

# Pensions Committee

21 June 2017

<b>Report title</b>	Responsible Investment Activities	
<b>Originating service</b>	Pension Services	
<b>Accountable employee(s)</b>	Michael Marshall Tel Email	Responsible Investment Officer 01902 552086 <a href="mailto:Michael.Marshall@wolverhampton.gov.uk">Michael.Marshall@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	David Evans Tel Email	Head of Portfolio 01902 552083 <a href="mailto:David.Evans@wolverhampton.gov.uk">David.Evans@wolverhampton.gov.uk</a>

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## 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 March 2017, including 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/qrtly-engagement-reports/>
3. The update provided on the recent engagement activities with Hanwha Corporation and Motorola Solutions.
4. Other activity undertaken to ensure the Fund continues to develop and support its approach to Responsible Investment.
5. The briefing (provided from the IIGCC, of which the Fund is a member) on President Trump's decision to withdraw the US from the Paris Agreement on climate change (Appendix 2).

## 1.0 Purpose

- 1.1 To update the Pensions Committee on the work undertaken by the Investment team regarding their responsible investment activities between the period 01 January to 31 March 2017.

## 2.0 Background

- 2.1 The Fund has a longstanding policy of supporting good corporate governance in the companies in which it invests. The Fund will also challenge companies who do not meet either 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. There are three main areas of responsible investment that we focus on: **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 our voting provider, Pensions and Investments Research Consultants Ltd (PIRC), executes on the Fund's behalf. However, the Fund follows the voting advice of PIRC for European, US, Japanese and 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 421 company meetings – 51 UK, 74 European, 61 North American, 61 Japanese, 136 Asia (excluding Japan), 2 Australasian/South African and 36 in the rest of the world. During this period there were 11 meetings where the Fund supported all the resolutions put forward by companies. Approximately 28% of the resolutions were not supported by the Fund. The largest number of resolutions that were opposed related to the independence of directors, annual reports that failed to meet best practice and share issuances.
- 3.3 The “voting season” – a three month window in which most investee companies hold their AGMs – began in April. Outcomes from the voting season will be reported at the next Pensions Committee meeting.
- 3.4 The Fund's RI Officer took the opportunity to attend the AGMs of National Express Plc and Carillion Plc. At National Express, the RI Officer challenged the Board on progress with union relations in the US. At Carillion, the RI Officer encouraged the board to find an adequate replacement for outgoing board member Ceri Powell and to adopt the UN Guiding Principles as a best-practice way to manage and communicate human rights risk. Attendance at the AGMs was facilitated by LAPFF, including background research and preparation, and a member of LAPFF was in attendance at both AGMs.

### *Engagement through Partnerships*

- 3.5 The Fund's strategy is to engage with its investee companies and other key stakeholders through partnerships and on its own. The Fund aims to protect and increase shareholder value by engaging on a range of financially material ESG investment factors. A significant part of the Fund's engagement program is implemented through the Fund's membership of the Local Authority Pension Fund Forum (LAPFF). The mission statement of LAPFF is "to promote the investment interests of local authority pension funds and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest, commensurate with statutory regulations". LAPFF has a current membership of 72 public sector pension funds in the UK with combined assets of around £200 billion.
- 3.6 Through LAPFF, the Fund engaged with fifteen companies during the quarter. Most engagements concerned Governance issues. Rio Tinto, BP, Anglo American and Shell were engaged on their preparedness for climate change risk (discussed further in item 3.15 below). 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/qrtly-engagement-reports/>
- 3.7 Through the United Nations' Principles for Responsible Investment (PRI), the Fund is currently a support investor to two engagement topics, each of which concerns a number of holdings. One topic is water scarcity risk in the supply chains of food & beverage and apparel companies. Water scarcity and potential supply shocks are financially material risks for businesses whose value chains depend on soft commodities. A second topic is human rights risks in companies involved in the extractives sector. In this sector, a failure to manage human rights risks can lead to a loss of license to operate, facilities closures and a diminution of revenue.
- 3.8 The Fund has identified cyber security risk as a focus engagement topic for 2017/18. The Fund will join two collaborative engagements on this topic, one via the PRI and a second via LAPFF.
- 3.9 Through a collaboration of European pension funds, the Fund is a participant in an engagement with one of its investees on the adequacy of succession planning for a key individual. A meeting with the Company Chair was held during the quarter and ongoing engagement objectives will be set out during a conference call after the company's AGM.

### *Update on Cluster Munitions Engagement*

- 3.10 WMPF continues to work with LAPFF on allegations of cluster munitions production at Hanwha Corp. This follows successful engagements on the same topic with Lockheed Martin, Singapore Technologies, Textron and Alliant Techsystems. Members of the Pensions Committee were briefed in April on a positive development in this engagement. Following a request by the Fund, LAPFF agreed to continue engagement with Hanwha Corp. With the assistance of the Fund's RI Officer, LAPFF wrote to Hanwha on 18 April, sending a hard copy of the letter to head office. At time of writing (18 May) no response has been received by LAPFF, but that is not an unusual outcome in matters of this nature. In time, were it to become apparent that the company will not respond to LAPFF's letter, the Fund will encourage the Chair of LAPFF to further escalate the issue.

Although the amount invested in Hanwha Corp (held via a passive equity fund), represents less than 0.01% of the Fund's total AUM, the Fund remains committed to working with other local authority pension funds through LAPFF to address the issue through continued engagement with Hanwha.

The RI Officer will write to interested scheme members on the latest developments on this issue following the June Pensions Committee meeting. The Pensions Committee will continue to be kept informed of significant updates.

### *Update on Engagement into Human Rights in the Occupied Palestinian Territories*

- 3.11 WMPF continues to work with LAPFF on allegations of Motorola Solutions having business activities in Israel without having implemented the UN Guiding Principles on Human Rights. This follows successful engagements on the same topic in 2015-16 with Caterpillar, Hewlett-Packard, Veolia and G4S, which were prompted by an approach in 2014 by a group known as the Wolverhampton Palestine Solidarity Campaign (WPSC). UN Resolution 2334 – passed in December 2016 – describes Israel's settlement activity as being without legal validity, and calls upon UN Member States to distinguish between the State of Israel and the Occupied Palestinian Territories (OPTs). The legal ramifications of this UN Resolution for companies – as opposed to UN Member States – are not clear and if companies choose to report on the issue, it will not be evident until the next financial reporting cycle. Members of the Pensions Committee were briefed in April on a positive development in this engagement. Following a request by the Fund, LAPFF agreed to renewed engagement with Motorola. LAPFF wrote to Hanwha on 2 May, sending a hard copy of the letter to Motorola head office. At time of writing (18 May) no response has been received by LAPFF, but that is not an unusual outcome in matters of this nature. In time, were it to become apparent that the company will not respond to LAPFF's letter, the Fund will encourage the Chair of LAPFF to further escalate the issue.

Although the amount invested in Motorola Solutions (held via a passive equity fund), represents less than 0.01% of the Fund's total AUM, the Fund remains committed to working with other local authority pension funds through LAPFF to address the issue through continued engagement with Motorola.

The Pensions Committee will continue to be kept informed of significant updates.

### *Shareholder Litigation*

- 3.12 As mentioned above, the pursuit of litigation against investee companies forms part of the Fund's Responsible Investment Framework. The fund partakes in shareholder litigation activities where it thinks monies can be recouped on behalf of the fund's members and where there is no risk of cost or penalty to the fund. Litigation is not considered unless the costs and benefits are known.
- 3.13 The Fund, via its appointed representatives Stewarts Law (SL) has agreed a settlement with RBS relating to the Fund's purchase of a rights issue by RBS in 2008. The Fund received its payment from SL on 12 May.
- 3.14 Following the issues Volkswagen (VW) faced with the emissions testing of its US diesel cars, the Fund became a registered claimant in litigation filed against VW and Porsche in Germany. VW had already admitted to fault in the emissions scandal before the fund became a registered claimant. WMPF is joined by thousands of investors seeking to recover losses in the German courts. The case is ongoing.

### *Climate Change as an Investment Risk*

- 3.15 In May, members of the Pensions Committee received a letter from Kay Edwards of campaign group "Divest WMPF", requesting that the Fund divest from fossil fuel assets (defined to mean companies involved in oil and gas, coal mining and coal-fired utilities). In March, ShareAction and Client Earth made a referral to The Pensions Regulator (TPR) arguing that some LGPS have investment policies that fail to refer to climate change risk specifically. It should be noted that West Midlands Pension Fund is one of the twelve LGPS identified by ShareAction as having an Investment Strategy Statement that addresses climate change risk. TPR issued new guidance for defined benefit investment in March (a briefing follows below) and selected climate change risk in its examples for (a) investment beliefs and (b) considering financially material ESG factors.
- 3.16 After some speculation, President Donald Trump announced on 1 June 2017 that he intends to withdraw the US from the Paris agreement on climate change. The Paris agreement's central aim is to strengthen the global response to the threat of climate change by keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius. The US remains part of the 1994 UNFCCC convention on climate change, whose objective is to stabilize greenhouse gas concentrations at a level that would prevent dangerous anthropogenic interference with the climate system. US businesses, states and cities have indicated commitment to supporting the Paris agreement despite Mr Trump's decision. The decision was heavily criticised by global political leaders, who resolved to increase international cooperation to make the Paris agreement work. Criticism has focussed on the negative economic consequences of Mr Trump's decision. A briefing from the IIGCC (of which the Fund is a member) is provided in Appendix 2.

## *Other Activities*

- 3.17 Training on the Fund's Responsible Investment Framework, and specifically on the Fund's approach to climate change risk, was delivered to members of the Pensions Committee on 27 March in London.
- 3.18 The Pensions Regulator (TPR) issued new guidance for Defined Benefit Investment at the end of March 2017. This included guidance on certain responsible investment issues, including (a) the integration of financially material ESG (environmental, social and governance) investment factors and (b) stewardship (including voting and engagement). Signalling the importance of climate change as an investment risk, TPR used climate change as its example both for investment beliefs and for how LGPS might consider financially material ESG factors. The Fund reviewed its RI policies following publication of the guidance and can confirm that its existing RI approach is already compliant. On climate change specifically, the Fund's existing approach goes beyond the regulatory minimum on climate change risk and together with partner groups such as Institutional Investors Group on Climate Change, the Transition Pathway Initiative, LAPFF and the PRI, the Fund may point to a number of successful examples of influencing positive change.

## **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**

- 6.1 This report contains no direct legal implications.

## **7.0 Equalities implications**

- 7.1 This report contains no equal opportunities implications.

## **8.0 Environmental implications**

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

## **9.0 Human resources implications**

- 9.1 This report contains no direct human resources implications.

## **10.0 Corporate landlord implications**

- 10.1 This report contains no direct corporate landlord implications.

## **11.0 Schedule of background papers**

- 11.1 LAPFF Quarterly Engagement Report October to December 2016:  
<http://www.lapfforum.org/publications/qrtly-engagement-reports/>

## **12.0 Schedule of Appendices**

- 12.1 Appendix 1 (Voting and Engagement Activity)
- 12.2 Appendix 2 (IIGCC Briefing on US withdrawal from Paris Agreement on climate change)