

<b>Report to :</b>	<b>PENSION FUND MANAGEMENT/ADVISORY PANEL</b>
<b>Date :</b>	18 March 2022
<b>Reporting Officer :</b>	Sandra Stewart, Director of Pensions Tom Harrington, Assistant Director of Pensions (Investments)
<b>Subject :</b>	<b>QUARTERLY UPDATE ON RESPONSIBLE INVESTMENT ACTIVITY</b>
<b>Report Summary :</b>	This Report provides Members with an update on the Fund's responsible investment activity during the quarter.
<b>Recommendation(s) :</b>	That the Report be noted.
<b>Links to Core Belief Statement:</b>	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."
<b>Financial Implications :</b>	There are no direct material costs as a result of this report.
<b>(Authorised by the Section 151 Officer)</b>	
<b>Legal Implications :</b>	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.
<b>(Authorised by the Solicitor to the Fund)</b>	Regulation 7(2)(e) requires funds to follow pertinent advice and act prudently when making investment decisions, " <i>...a prudent approach to investment can be described as a duty to discharge statutory responsibilities with care, skill, prudence and diligence</i> ". 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 " <i>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.</i> "  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.
<b>Risk Management :</b>	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 :**

<b>APPENDIX 9A</b>	<b>PIRC Climate Governance</b>
<b>APPENDIX 9B</b>	<b>Chapter Zero: Boardroom Toolkit</b>
<b>APPENDIX 9C</b>	<b>RI Partners and Collaborative Bodies</b>

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## 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:
- (i) *We will incorporate ESG issues into investment analysis and decision-making processes.*
  - (ii) *We will be active owners and incorporate ESG issues into our ownership policies and practices.*
  - (iii) *We will seek appropriate disclosure on ESG issues by the entities in which we invest.*
  - (iv) *We will promote acceptance and implementation of the Principles within the investment industry.*
  - (v) *We will work together to enhance our effectiveness in implementing the Principles.*
  - (vi) *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 Legal & General Investment Management, GMPF's passive public market manager, presented at the January Investment Monitoring & ESG Working Group meeting. They reported on their approach to investment stewardship highlighting key themes such as health, transparency, diversity and income inequality and providing updates in these areas. They also updated the Working Group on their voting policies and how it evolves through an annual review process recognising regional differences and taking on board client and member feedback through their Tumelo platform. Their presentation included case studies of engagement activities with companies on a range of issues such as deforestation, transparency and the use of coal in emerging markets and explained their escalation strategy when engagement does not have the desired effect.
- 2.5 The GMPF Investment Committee approved a commitment of £20m for the Impact portfolio to a locally based private debt manager that will engage in direct lending to small and medium sized UK businesses in the North impacted by Covid-19.
- 2.6 The Investment Committee approved a further £50m commitment towards the Fund's property allocation to a development of UK logistics assets. The developer was the first UK specialist logistics developer to commit to carbon net zero construction on all speculative builds. The developer incorporates other ESG measures such as employing a percentage

of trainees from disadvantaged backgrounds from the locality of each project.

- 2.7 The Responsible Asset Allocator Initiative (RAAI) recognised GMPF's responsible investment practices in its annual assessment. The RAAI Index analyses how the world's largest long-term investors are developing strategies to manage critical ESG issues along 10 core principles and 30 detailed criteria. The top group of asset allocators are recognised as leaders and standard setters who provide a benchmark of excellence for the broader investment community. Further details of the initiative can be found using the link below.  
<https://www.newamerica.org/responsible-asset-allocator-initiative/>
- 2.8 In February 2021, the Northern LGPS committed to the Paris Aligned Investment Initiative's Net Zero Asset Owner Commitment. At the February 2022 meeting of the Northern LGPS Joint Committee, Members endorsed an approach to interim climate change targets, which will be published in due course. The fund is currently working with the developers of the Paris Aligned Investor Initiative, and its asset managers, with a view to being in the inaugural wave of asset owners to produce such a set of targets. It is anticipated that the targets will include a 50% reduction in carbon intensity by 2030 versus the 2019 benchmark, along with over £1 billion of new investments in climate solutions by 2030, building on our position as the largest LGPS investor in renewables
- 2.9 **We will be active owners and incorporate ESG issues into our ownership policies and practices.**
- 2.10 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>
- 2.11 In 2021 GMPF updated its RI Policy (see link below) which was expanded to include a number of additional themes that reflect developments in the responsible investment landscape. These include Water Stewardship and Public Health. As mentioned in the Fund's RI Policy, GMPF considers shareholder resolutions a useful tool to proactively raise issues of concern where boards of investee companies are resistant to change. GMPF filed a resolution ahead of fast-food giant Chipotle's 2022 AGM. The proposal requested the company undertake an assessment to identify the growing pressures on water supply quality and quantity posed by climate change, its total water risk exposure, and policies and practices to reduce this risk and prepare for water supply uncertainties associated with climate change. The resolution came after over two years of conversations between PIRC and the company over its approach to mitigating the physical risks associated with climate change. Following the most recent engagement GMPF agreed to withdraw the filing from the ballot conditional upon formal commitments being made to improve the approach the company is taking to manage water risk throughout the entire value chain. The specific actions being taken by the company will be disclosed to the market upon publication of its sustainability report in April at which time the Fund can elaborate more on the specific actions Chipotle is taking. The commitments represent significant progress in the company's sustainability practices, the direct result of GMPF's intervention.  
<https://www.gmpf.org.uk/GMPF/media/About/documents/Responsible-investment-policy.pdf>
- 2.12 In advance of Unilever plc's 2022 annual general meeting, GMPF, along with over 100 other investors, co-filed a resolution requesting the company disclose its sales linked to healthier products aligned with government-endorsed nutrient profiling models. Furthermore, the proposal asked the company to set targets to increase revenues deriving from healthier products over the medium term. Currently, Unilever discloses in alignment with its own nutrient profiling model. This raises concerns for investors in how well positioned the company is to manage the impact tighter regulation on the sales of products based on

nutrition, such as restrictions on the promotion of products with high fat, salt and sugar levels due to come into effect in the UK later in 2022. There is also a broader public health imperative in addressing the ways in which the Fund's investments play a proactive role in improving health outcomes. Obesity levels across the UK have been steadily rising with research suggesting that the North West of England, including areas within Greater Manchester, rising at a higher rate. A series of engagements between Unilever and investor co-filers followed the submission in which the company committed to increase its reporting to measure the sales of its products against major government-endorsed Nutrient Profile Models as well as its own internal metric. The company also committed to working with the Healthy Markets Initiative, of which the Northern LGPS is a member, to develop meaningful targets in this area moving forwards. As a result, the resolution has been withdrawn from the 2022 ballot. The co-filing of this shareholder resolution featured in the Financial Times.

- 2.13 GMPF also co-filed a shareholder resolution with Amazon requesting the company issue a tax transparency report to shareholders. With the Covid-19 pandemic resulting in large deficits for many governments, there has been an increased focus on whether corporations are paying their fair share of tax and contributing to society. Following the submission of the shareholder proposal the Assistant Director of Pensions (Investments) spoke during a webinar organised by PIRC highlighting GMPF's position on tax arrangements. The submission of the shareholder resolution drew attention to from a number of news outlets.

- <https://www.reuters.com/markets/europe/investors-file-shareholder-proposal-amazon-tax-disclosures-pirc-2021-12-17/>
- <https://www.nasdaq.com/articles/amazon-shareholders-call-for-tax-disclosures-adviser>

- 2.14 In February, PIRC set out a Climate Governance paper, which explained their approach to board governance and oversight for a Just Transition. The paper is attached as **Appendix A**. Policy recommendations are made across the themes of board skill and experience, independence and employee engagement. These recommendations will be built into aspects of the Fund's engagement going forwards.

- 2.15 PIRC organised the 'Say on Climate' conference relating to an initiative of the same name that asks companies to set out their strategy to manage the transition to a net zero emissions business. Investors are asking for disclosure of these strategies to be consistent with the Taskforce for Climate Related Financial Disclosures (TCFD) and an annual provision to vote on these plans. GMPF's Assistant Director of Pensions represented the Northern LGPS at the conference where he contributed to the discussion of the quality of mandatory TCFD reporting from companies. Sir Chris Hohn spoke of the need for not just disclosing but also having a plan that can be properly assessed by shareholders, and what the essential components of a climate action plan might be.

- 2.16 Carol Bell of Chapter Zero also spoke at the PIRC 'Say on Climate' conference. The Chapter Zero website sets out how the initiative fits into a global network as follows:

*"Chapter Zero is the UK Chapter of the Climate Governance Initiative – developed in collaboration with the World Economic Forum – and has shared its experience with new and emerging directors' climate forums around the world. Together, the CGI Chapters are supporting NEDs around the world to help address climate considerations in the boardroom. Each Chapter has signed up to the CGI Charter."*

Chapter Zero have produced a boardroom toolkit for non-executive directors which is attached as **Appendix B**. The benefits of the toolkit appear to transfer well from the role of a non-executive director of a company board, to the role of a pension fund trustee.

- 2.17 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/q4-2021\\_esg-impact-report-uk\\_europe-final.pdf](https://www.lgim.com/landg-assets/lgim/ document-library/esg/q4-2021_esg-impact-report-uk_europe-final.pdf)

- 2.18 Following on from suggestions made at the previous IMESG Working Group meeting the link below provides access to Legal and General's Responsible Investing webpage where more details can be found of the Stewardship activities and scoring of companies from an ESG perspective that Legal and General presented at the Working Group meeting.  
<https://www.lgim.com/uk/en/responsible-investing/>
- 2.19 **We will seek appropriate disclosure on ESG issues by the entities in which we invest.**
- 2.20 Improved disclosure means companies can be better assessed for their long-term resilience and the Fund's investment managers can make informed investment decisions.
- 2.21 The Fund, via the 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. 173 organisations from 25 countries took part in the WDI survey in 2021, up from 141 in 19 countries in 2020. The best represented country was the UK with 66 responders, an increase from 56 in 2020.
- 2.22 The Fund supported the CDP's Non-Disclosure Campaign, which ran until the end of September 2021. The campaign provides the global financial sector with a source of self-reported corporate environmental data in a uniform and comparable manner. The results of the 2021 campaign were published during the quarter, which can be accessed using the link below. There was an overall increase to a disclosure rate of 25% across all three themes, up from 20% last year. Companies were more than three times more likely to disclose on forests when they were targeted by financial institutions. Certain high impact sectors such as hospitality, transport and biotechnology were found to have had limited disclosure.  
[https://cdn.cdp.net/cdp-production/cms/reports/documents/000/006/069/original/CDP\\_2021\\_Non-Disclosure\\_Campaign\\_Report\\_10\\_01\\_22\\_%281%29.pdf?1642510694](https://cdn.cdp.net/cdp-production/cms/reports/documents/000/006/069/original/CDP_2021_Non-Disclosure_Campaign_Report_10_01_22_%281%29.pdf?1642510694)
- 2.23 **We will promote acceptance and implementation of the Principles within the investment industry.**
- 2.24 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.
- 2.25 The Department for Levelling Up, Housing and Communities (DLUHC) published the Levelling Up whitepaper in February which includes references to LGPS funds having plans for up to a 5% allocation to projects which support local areas. The Fund currently has an allocation to local investments and a further allocation to infrastructure assets that are UK based and the whitepaper refers to and mentions the GLIL vehicle co-founded by the Northern LGPS as an example of investing in UK infrastructure. The full whitepaper and executive summary can be found using the links below.  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1052706/Levelling\\_Up\\_WP\\_HRES.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1052706/Levelling_Up_WP_HRES.pdf)  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1052046/Executive\\_Summary.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1052046/Executive_Summary.pdf)
- 2.26 Mr Michael Lynk, the UN Special Rapporteur on the Occupied Palestinian Territories (OPT) wrote to numerous LGPS funds during the quarter describing the work he is doing to assess and report human rights violations in companies operating in the OPT. Numerous organisations including the UN Security Council have stated that Israeli settlements are a

violation to international law furthermore the UN Office for the High Commissioner for Human Rights concluded that the Israeli settlements are a significant source of human rights violations against the protected Palestinian population in the occupied territories. The UN compiled a database of businesses operating in the OPT and Mr Lynk asked LGPS funds to disinvest funds from companies operating within these settlements. The Chair of the Local Authority Pension Fund Forum (LAPFF) spoke with Mr Lynk to discuss his letter and agreed to hold further talks and it was made clear to Mr Lynk that LGPS funds take human rights issues seriously and LAPFF are engaging with many of the companies in the database.

- 2.27 An amendment to the Public Service Pensions and Judicial Offices Bill relating to investment in line with UK foreign and defence policy was passed at the report stage on 22 February. The amendment would enable the Secretary of State to issue guidance to those authorities that administer public sector pension schemes, including the LGPS, that they may not make investment decisions that conflict with the UK's foreign and defence policy. The full extent of the impact of this amendment is not yet fully known and the LGPS Advisory Board will seek further clarity and answers from DLUHC.
- 2.28 The Pensions Regulator published an appendix to its climate change guidance for pension trustees. The guidance is for trustees of private sector pension schemes who are required to comply with the new climate-related governance and reporting duties in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). The new appendix sets out a step-by-step example of the actions that a trustee board should/could be taking. While LGPS funds are currently out of scope the regulation is likely to incorporate LGPS funds in the future and so the guidance and accompanying Appendix may be beneficial to members. We will undertake a gap analysis to check that we have covered all bases.

[https://www.thepensionsregulator.gov.uk/en/document-library/scheme-management-detailed-guidance/funding-and-investment-detailed-guidance/climate-related-governance-and-reporting?utm\\_source=SPB%20Email%20Campaign&utm\\_medium=email](https://www.thepensionsregulator.gov.uk/en/document-library/scheme-management-detailed-guidance/funding-and-investment-detailed-guidance/climate-related-governance-and-reporting?utm_source=SPB%20Email%20Campaign&utm_medium=email)

[https://tpr-prdsitecore-uksouth-cd.azurewebsites.net/en/document-library/scheme-management-detailed-guidance/funding-and-investment-detailed-guidance/climate-related-governance-and-reporting/appendix-a-step-by-step-example?utm\\_source=SPB%20Email%20Campaign&utm\\_medium=email](https://tpr-prdsitecore-uksouth-cd.azurewebsites.net/en/document-library/scheme-management-detailed-guidance/funding-and-investment-detailed-guidance/climate-related-governance-and-reporting/appendix-a-step-by-step-example?utm_source=SPB%20Email%20Campaign&utm_medium=email)

- 2.29 **We will work together to enhance our effectiveness in implementing the Principles.**
- 2.30 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 B**.
- 2.31 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. During the quarter Climate Action 100+ published its progress report for 2021 which covers a selection of focus company commitments as a result of the initiatives work, results achieved during the proxy season, the launch of the Net Zero company Benchmark and key goals for 2022. The full report can be found using the link below.  
<https://www.climateaction100.org/progress/progress-update/>
- 2.32 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 published the Sectoral Decarbonisation Pathways Report which would help investors assess whether companies are on track to transition to net zero. The report can be accessed using the link below and some of the key features are



listed below.

- Sector-specific methodologies are based on the Sectoral Decarbonisation Approach, allocating an absolute, economy-wide emissions budget to each sector
  - Sectoral benchmarks are derived from IEA modelling – showing scenarios meeting 1.5 degrees, below 2 degrees, and aligned with National Pledges – for most sectors
  - TPI benchmarks cover the majority of lifecycle emissions in each sector
  - The benchmarks extend to 2050, allowing investors to see a company's transition pathway in the short, medium, and long term
  - In nearly all sectors, company emissions are normalised against a physical activity output therefore allowing comparison between companies
  - The benchmark methodologies can be adapted to new models and scenarios
- <https://transitionpathwayinitiative.org/publications/100.pdf?type=Publication>

- 2.33 The Northern LGPS is a signatory to the 30% Club, a campaign to increase gender diversity at board and executive level in the world's largest companies. During the group's quarterly meetings, it was discussed that more could be done to tackle racial and ethnic diversity also. In March, the 30% Club released a statement addressing the lack of racial and ethnic diversity in UK businesses and outlined the action it is taking to make positive change. The group sent letters to the FTSE 100 companies that are yet to meet the Parker Review targets of at least one member and executive committee member from an ethnic minority background by the end of 2021. The letter warned companies that investors may consider voting against companies at their annual general meetings if they fail to take action. The statement as well as some of the positive media coverage the statement received can be found using the links below.

<https://30percentclub.org/wp-content/uploads/2022/02/1-March-30-Club-Race-Equity-Investor-Statement.pdf>

<https://citywireselector.com/news/time-s-up-14tn-investor-group-puts-pressure-on-ftse-100-to-improve-racial-diversity/a2380965>

<https://www.esqinvestor.net/ftse-100-directors-face-vote-threat-over-racial-diversity/>

- 2.34 This year marks the third anniversary of the tailings dam collapse at Brumadinho, Brazil. Over the last three years LAPFF engaged with Vale and BHP in the wake of both the Brumadinho and Samarco dam collapses and has been dismayed at the lack of progress in addressing the needs of the affected communities. During this time LAPFF has continued its work to ensure the voice of the affected communities is not forgotten and hear stories of loss, devastation and insufficient reparations. LAPFF's press release and some of the media coverage this received can be found using the links below.

<https://lapfforum.org/wp-content/uploads/2022/01/Brumadinho-3rd-Anniversary-Press-Release.pdf>

[https://www.ipe.com/news/stewardship-roundup-tailings-dam-update-asset-manager-priorities/10057581.article?utm\\_campaign=740758\\_25.1.22%20IPE%20Daily%20News&utm\\_medium=email&utm\\_source=IPE&dm\\_i=5KVE,FVKM,1BHOSO,1X8E1,1](https://www.ipe.com/news/stewardship-roundup-tailings-dam-update-asset-manager-priorities/10057581.article?utm_campaign=740758_25.1.22%20IPE%20Daily%20News&utm_medium=email&utm_source=IPE&dm_i=5KVE,FVKM,1BHOSO,1X8E1,1)

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

- 2.36 The Northern LGPS Stewardship Report for the latest quarter can be found using the link below. <https://northernlgps.org/taxonomy/term/15>

- 2.37 The LAPFF Quarterly Engagement Report for the latest quarter can be found using the link below. <https://lapfforum.org/publications/category/quarterly-engagement-reports/>

### 3. RECOMMENDATION

- 3.1 As per the front of the Report.