

Pensions Committee

16 March 2016

Report title	Responsible Investment Activities	
Originating service	Pension Services	
Accountable employee(s)	Leanne Clements	Responsible Investment Officer
	Tel	01902 552086
	Email	Leanne.clements@wolverhampton.gov.uk
Report to be/has been considered by	Geik Drever	Strategic Director of Pensions
	Tel	01902 552020
	Email	Geik.drever@wolverhampton.gov.uk

Recommendations for decision:

The Committee is recommended to:

1. Adhere to the Fund's engagement policy and to not adopt exclusion of companies on purely ethical criteria as a matter of policy.
2. Agree for Wolverhampton City Council (WCC) to continue to be the contract holder of LAPFF's research and engagement partner.
3. Agree to sign up to the Paris Pledge which is provided in Appendix 3.

Recommendations for noting:

The Committee is asked to note:

1. The Fund's voting and LAPFF's engagement activity for the three months ending 31 December 2015 (Appendix 1).
2. The issues discussed by LAPFF are set in the Quarterly Engagement Report which is available on their website: <http://www.lapfforum.org/Publications/engagement>
3. The Fund has co-filed shareholder resolutions on carbon management for Anglo American, Glencore and Rio Tinto (press release – Appendix 2).
4. The Fund's review of stranded asset risk.
5. The Fund having joined a class action for automobile manufacturing company Volkswagen.

1.0 Purpose

- 1.1 To inform the Pensions Committee of the work undertaken by the Investment team regarding the responsible investment activities between the period 1 October to 31 December 2015.

2.0 Background

- 2.1 The Fund has a longstanding policy of supporting good corporate governance in the companies in which it invests, and challenging companies who do not meet the standards set by their peers or reasonable expectations as measured by best practice. The Fund's approach is part of its overall investment management arrangements and its active responsible investment policy.
- 2.2 The Fund focuses on three main areas: voting globally, engagement through partnerships and shareholder litigation.

3.0 Responsible Investment Activities

Voting Globally

- 3.1 The Fund currently has its own bespoke UK voting policy which the voting provider, Pensions and Investments Research Consultants Ltd (PIRC), executes on our behalf. However, the Fund follows the voting advice of PIRC for European, US, Japanese and Asia Pacific region company meetings.
- 3.2 The voting activity for the quarter across markets and issues can be found in Appendix 1. During the period the Fund voted at a total of 291 company meetings –52 UK, 45 European, 48 North American, 9 Japanese, 45 Asia (excluding Japan), and the remaining 92 meetings predominantly located in Australia/New Zealand and South America. During this period there were 21 meetings where the Fund supported all the resolutions put forward by companies. Approximately 36.8% of the resolutions were not supported by the Fund.

Engagement through Partnerships

- 3.3 Our engagement program is predominantly implemented through the Fund's membership of the Local Authority Pension Fund Forum (LAPFF). LAPFF's activities are supported by the current research and engagement partner which is PIRC. LAPFF members regularly meet together to discuss environmental, social, and governance (ESG) issues and ways to promote high standards of corporate behaviour at investee companies.
- 3.4 A summary of LAPFF's engagement activities for the quarter are provided alongside the voting activity report in Appendix 1. The issues are set out in the Quarterly Engagement Report which is available on LAPFF's website:
<http://www.lapfforum.org/Publications/engagement>.

- 3.5 As reported in December 2015, the Fund was requested to conduct additional engagement with Textron to clarify its position on the production and sale of cluster munitions in light of new information. Based on the findings of the engagement program, the Fund recommends that it maintains its position of engagement over exclusion as a matter of policy.

LAPFF Contract

- 3.6 By way of background, the financial administration of LAPFF is managed through Wolverhampton City Council (WCC), with the Fund through the Strategic Director of Pensions. The financial administration would include managing the contract of PIRC, LAPFF's research and engagement partner. In practical terms, this means that WCC bears financial responsibility for the contract.
- 3.7 In order to protect WCC's financial liability, the Fund implements a strict reserves policy which is approved by LAPFF members. The policy maintains reserves at one third of gross annual expenditure, equivalent to maintaining cover for four months expenditure. This prudent policy enables LAPFF to confidently plan for the medium term, addressing any future challenges and acting upon any new initiatives which could benefit members.
- 3.8 The role of Honorary Auditor for LAPFF is important in promoting a strong financial environment. The current Auditor is Cheshire West and Cheshire Council who were appointed for a three year period commencing from the 2014/15 financial statements. An audit opinion is provided following the review of each financial year's accounts. An unqualified opinion provides LAPFF Members with assurance that strong financial arrangements are maintained by the Honorary Treasurer.
- 3.9 PIRC's contract as LAPFF's research and engagement partner is up for renewal as of June 2017, having been granted a two year extension in 2015. The LAPFF executive has endorsed the use of the LGPS National Frameworks¹ for Stewardship Services (due to be launched this year), as this will ensure a transparent and robust tendering process. The tendering process will take place throughout the latter part of 2016 until the first half of 2017.
- 3.10 The Pensions Committee via WCC as administrating authority is requested to agree to continue to be the contract holder of LAPFF's research and engagement partner.

Climate change and stranded assets

- 3.11 As the Committee is already aware, the Fund was subject to a fossil fuel divestment campaign in September 2015. The aim of the campaign was to pressurize funds into divesting from fossil fuel companies as a way to mitigate climate change (and more specifically stranded asset) risk. The Fund issued a press release in response to the campaign which can be found here:
<http://www.wmpfonline.com/CHttpHandler.ashx?id=7867&p=0>
- 3.12 Stranded assets are assets that may lose economic value before the end of their expected life primarily driven by changes in regulation and technological innovation. Proponents of the stranded assets concept argue that it will not be possible to economically exploit a large proportion of proven fossil fuel reserves if governments

¹ <http://www.nationallgpsframeworks.org/what-procurement-framework>

adhere to the Paris Agreement (called “COP21”), which sets out a global action plan to put the world on track to avoid dangerous climate change by limiting global warming to well below 2°C.² Under this scenario, current valuations of fossil fuel companies could be mispriced by the market.

Actions taken by the Fund on climate change

- 3.13 By way of background, the Fund believes that effective management of financially material environmental, social and governance risks should support the Fund’s requirement to protect returns over the long term. With regard to climate change risks, the Fund recognises that the scale of the potential impacts is such that a proactive and precautionary approach is needed in order to address them. Further information on the Fund’s climate change approach can be found in its Responsible Investment Framework³.
- 3.14 As reported in the December 2014 Committee report, LAPFF is part of the “Aiming for A” investor coalition of UK asset owners and mutual fund managers that has been engaging with the ten largest UK-listed extractives and utilities companies to assess and encourage them to make preparations for a low carbon operating environment. BP and Shell were initially selected as they have the largest carbon footprints in the FTSE 100. The Fund co-filed shareholder resolutions at BP and Shell in 2015, which received support by both the companies and were overwhelmingly passed at their respective Annual General Meetings.
- 3.15 In 2016, the Aiming for A initiative is now calling on mining giants Anglo American, Glencore and Rio Tinto to be more transparent over climate change risks and opportunities to their businesses. To continue its support of LAPFF and this initiative, the Fund has co-filed shareholder resolutions at these three companies alongside several other like-minded investors. The press release can be found in Appendix 2.
- 3.16 To further support its climate change efforts, the Fund proposes to sign the Paris Pledge⁴, which is similar to the Institutional Investors Group on Climate Change’s Global Investor Statement on Climate Change⁵, to which the Fund is already a signatory. In being a signatory to the Pledge, the Fund would explicitly support the following:
- Affirm a strong commitment to a safe and stable climate in which temperature rise is limited to under 2 degrees Celsius.
 - The Paris Agreement as previously highlighted
 - Commitment to take concrete steps now, and without waiting for the entry into force of the agreement in 2020, both individually and cooperatively, to reduce greenhouse gas emissions to a safe level and build resilience against those changes already occurring.

² More details on the Paris Agreement can be found here:

http://ec.europa.eu/clima/policies/international/negotiations/paris/index_en.htm

³ <http://www.wmpfonline.com/CHttpHandler.ashx?id=7181&p=0>

⁴ <http://www.parispledgeforaction.org/read/>

⁵ <http://www.iigcc.org/files/publication-files/11DecemberGISCC.pdf>

The Paris Pledge can be found in Appendix 3.

- 3.17 In light of the Paris Agreement, the Fund is currently re-evaluating how to address the potential financial risks posted by stranded assets in its investments. The Fund will report to the Committee on its progress in this area as and when appropriate.
- 3.18 In the interim, the Fund wishes to exercise its stewardship responsibilities in co-filing these shareholder resolutions and adopting the Paris Pledge with other like-minded LAPFF members as it believes that it is in alignment with our investment beliefs and responsible investment policy. It also publicly demonstrates our commitment to address climate change in our investment process.

Shareholder Litigation

- 3.19 Securities class actions are predominantly based on investor allegations that they were misled into buying securities of a publicly-traded company at prices that were inflated by misleading statements made to the investing public by the company's executives and directors.
- 3.20 The Fund employs a class actions administrator, Goal Group, who conduct initial alert notification of class actions, loss calculations, completion and submission of the relevant claim documentation and subsequent collection of compensation monies on its behalf.
- 3.21 In addition, the Fund, in partnership with various law firms and other like-minded investors, submits class actions where possible and where appropriate. The two law firms that the Fund currently use are Robbins Geller Rudman & Dowd and Grant & Eisenhofer. The Fund broadly applies the following preferences in their decision making process, where possible:
- Egregious corporate governance concerns;
 - No risk of incurring extra financial costs, even in the event of an order to pay costs if the case is lost;
 - Litigation in tried and tested jurisdictions having a form of class action regime;
 - Co-operation with other like-minded institutional investors who also pursue objectives other than the limitation of financial losses;
 - Low likelihood of reputational risk from being attached to the class action regime.

As reported to Committee, the Fund joined the Royal Bank of Scotland class action in 2014.

- 3.22 As it satisfied the above noted criteria, the Fund has decided to join the Volkswagen shareholder actions in Germany in which Robbins Geller is acting as the Fund's co-counsel together with German counsel, Nieding + Barth. The Committee may be aware that the company has admitted to deliberately manipulating emission control devices for millions of "clean diesel" vehicles.

4.0 Financial implications

4.1 The promotion of good corporate governance amongst companies in which the Fund invests is complementary to the Fund's objective of maximising financial returns, as it is widely believed that good corporate governance improves shareholder value in the long term.

5.0 Legal implications

5.1 This report contains no direct legal implications.

6.0 Equalities implications

6.1 This report contains no equal opportunities implications.

7.0 Environmental implications

7.1 Environmental implications are addressed through the Fund's corporate governance policy.

8.0 Human resources implications

8.1 This report contains no direct human resources implications.

9.0 Corporate landlord implications

9.1 This report contains no direct corporate landlord implications.

10.0 Schedule of background papers

- LAPFF Quarterly Engagement Report October to December 2015:
<http://www.lapfforum.org/Publications/engagement>
- LAPFF's September 2015 press release on fossil fuel divestment:
<http://www.wmpfonline.com/CHttpHandler.ashx?id=7867&p=0>

11.0 Schedule of Appendices

- Appendix 1 (Voting and Engagement Activity)
- Appendix 2 (Press release on shareholder resolutions)
- Appendix 3 (Paris Pledge)