

Pensions Committee

21 March 2018

Report title	Responsible Investment Activities	
Originating service	Pension Services	
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Report to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 551715 Rachel.Brothwood@wolverhampton.gov.uk

Recommendation for approval:

The Committee is recommended to:

1. Approve the updated Responsible Investment Framework (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 2018, including Appendix 1.
2. The issues discussed by LAPFF are set in the Quarterly Engagement Report which is available on the LAPFF website:
<http://www.lapfforum.org/publications/qrtly-engagement-reports/>
3. Other activity undertaken to ensure the Fund continues to develop and support its approach to Responsible Investment.
4. Correspondence received from the Support Saudi Women campaign group and the Fund's response.
5. The Fund's 2018 stewardship themes, which are climate change, cyber security and diversity.

6. Work ongoing to consider issues raised in relation to the potential takeover of GKN Plc.
7. That the Fund has joined the 30% Club Investor Group and endorsed its Statement of Intent (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 since the last Pensions Committee meeting.

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: **engagement through partnerships, voting globally** and **shareholder litigation**.

3.0 Responsible Investment Activities

Engagement through Partnerships

- 3.1 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 partnerships including the Principles for Responsible Investment (PRI), the Local Authority Pension Fund Forum (LAPFF), Institutional Investors Group on Climate Change (IIGCC) and the UK Pension Fund Roundtable.
- 3.2 The Committee is asked to note the Fund's stewardship themes for 2018, which are climate change, cyber security and diversity. These themes have been selected because they have both financial relevance and resonance with the Fund's stakeholders. The Fund will, primarily through partnerships, engage with companies, fund managers and other relevant organisations, and will use its voting rights to drive change and signal the importance of these issues to institutional investors. Progress on each theme will be reported to the Pensions Committee on a quarterly basis.
- 3.3 The Fund's responsible investment activities are carried out in part through LAPFF. The Fund was saddened to learn that the Chair of LAPFF, Cllr Kieran Quinn, passed away on 25 December 2017. Condolences to Cllr Quinn's family have been expressed through the appropriate channels.
- 3.4 Through LAPFF, the Fund engaged with 24 companies during the quarter. Most engagements concerned climate change and general corporate governance. Eight engagements led to a small or moderate improvement or a change in process. Most engagements were conducted by meetings or by writing letters to the company Chair. 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/>

- 3.5 Through the United Nations' Principles for Responsible Investment (PRI), the Fund is currently a support investor to two engagement topics – cyber security and climate change risk – each of which concerns a number of holdings. As previously reported the Fund is a participant in engagement concerning cyber security risk management in a joint effort with approximately 50 other global institutional investors. WMPF has recently joined an engagement on climate change risk which will be based upon the framework created by the Transition Pathway Initiative (TPI), of which the Fund is a founding member. This engagement will also be channelled through the PRI. The Fund is a participant in Climate Action 100+, which is jointly coordinated by a number of international organisations include the PRI and the Institutional Investors Group on Climate Change (IIGCC). As its name suggests, the initiative covers more than 100 global companies and the Fund is focussing its own efforts on two UK companies.
- 3.6 The Fund is a founding partner of the Transition Pathway Initiative (TPI), whose research relates to the alignment (or otherwise) of companies in certain sectors to a 2°C pathway. In February the TPI launched research for the autos sector and for the pulp & paper sector, bringing the number of sectors covered by the research to seven. The Fund is a member of the TPI Steering Committee and the Technical Advisory Group, and the TPI's research is used by the Fund in its stewardship activities.
- 3.7 The Fund took part in a roundtable on Women in Finance, hosted by New Financial LLP. Diversity – including but not limited to gender diversity – is one of the Fund's engagement themes for 2018. The Fund has begun to ask its fund managers for details of their approaches to recruiting and retaining talent of all genders. This is in addition to the Fund's activities regarding investee companies, where the Fund will issue votes against companies where insufficient progress has been made on diversity issues.
- 3.8 The Fund has recently joined the 30% Club Investor Group, an investor initiative which seeks to increase the participation of women in UK companies, both at board level and more broadly. The Fund has endorsed the 30% Club Investor Group's Statement of Intent, which appears in Appendix 2. The Fund is thereby committed to using its stewardship rights to encourage investee companies to facilitate diversity at board and executive level, in line with the Davies Review and the Hampton-Alexander Review. In practice, the Fund has been engaging and voting with this in mind for some time, but endorsement of the Statement of Intent formalises the Fund's commitment on this issue.

Ethical concerns: Update on Cluster Munitions Engagement

- 3.9 At its December meeting the Pensions Committee approved a recommendation regarding Hanwha Corporation. Further to that approval, the relevant portfolio was

rebalanced in late December and Hanwha Corporation was one of the stocks that was not selected in the newly rebalanced fund.

Ethical concerns: Support Saudi Women Campaign Group

- 3.10 A campaign group named Support Saudi Women wrote to Wolverhampton City Council in January 2018. The letter, which was forwarded to the Chair of the Pensions Committee, calls on local councils to pass resolutions asking local authority pension funds to boycott the shares of Saudi Aramco, a Saudi oil & gas company that is known to be considering a public listing. Such a boycott, argues the campaign group, would send a political message to the Saudi establishment regarding women's rights and the system of male guardianship.
- 3.11 The Chair of the Pensions Committee has issued a response on behalf of the Fund. The response states that the Fund's policy, as per the Responsible Investment Framework, is to maintain a preference for engagement rather than divestment (or boycott).

Possible acquisition of GKN

- 3.12 Melrose Plc, a UK-listed company specialising in turning around underperforming industrials companies, announced a potential offer to acquire 100% of GKN Plc through a cash and shares offer. The offer for GKN shareholders has a first close of 9 March and 23 April is scheduled to be the latest date upon which the offer may be declared wholly unconditional. The Fund is closely monitoring the situation. Where the Fund is called upon to consider terms relating to the offer including acceptance or rejection of the offer, the Fund will come to a decision with reference the principles of its Responsible Investment Framework and in line with its fiduciary duty. Along with other UK pension funds, the Fund received communications from trades unions regarding the possible acquisition.

Voting Globally

- 3.13 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. The Fund follows the voting advice of PIRC for European, US, Japanese and Pacific region company meetings.
- 3.14 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 254 company meetings – 46 UK, 41 European, 36 North American, 9 Japanese, 31 Asia (excluding Japan), 88 Australasian/South African and 3 in the rest of the world. During this period there were 46 meetings where the Fund supported all the resolutions put forward by companies. Approximately 37% of the resolutions were not supported by the Fund. The largest number of resolutions that were opposed concerned the re-election of directors (usually voting against non-independent non-executive directors where the Fund or its advisors do not see sufficient independent oversight on a company board) and remuneration.

Shareholder Litigation

- 3.15 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.
- 3.16 The Fund's shareholder litigation programme has continued in the manner reported previously.

Other Activities

- 3.17 The Fund's RI Officer spoke at the Local Authority Pension Fund (LAPF) Strategic Investment Forum in London in February. The panel discussed the integration of responsible investment into investment processes, drawing on West Midlands Pension Fund for examples of good practice.
- 3.18 The Fund reviewed two of its external active equity managers with respect to their approach and performance on matters of responsible investment. Each manager was able to provide evidence of a clearly integrated approach to responsible investment and engagement.
- 3.19 Further to its support for the Workforce Disclosure Initiative (WDI), the Fund attended a roundtable in London which reviewed the WDI's pilot survey findings and its proposals for the year ahead. The Fund continues to support the WDI and will continue to monitor how the WDI dataset can best be used to support the Fund's fiduciary objectives.
- 3.20 The Fund took the opportunity to respond to the Financial Reporting Council's (FRC) consultation on the UK Corporate Governance Code and the future direction of the UK Stewardship Code. Reference to each of these codes is made in the Fund's RI Framework and Stewardship Code Compliance Statement. The Fund's response centred on support for the following: greater focus on implementation of the code's principles, as opposed to fostering a compliance culture; increased consideration of the role of the workforce through representation, consultation and the setting of executive pay; renewed attention to diversity of all forms including gender and ethnicity; increased focus on risks described as "non-financial". With respect to the Stewardship Code, we recommended that there should be one code, with variations in the guidance reflecting the application for different participants in the investment value chain. With regards to non-financial risks, we strongly recommend the FRC integrates the recommendations of the TCFD into both codes. The TCFD recommendations call for companies and investors to disclose on their approaches to managing climate change risks through a flexible four-pillar framework. The Fund used this framework to disclose on its own approach to managing climate change risks in its 2017 Annual Report, making it one of the first asset owners globally to do so.

- 3.21 The Committee is asked to approve the updated Responsible Investment Framework, which is provided in Appendix 3. The majority of the framework is unchanged. Aside from removal of areas of duplication, there are three main types of update. Firstly, some points of detail were updated, for example reference to the Fund's Statement of Investment Principles was replaced with reference to the Fund's Investment Strategy Statement. Secondly, the document's structure was previously divided in terms of its RI activities by groups of actors in the investment chain (the Fund, investment managers, investee companies) but is now structured by type of RI activity (selection, stewardship, transparency & disclosure). Thirdly, the role of LGPS Central and its relevance for the Fund's RI activities is noted. The Fund is committed to maintaining a leading RI Framework and it is believed that the updated Framework furthers that commitment.

4. 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 Responsible Investment Framework.

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

- 10.1 LAPFF Quarterly Engagement Report:
<http://www.lapfforum.org/publications/qrtly-engagement-reports/>

11.0 Schedule of Appendices

- 11.1 Appendix 1 (Voting and Engagement Activity)
- 11.2 Appendix 2 (30% Club Investor Group Statement of Intent)
- 11.3 Appendix 3 (Draft Responsible Investment Framework 2018)