see. The presentation included a case study of a 100,000 square foot office building on John Dalton Street in central Manchester where the target market for occupancy is corporate and public sector organisations with high levels of ESG accountability. The building is the first net zero carbon building from the developer for which there is a growing demand.
- 2.5 The GMPF Investment Committee approved a commitment of £20m to a Sustainable Growth focussed private equity fund within its Impact Investment portfolio. The investment will be made from the "*equity investment in underserved markets*" theme with a specialist impact investing manager, who plans to open a Manchester office in the near future.
- 2.6 The Fund worked with UBS to produce a document explaining our approach to oil and gas companies and climate change. GMPF firmly believes the energy sector will play a critical role in the transition of the world to a low carbon economy. The International Energy Agency

which reviews the disclosure of Covid-19 data by FTSE 100 companies in their annual reports. Some of the key findings include:

- 8 of the largest 10 employers in the FTSE 100 did not report any covid-19 workforce fatalities
- Only 5 out of 100 companies reported any fatalities
- Just 18 deaths were disclosed overall, out of a global workforce of 4.5 million

Companies for which PIRC found no reported Covid-19 related fatalities include household names with many of these companies having staff in public-facing roles. As such, a fair deduction would be an absence of data and disclosures.

- 2.14 Ninety One hosted a day of webinars during the quarter titled “Investing in a World of Change” where sessions included the Chief Financial Officer of Iberdrola who gave his view on how the company is leading the energy transition and transforming with its renewable energy investment. Highlights of the sessions can be accessed using the link below.
https://ninetyone.com/en/events/investing-for-a-world-of-change?utm_source=pardot&utm_medium=email&utm_content=button-link&utm_campaign=investing-for-a-world-of-change&news=Main+stage
- 2.15 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/q3-2021_esg-impact-report-uk_europe-final.pdf
- 2.16 **We will seek appropriate disclosure on ESG issues by the entities in which we invest.**
- 2.17 Improved disclosure means companies can be better assessed for their long-term resilience and the Fund’s investment managers can make informed investment decisions.
- 2.18 The Fund was one of 168 investors representing \$17 trillion in assets engaging companies to improve transparency on materially important environmental data. The Fund supported the CDP’s Non-Disclosure Campaign, which ran until the end of September. The campaign targets those companies that are not already disclosing environmental data to CDP, viewing disclosure as crucial in offering investors insights on companies’ environmental risks and opportunities. There was a 56% increase in the number of investors signing up for the campaign from last year and a 122 company increase in the number of distinct organisations responding across all 3 CDP themes. 328 companies out of 1,317 responded to the campaign where GMPF co-signed the request.
- 2.19 **We will promote acceptance and implementation of the Principles within the investment industry.**
- 2.20 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.
- 2.21 The Net Zero Investment Consultants Initiative (NZICI) has been designed to facilitate alignment with the UN-convened Net Zero Asset Owner Alliance and the Net Zero Asset Managers Initiative. Signatories to the NZICI commit to nine actions that will support the global net zero ambition. The first among these actions is to integrate advice on net zero alignment into investment consulting services as soon as possible and within two years if making the commitment. With the Fund’s public market equity managers having signed up to their equivalent Asset Manager initiative and now Hymans Robertson signing up to the Investment Consultants initiative, GMPF can work collaboratively with all its equity managers and consultant to reach its decarbonisation goal. More details on the NZICI can be found using the following link: <https://www.unpri.org/download?ac=14620>

- 2.22 The Assistant Director of Pensions provided evidence at the All Party Parliamentary Group's inquiry into a "Just Transition". The final report, published in October, seeks to inform politicians, policymakers and the public on the roles and responsibilities that investors can play, with the support of their members and government in enabling a just transition to net zero carbon emissions. The report can be found using the link below.
<http://www.smith-institute.org.uk/wp-content/uploads/2021/10/Responsible-Investment-for-a-Just-Transition-report.pdf>
- 2.23 On the 6th anniversary of the Samarco tailings dam collapse, LAPFF produced a press release at COP26 reiterating the need for a just transition. While companies have repeatedly stated the minerals they mine are critical for the energy transition, the social impacts of these companies on workers and communities are often ignored. The full press release can be seen using the link below.
<https://lapfforum.org/wp-content/uploads/2021/11/20211105-6thanniv-press-release-Samarco-EMP-final2.pdf>
- 2.24 To further highlight the importance of a just transition, a statement at COP26 was issued in support of a just transition. The statement can be accessed below.
<https://ukcop26.org/supporting-the-conditions-for-a-just-transition-internationally/>
- 2.25 **We will work together to enhance our effectiveness in implementing the Principles.**
- 2.26 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**.
- 2.27 Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. It focuses on the largest corporate greenhouse gas emitters to ensure they take necessary action on climate change. In August, Climate Action 100+ launched the Global Sector Strategies workstream, which outlines investor expectations for companies to build effective climate transition plans and decarbonise value chains. The aim is to accelerate the industry transition by identifying key actions for companies, investors and industries overall.
- 2.28 The electricity sector is responsible for 40% of global emissions, more than any other sector and demand is predicted to grow by over 166% by 2050. In October, IIGCC in collaboration with Climate Action 100+ launched the net zero electric utilities strategy which advises key actions companies must take to decarbonise in line with the IEA Net Zero by 2050 scenario. Key expectations of companies include:
- Setting a target to reach net zero emissions in their generation business by 2040 globally and by 2035 in advanced economies, with more than 50% of decarbonisation achieved by 2030
 - Mapping out a clear decarbonisation strategy that minimises reliance on CCUS, avoids the use of carbon offsets to reduce generation emissions to net zero and sets a date to phase out unabated coal generation
 - Aligning capex with a 1.5 °C pathway, including an immediate halt to investments in new coal generation and a commitment to ensure any new natural gas generation will be net zero emissions by 2040 globally and by 2035 in advanced economies.
 - Setting a net zero emissions target for all sold or distributed energy, with a focus on natural gas for heating.
 - **Committing to provide a just transition**, setting out in a board level report how a company intends to manage the wider societal impact of the net zero emissions transition and who will be responsible for implementation
- 2.29 Further details of the strategy, IIGCC's press release and press coverage relating to this can be found using the links below.

<https://www.climateaction100.org/approach/global-sector-strategies/electric-utilities/>

<https://www.climateaction100.org/news/climate-action-100-sets-decarbonisation-expectations-for-electric-utility-companies-to-achieve-net-zero-emissions-globally-by-2040/>

<https://www.reuters.com/business/environment/exclusive-investor-group-pressure-utilities-net-zero-emissions-deadline-2021-10-19/>

2.30 As part of this Global Sector Strategies workstream, Climate Action 100+ also launched its action plan for the steel industry, which reflects 12 months of multi-stakeholder dialogue with consultants, investors and steel companies.

<https://www.climateaction100.org/news/blog-climate-action-100-zeroes-in-on-industry-wide-decarbonisation/>

2.31 The Transition Pathway Initiative (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. During the quarter, the TPI announced its intention to form the TPI Global Climate Transition Centre. The centre is intended to be hosted at the Grantham Research Institute at the London School of Economics and will allow the TPI to increase assessments from 400 companies today up to 10,000 in time, as well as assessing corporate and sovereign bonds. The centre will support investors in:

- Aligning their portfolios with net zero targets covering three major asset classes (listed equities, corporate bonds and sovereign bonds)
- Support global investor engagement initiatives such as Climate Action 100+ that targets real world emissions reductions by the 167 most carbon intensive companies
- Enable much more detailed analysis of the most carbon intensive companies and sectors as demonstrated by the recently launched Net Zero Standard for the Oil and Gas Sector that details exacting standards of disclosure intended to create a level playing field in corporate reporting
- Place transparency and independent analysis at the heart of investor decision making within public equity, corporate debt and sovereign debt markets

More details of plans can be found using the link below.

<https://transitionpathwayinitiative.org/publications/89.pdf?type=Publication>

2.32 GMPF was one of 733 investors managing over \$53 trillion in assets to co-sign the 2021 Global Investor Statement to Governments on the Climate Crisis. The statement calls on governments to take a number of actions including:

- Strengthen their Nationally Determined Contributions for 2030 before COP26
- Commit to a domestic mid-century, net-zero emissions target
- Implement domestic policies to deliver these targets
- Ensure COVID-19 economic recovery plans support the transition
- Commit to implementing mandatory climate risk disclosure requirements

2.33 The full Statement and the press release can be found using the links below.

<https://theinvestoragenda.org/wp-content/uploads/2021/09/2021-Global-Investor-Statement-to-Governments-on-the-Climate-Crisis.pdf>

<https://theinvestoragenda.org/press-releases/14-september-2021/>

2.34 The IIGCC coordinated an open letter, which GMPF co-signed to companies informing them of investor expectations on physical risks and opportunities. IIGCC identified companies that either are highly exposed to physical climate risks relative to other companies in the same sector and region or companies that are seen as critical participants on the pathway to

building a climate resilient society, in line with the goals of the Paris Agreement. More details can be found using the link: <https://www.iigcc.org/news/iigcc-members-representing-usd-10-trillion-in-assets-set-out-their-expectations-of-companies-on-tackling-physical-climate-risks/>

- 2.35 The IIGCC launched its Net Zero Standard for Oil and Gas in September which was developed with a number of investors alongside companies from the oil and gas sector and further informed by the Transition Pathway Initiative. The standard sets out expectations from investors on what must be included in net zero transition plans from oil and gas companies. It aims to make it easier to compare companies' disclosures and strategies ensuring that progress can be fairly monitored. The document can be accessed using the link: <https://www.iigcc.org/download/iigcc-net-zero-standard-for-oil-and-gas/?wpdmdl=4866&refresh=6141cc6277fe11631702114>
- 2.36 At COP26 in Glasgow, a collective financial commitment of \$130 billion was announced by Nordic and UK pension funds to be invested in clean energy and climate investments by 2030. As part of this commitment pension funds will report annually on the progress of their climate investments. GMPF signed on to this commitment in November and the collective commitment was made in Glasgow on 2 November. More details can be found using the links <https://www.climateinvestmentcoalition.org/announcements>
https://595bd991-da46-4da7-8255-95d24fd29a16.filesusr.com/ugd/e0dfa4_8e3ec663642543cc8340edb47623d8e7.pdf
- 2.37 LAPFF sent a letter to FTSE All Share companies on behalf of its members requesting companies disclose emissions data consistent with TCFD and a five year plan to move to a 2050 net zero pathway with an annual provision to provide shareholders with the opportunity to vote on these plans. This is in conjunction with the 'Say on Climate' initiative which Northern LGPS partnered with to ensure companies put in place credible plans to reach net zero by 2050. The letter can be accessed using the link below.
https://lapfforum.org/wp-content/uploads/2021/10/20211001_Say_on_climate_letter-to-companies_final.pdf
- 2.38 *The Responsible Asset Allocator Initiative at New America, in partnership with the Fletcher School at Tufts University, has released its 2021 rankings of the 30 world-leading responsible, sustainable long-term investors. The 2021 Leaders List: The 30 Most Responsible Asset Allocators, a ranking of the world's top sovereign wealth funds and government pension funds on their responsible investing practices. The study, developed in partnership with the Fletcher School at Tufts University, rates and ranks 251 asset allocators from 63 countries with assets of \$26 trillion, to identify the 30 leaders and 22 finalists (the top quintile) that together set a global standard for leadership in responsible, sustainable investing. This year's ranking builds on the groundbreaking RAAI reports released in 2017 and 2019. RAAI researchers have found that top asset allocators are implementing ESG not out of "virtuousness" but rather out of practicality. These institutions see responsible investing as a vital tool to manage systemic risks and generate long-term, risk-adjusted returns for savers. Traditional financial metrics are useful in managing short-term idiosyncratic risks in portfolios, but they fall short in pricing and managing long-term systemic risks such as climate change or income inequality.*
- 2.39 Modern portfolio theory focuses on diversification as a key method to protect portfolios, but systemic risks cannot be easily diversified. Accordingly, leading asset owners are adapting their investment decision-making process and using ESG to identify and price long-term risks, engage with portfolio companies, and manage risk-adjusted returns more effectively. The RAAI leaders and finalists provide a window into the future of investing, a world where the planet's largest investors are addressing the world's greatest challenges. These top performers are unleashing hundreds of billions of dollars to invest in renewable energy, clean technology, and sustainable infrastructure, while improving access to clean water, affordable housing, healthcare, and education.

- 2.40 For the 2021 RAAI Leaders List Report, researchers expanded the scope of coverage, evaluating 634 asset allocators and rating 251 institutions, up from 471 and 197 institutions, respectively, in 2019. The number of rating criteria increased from 20 to 30, raising the bar to a minimum score of 96 per cent for the 30 asset allocators that were selected for inclusion on the prestigious leaders list. The 22 asset allocators selected as finalists, were not far behind the leaders, needing a minimum score of 92 per cent to be included in the top quintile.
- 2.41 Greater Manchester Pension Fund scored 96 putting it 35th in the World.
- 2.42 Key findings from the 2021 RAAI study:
- The UK has the greatest number of asset allocators on the leaders list with five, followed by four from the US and three each from Australia and Canada.
 - Overall, Europe is the best performing region. The 62 rated asset allocators in Europe have an average score of 78 per cent. Europe accounted for half of the top quintile asset allocators.
 - Responsible investing is advancing across the world but slowly and from a low base. There is scope for substantial improvement. The average score for all world asset allocators increased from 44 per cent in 2017 to just 52 per cent in 2021.
 - The leaders and finalists continue to set the bar for responsible investing, widening the gap with the rest of the world. The top quintile shows an average score of 96 per cent. The other 200 rated asset allocators showed an average score of just 40 per cent.
 - The world's two biggest economies, the United States and China – comprising 40 percent of global GDP – are lagging dangerously behind on responsible investing. The average score for the 82 USA asset allocators rated by RAAI is just 34 per cent.
- 2.43 The RAAI leaders list is a unique group, representing 15 countries and five geographic regions, including Africa, Asia, Australasia, Europe, and North America. With \$7.9 trillion in AUM, the leaders exert enormous influence in global capital markets and can serve as a powerful force for change.
- 2.44 **We will each report on our activities and progress towards implementing the Principles.**
- 2.45 The Northern LGPS Stewardship Report for the latest quarter can be found using the link shown: <https://northernlgps.org/taxonomy/term/15>
- 2.46 The LAPFF Quarterly Engagement Report for the latest quarter can be found using the link shown: <https://lapfforum.org/publications/category/quarterly-engagement-reports/>

3. RECOMMENDATION

- 3.1 As per the front of the report.