



Pensions Committee

24 June 2015

Report Title Responsible Investment Activities
January to March 2015

Originating service Pension Services

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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 2015, including Appendix 1.
2. The issues discussed by the Local Authority Pension Fund Forum (LAPFF) in the Quarterly Engagement Report which is available on their website:
<http://www.lapfforum.org/Publications/engagement>
3. Updates on the National Express and BP shareholder resolutions as well as the Israeli-Palestinian related research and engagement program respectively.

1.0 Purpose

- 1.1 To inform the Pensions Committee of the work undertaken by the Investment team regarding their responsible investment activities between the period 1 January to 31 March 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. There are two main areas of responsible investment that we focus on: **voting globally** and **engagement through partnerships**.

3.0 Voting Globally

Summary of Voting Activity

- 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 our 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 394 company meetings –52 UK, 70 European, 66 North American, 45 Japanese, 4 Australia/New Zealand, 128 Asia (excluding Japan), 8 South American and the remaining predominantly being Turkey, Qatar and Kazakhstan (21). During this period there were 21 meetings where the Fund supported all the resolutions put forward by companies. Approximately 41% of the resolutions were not supported by the Fund.

*It should be noted that due to a combination of US state law and individual company bye-laws, votes pertaining to individual directors cannot be cast as “oppose” but have to be cast as “withheld”.

BP and Shell Shareholder Resolutions on Carbon Management

- 3.3 As reported at the last Pensions Committee meeting, LAPFF sought member funds to co-file on 2015 shareholder resolutions at BP and Royal Dutch Shell respectively with regards to their carbon management practices. The Fund decided to co-file these shareholder resolutions with other like-minded LAPFF members as it believed that it was in alignment with its investment beliefs and responsible investment policy. The co-filing procedure was completed through the Fund's custodian in December 2014.
- 3.4 In an unprecedented move, BP and Royal Dutch Shell both publicly stated in January 2015 that they would recommend that their respective shareholders support the resolution.

BP's AGM was held on 14 April and the resolution was passed with 98.28% of votes in favour and Shell's on 19 May with 98.91% of votes in favour.

4.0 Engagement through Partnerships

Local Authority Pension Fund Forum

- 4.1 Our engagement program is predominantly implemented through the Fund's membership of the Local Authority Pension Fund Forum (LAPFF). The mission statement of the Forum 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 60 public sector pension funds in the UK with combined assets of over £125 billion. 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.
- 4.2 A summary of LAPFF's engagement activities for the quarter are provided alongside the voting activity report in Appendix 1. The issues discussed by the LAPFF are set out in the Quarterly Engagement Report which is available on their website: <http://www.lapfforum.org/Publications/engagement>.
- 4.3 At the December Pensions Committee meeting, there was also a discussion regarding National Express's North American operations and a proposed way forward, including the co-filing of a shareholder resolution for their upcoming 2015 AGM. Based on further research resulting from that discussion, the Fund decided that the following course of action was deemed appropriate which was approved by the Pensions Committee:
- Support the shareholder resolution at the upcoming 2015 AGM, in alignment with our voting policy;
 - Attend the 2015 AGM to vocally register our discontent at the Board; and,
 - Rally other like-minded investors - including major shareholders - to support the resolution in the coming months.

During period under review, the Fund conducted an informal outreach program outlining its position of support regarding the resolution to key stakeholders. The AGM was held on 6 May 2015 and was attended by a representative from the Fund's Investment team. At the AGM, a member of the LAPFF executive registered the Fund's concerns with regards to its approach to labour relations and the potential for reputational risk. The resolution subsequently received approximately 16% support in total (including the Fund), which is notable given that a significant percentage of the company is owned by one family. LAPFF is currently in discussions as to appropriate next steps from an engagement perspective. The Fund will continue to keep the Pensions Committee updated as and when appropriate.

Israeli-Palestinian Campaign

- 4.4 In August 2014, a request was made by a member in Coventry asking for disinvestment in all arms manufacturing companies and also in any companies that profit from the violations by Israel of international laws in Palestine. Councillor Turner and certain members of the Pensions Committee have since received template letters from a number of members with regards to this campaign, to which the Fund has responded on his behalf highlighting our policy on ethical exclusions.
- 4.5 While the Pensions Committee has decided to retain its policy of not excluding companies for ethical reasons as noted above, a decision was made to conduct some additional research and engagement into this issue.
- 4.6 The Fund has instigated an engagement program to provide further clarification on the findings of the company research. The program is currently underway and the Fund plans to report on its findings to the next Pensions Committee in September.

5.0 Financial implications

- 5.1 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.

6.0 Legal implications

- 6.1 This report has no legal implications.

7.0 Equalities implications

- 7.1 This report has no implications for the Council's equal opportunities.

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 implications for the Authority's Human Resources Policies.

10.0 Corporate landlord implications

- 10.1 The report contains no direct corporate landlord implications.

11.0 Schedule of background papers

11.1 Background papers include

- Appendix 1 (Voting and Engagement Activity)
- LAPFF Quarterly Engagement Report January to March 2015:
<http://www.lapfforum.org/Publications/engagement>