

Pensions Committee

23 September 2015

Report title	Responsible Investment Activities	
Originating service	Pension Services	
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Recommendations for noting:

The Committee is asked to note:

1. The Fund's voting and Local Authority Pension Fund Forum's (LAPFF's) engagement activity for the three months ending 30 June 2015, 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/engagement>
3. Update on the Israeli-Palestinian related research and engagement program (Sections 3.5, 3.6).
4. The Fossil Fuel Divestment Campaign being launched in September 2015 (Sections 3.7-3.9).

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 April to 30 June 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 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 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 1,686 company meetings –206 UK, 350 European, 481 North American, 419 Japanese, 164 Asia (excluding Japan), and the remaining 66 meetings predominantly located in Australia/New Zealand and South America. During this period there were 14 meetings where the Fund supported all the resolutions put forward by companies. Approximately 33.5% 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”.

Engagement through Partnerships

- 3.3 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 65 public sector pension funds in the UK with combined assets of over £165 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.

- 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 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 the Chair's behalf highlighting our policy on ethical exclusions.
- 3.6 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. These engagement meetings are on-going during the months of August and September 2015 respectively, and thus a verbal update on the engagement outcomes and any potential further recommendations will be provided to the Pensions Committee in September 2015.

Fossil Free Divestment Campaign

- 3.7 In September 2015, campaign group Fossil Free UK released details of the fossil fuel holdings of every local authority pension fund in the UK to kick-start a divestment campaign targeting the sector. The information has been gathered by volunteers through Freedom of Information (FOI) requests and is intended to reveal how much of the £225bn collectively managed by local authority pension schemes is invested in fossil fuels. The aim of the campaign is to pressurize funds into divesting from fossil fuel companies as a way to mitigate climate change risk.
- 3.8 The Fund believes that a rapid, reactive response to this potential long term risk, for example divesting from all fossil fuel stocks, could mean severe losses of returns likely over a sustained period of time. As owners of long term capital, the Fund feels that it must allow sufficient time for companies to respond to these rapidly changing regulatory and market environments. A balanced and prudent approach is therefore required. As such, at this time the Fund prefers to be part of the conversation to influence the discussion through a robust active ownership approach. This position of "engagement versus exclusion" is one of the Fund's beliefs and guiding principles, as outlined in its Responsible Investment Framework¹.
- 3.9 In terms of implementation, the Fund commits to the following activities to address climate change impacts in its portfolio:

- Encouraging improvement in the level of disclosure by companies of material climate change impacts through collaborative initiatives, for example via our partnership with

¹ <http://www.wmpfonline.com/CHttpHandler.ashx?id=7181&p=0>

the LAPFF and the Aiming for A' investor coalition, the Carbon Disclosure Project (CDP), and the Institutional Investors Group on Climate Change (IIGCC);

- Supporting – and where applicable co-file – reasonable shareholder proposals to disclose/justify a company's approach to climate change risk such as the 2015 BP and Shell shareholder resolutions;
- Reviewing its fund managers to understand their approach to incorporating climate change considerations and encourage improvements in identifying and assessing the potential impact of climate change;
- Contributing to public policy with regard to climate change as it relates to investment considerations through participation with organisations such as the IIGCC. In support of this aim, the Fund is a signatory to the Global Investor Statement on Climate Change;
- Increasing awareness of climate change as it applies to investment decision making through participation in relevant industry forums and collaborative initiatives; and,
- Keeping up to date on the latest research and thinking on the financial materiality and interconnectedness of climate change within and across asset classes.

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 April to June 2015:
<http://www.lapfforum.org/Publications/engagement>

11.0 Schedule of Appendices

- Appendix 1 (Voting and Engagement Activity)