

<b>CITY OF WOLVERHAMPTON COUNCIL</b>	<b>Pensions Committee</b> 30 September 2020
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<b>Report title</b>	Responsible Investment Activities	
<b>Originating service</b>	Pension Services	
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#### Recommendations for decision:

The Committee is recommended to:

1. Approve the updated Voting Principles 2020, included as appendix A.
2. Approve the updated Climate Change Framework and Strategy, included as appendix B.

#### Recommendations for noting:

The Committee is asked to note:

1. The Fund's voting and engagement activity for the three months ending 30 June 2020.
2. The issues discussed by LAPFF are set out in the Quarterly Engagement Report which is available on the LAPFF website: <https://lapfforum.org/publications/category/quarterly-engagement-reports/>
3. The issues discussed in the LGPS Central Quarterly Stewardship Report which is available on the LGPS Central website: <https://www.lgpscentral.co.uk/wp-content/uploads/2020/08/LGPS-Central-Quarterly-Stewardship-Update-Q1-2020-21.pdf>.
4. The Fund's Principles for Responsible Investment Assessment Outcome.

## **1.0 Purpose**

- 1.1 To update the Pensions Committee on the work undertaken in relation to responsible investment activities since the Pensions Committee meeting in June 2020.

## **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 framework. There are three main pillars to the framework: selection (of assets), stewardship (of assets), and transparency & disclosure.

## **3.0 Voting Principles and Climate Change Reports**

- 3.1 The Committee regularly reviews and approves the various framework and policy documents put in place to support delivery of Responsible Investment to ensure any necessary changes e.g. regulatory and changes in approach are incorporated. On this occasion, both documents include minor amendments and a refresh of commentary rather than any fundamental changes. The documents for consideration and approval at this Committee are the:

- Voting Principles
- Climate Change Framework and Strategy

- 3.2 Voting Principles: - The Fund's Voting Principles has seen a number of iterations and was last approved by Committee in June 2019. The Voting Principles apply to all assets where the Fund as an asset owner has voting rights, and also where voting rights are executed by external managers on behalf of the Fund. The Committee are asked to approve the updated Voting Principles 2020, included at appendix A.

- 3.3 Climate Change Framework and Strategy: - The Fund's Climate Risk Strategy and Framework was approved by Committee on 27 March 2019. The document's objective is to explain how the Fund will address climate-related risks and opportunities of relevance to the Fund's investment and funding objectives. The Committee are asked to approve the updated Framework, included as appendix B. Following completion of the 2020 portfolio climate risk review and noting the ongoing evolution of policy and risk indicators, work is ongoing to appraise and inform review of progress and targets set in 2019.

## **4.0 Climate Risk Review**

- 4.1 Climate-related risks and opportunities can be financially material, and the Fund believes the management of climate risk is a fiduciary issue. Through physical events, policy or market changes, climate risks are likely to affect almost all asset classes, sectors and regions. While there remains a great deal of uncertainty, it is unlikely that climate risks can be mitigated through diversification alone. The evidence base of climate change gives rise to significant uncertainty over the way in which climate risks will manifest, and

no single tool can provide an accurate and complete observation on a pension fund's climate risk.

4.2 LGPS Central Ltd has worked closely with WMPF and other Partner Funds and external providers to review and assess climate risk metrics, updating the portfolio analysis WMPF undertook in 2017/18. The outcomes and recommendations of this review are currently being assessed with a view to informing future strategy and engagement activity, noting in line with the Fund's beliefs, that climate-aware decisions can only be made with accurate, relevant, complete, and comparable data

4.3 The increase in climate data, disclosure and assessment tools is vital in helping to continue to inform climate risk exposure, opportunities and areas for mitigation of risk. Current analysis provides coverage for around 50% of total Fund assets and ongoing engagement and industry-wide collaboration is key to increasing information to inform portfolio review.

## **5.0 Principles for Responsible Investment Assessment Outcome**

5.1 The UN Principles for Responsible Investment (PRI) is the world's leading proponent of responsible investment. It strives to understand the investment implications of environmental, social and governance (ESG) factors, whilst supporting its investor signatories in incorporating these factors into their investment and ownership decisions.

5.2 As an asset owner, the Fund has been a signatory of the PRI since 2011. This year the Fund took part in the first mandatory reporting and assessment cycle for all PRI signatories. Assessment ensures that signatories can understand, commit to, and demonstrate their alignment with a global industry-standard of responsible investment, and ultimately achieve higher investment returns whilst making a positive contribution to environmental and societal causes.

5.3 In line with the Fund's Responsible Investment Strategy, the Investment Team strive to monitor and measure the environmental, social and governance impact of its portfolio and engage with asset managers and collaborate with other investors to ensure that its responsible investment targets are met, whilst meeting the Fund's fiduciary obligations.

5.4 The Fund was therefore delighted to learn that it has achieved an A+ or A for every module of the report (Figure 1). The Fund was one of the first 70 UK asset owners to report for assessment and, along with the Fund's pool company, LGPS Central Ltd (who also achieved A+), the Fund was one of only 8 of the UK's Local Government Pension Scheme Fund's to submit. The report results, in conjunction with the Fund being within the first tranche for submission, demonstrates the Fund's commitment to responsible investment.

5.5 The assessment outcome paves the way for a busy 2020-21 as the Fund continues to assess activity relative to the enhanced UK Stewardship Code and continues engagement in line with themes for 2020-2023.

### Summary Scorecard



Figure 1: West Midlands Pension Fund Principle for Responsible Investment Assessment Report Outcome 2020

## 6.0 Responsible Investment Activities

### Engagement through Partnerships

- 6.1 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 programme is implemented through partnerships including the Principles for Responsible Investment (PRI), the Local Authority Pension Fund Forum (LAPFF), EOS at Federated Hermes ('EOS' - via a contract held by LGPS Central Ltd, the Fund's investment pool operator), the Institutional Investors Group on Climate Change (IIGCC) and the UK Pension Fund Roundtable.
- 6.2 Through LAPFF, the Fund undertook 113 engagements with 79 companies during the quarter. Over 80 of the engagements addressed climate change issues, with the remaining engagements focussing on environmental risk, human rights and governance. The majority of engagements were conducted through letter writing and substantial and moderate improvements were documented in 12 engagements. Through LGPS Central Ltd and its engagement provider, Hermes EOS, the Fund engaged with 549 companies during the quarter, covering 1,439 environmental, social and corporate governance issues and objectives. Most engagements were conducted through letter issuance or company meetings, and LGPS Central Ltd or EOS, met or wrote to the Chair or a member of senior management.

- 6.3 COVID 19 continues to cause disruption with potentially long-lasting repercussions for the economy and society as a whole. Whilst the situation is highly disruptive, engagement has been adjusted to reflect this new landscape of risks. In June 2020 Pensions Committee approved the Fund's new engagement themes for the 2020 – 2023 financial years: climate change; sustainable food systems; human rights; and responsible financial management.

### *Climate Change*

- 6.4 Climate change is an unavoidable issue for governments, corporates and consumers alike. In light of the current COVID-19 Pandemic, the Fund continues to engage with its external managers over climate change with some arguing there are now two schools of thought for the trajectory of climate action: one is that the pandemic could lead to fundamental changes in human behaviour which may act as a tailwind for the climate change theme; the second is that the shock to the global economy coupled with lower oil prices could result in policy measures being directed elsewhere resulting in the cost trajectories for renewable sources and the developing array of products which use them becoming less favourable.
- 6.5 This quarter engagement has taken place through LAPFF (of which both WMPF and LGPS Central Ltd are members). Eighty-two climate change engagements with a range of companies were undertaken during the period. Substantial improvements were made with BP PLC and Southern Company, both of which have set new climate ambitions for net zero emissions by 2050.
- 6.6 Climate change stewardship undertaken by LGPS Central Ltd continues to build on collaborations with the Climate Action 100+ initiative. During the quarter the LGPS Central's climate change engagement comprised 203 companies with 252 engagements issues. There was engagement activity on 228 engagement issues and achievement of some or all engagement objectives on 89 occasions. LGPS Central has joined more than 100 global investors in asking policy makers in the EU to plan and execute recovery from COVID-19 that is aligned with climate commitments, and ultimately with the goals of the Paris Agreement.
- 6.7 Engagement with Amazon has taken place through one of the Fund's managers with the company now putting in place a climate strategy and has been delivering on the execution of its climate pledge and carbon neutral goals, aiming to manage climate-related risk and align its business model with a 1.5°C target. Amazon has published its first sustainability report, including climate-related financial risk disclosures with reporting above average for a US corporation and believe that sustained engagement will help Amazon continue to improve.

### *Sustainable Food Systems*

- 6.8 In light of the Covid-19 global pandemic, governments and international institutions are becoming increasingly worried about the growing constraints on access to food around the world as the virus disrupts economies and leaves workers without income for

sustenance. Throughout the quarter the Fund has undertaken a number of engagements under the Sustainable Food Systems umbrella through LAPFF and LGPSC.

- 6.9 In the first quarter of 2019 LAPFF was one of a group of investors that wrote to some of the largest fast food companies including McDonalds, Dominos and Chipotle asking how they plan to enact meaningful policies and targets to de-risk their meat and dairy supply chains from a climate perspective and has continued to engage during 2020. LAPFF met with Chipotle representatives on numerous occasions during 2019 and into 2020. The initial discussion revolved around the measurement of scope three carbon emissions, particularly those relating to the protein supply chain. At the most recent meeting with the company in May 2020, Chipotle went one step further by confirming it would work with the science-based target initiative to set science-based reduction targets for company-wide emissions by 2021. LAPFF's focus is now on ensuring the company continues to develop a methodology capable of accurately collecting emissions data from across its value chain. Such data should set meaningful company-wide emissions reductions targets and must be independently verified as representing accurately the company's carbon footprint.
- 6.10 In September 2019, LGPS Central signed a PRI investor statement calling on companies to take action to prevent deforestation in the Amazon region in Brazil. Provisional legislative measures are currently being considered due to COVID-19 to legalise private occupation of public lands/forests in the Amazon and to reduce requirements for environmental licensing, amongst others. During the last quarter, LGPS Central joined an investor coalition led by Norwegian investor Storebrand, to seek dialogue with policymakers in Brazil and to raise these concerns from a long-term investment perspective. Letters were sent to Brazilian embassies across Europe, US and Japan, the coalition has engaged at the highest political levels, including with the Vice President, the Governor of the Brazilian Central Bank and members of the Brazilian Congress.

### *Human Rights*

- 6.11 The Fund supports the PRI view that human rights are universal and inherent to all human beings<sup>1</sup>. Engagement provider Hermes EOS notes that every person around the world deserves to be treated with dignity and equality, we are all equally entitled to our human rights without discrimination. Human rights are a priority issue for investors as they underpin a company's wider corporate culture, business ethics and enterprise risk management. All these affect a company's reputation and the ability to create and preserve value over the long term.<sup>2</sup>

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<sup>1</sup> <https://www.unpri.org/Uploads/y/v/q/PRI-Human-Rights-Policy.pdf>

<sup>2</sup> <https://www.hermes-investment.com/uki/eos-insight/eos/public-engagement-report-q2-2020/>

- 6.12 Through its Responsible Investment Framework, the Fund actively supports a range of initiatives to champion diversity, equality and the protection of Human Rights in the companies we invest in.
- 6.13 The Fund has undertaken human rights engagement during the quarter through LAPFF and LGPS Central Ltd. The former undertook 11 human rights engagements during the quarter, and during the recent AGM season, the latter voted for shareholder proposals that ask Facebook and Alphabet to ensure better oversight of human rights risk. In order to further ongoing, collaborative engagement with Alphabet, LGPS Central Ltd voted for a shareholder proposal requesting the establishment of a Human Rights Risk Oversight Committee. The proposal got very strong support, roughly 45% of the independent votes cast in support.
- 6.14 The Fund has been engaging with its directly managed external managers to better understand their approach to human rights and in particular on equality, diversity and inclusion, not just with their investee companies, but also how they incorporate directly in their own policies and in practical terms. The Fund is collating and considering how it might further these engagement points.

#### *Responsible Financial Management*

- 6.15 The Covid-19 pandemic – and the global response to it – poses a threat not only to global health, but to communities, economies and investments. The PRI has stipulated that as long-term stewards of capital, investors can and should act now to help reduce harmful impacts. The Covid-19 crisis impacts all investors and their beneficiaries – regardless of holdings, strategy or role in the investment chain. Responses to the crisis must therefore be predicated on the basis of systemic integrity and long-term universal returns being more important than relative company performance. The Fund reached out to its investment managers to obtain assurance on their management of Covid19 and its impact on their business operations, which provided comfort on the effectiveness of managers in dealing with the crisis.
- 6.16 During the quarter LGPS Central Ltd undertook seven fair tax payment engagements. The Pool also undertook collaboration with peer European investors to engage a selection of companies across vulnerable sectors and contribution to Fair Tax Mark project seeking to identify common, international norms for responsible tax conduct.

#### *Voting Globally*

- 6.17 The Fund's voting policies are currently executed by EOS via a contract held by LGPS Central Ltd, the Fund's asset pool company. The Fund has contributed to and endorses LGPS Central's Voting Principles.

6.18 The voting activity for the quarter across markets and issues can be found in Appendix E. During the period, the Fund voted at a total of 1,737 company meetings (24,633 resolutions) – 203 UK, 367 Europe, 502 North American, 497 Developed Asia, 21 Australasian and 147 in Emerging and Frontier Markets. At 1,047 meetings we recommended opposing one or more resolutions. The largest number of resolutions that were opposed concerned remuneration and board structure (usually voting against non-independent non-executive directors where the Fund or its advisors do not see sufficient independent oversight on a company board).

### *Correspondence*

6.19 Following the Supreme Court ruling on the case of the Palestine Solidarity Campaign (PSC) vs the Secretary of State for Housing, the Fund received correspondence from both a national campaign group (received in common with a number of other local authority pension schemes) and local representatives. The Wolverhampton Palestinian Solidarity Campaign raised queries regarding a number of companies that currently operate within Occupied Palestinian Territories who were felt not to be adhering to the UN's guiding principles on Human Rights<sup>[1]</sup>. The Fund's engagement partner LAPFF has started correspondence with companies cited by both the PSC and the UN as having human rights concerns through their operations in the Israeli settlements/Occupied Palestinian Territories. The Committee will be kept updated on progress in this engagement.

6.20 The Fund has also received over recent weeks an increase in correspondence from individual members of the public in connection with climate change and calls for divestment.. The Fund maintains its position that engagement rather than divestment continues to be a more effective long term approach and is able to point to the collaborative work it engages on with others to deliver success in encouraging companies to set carbon targets and to focus on managing their own climate risks.

## **7.0 Financial implications**

7.1 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.

## **8.0 Legal implications**

8.1 This report contains no direct legal implications.

## **9.0 Equalities implications**

9.1 This report contains no equal opportunities implications.

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<sup>[1]</sup> [https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr\\_en.pdf](https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr_en.pdf)

## **10.0 Environmental implications**

10.1 Environmental implications are addressed through the Fund's Responsible Investment Framework.

## **11.0 Human resources implications**

11.1 This report contains no direct human resources implications.

## **12.0 Corporate landlord implications**

12.1 This report contains no direct corporate landlord implications.

## **13.0 Schedule of background papers**

13.1 LGPS Central Quarterly Stewardship Report: <https://www.lgpscentral.co.uk/wp-content/uploads/2020/08/LGPS-Central-Quarterly-Stewardship-Update-Q1-2020-21.pdf>.

13.2 LAPFF Quarterly Engagement Report: <https://lapfforum.org/publications/category/quarterly-engagement-reports/> .

## **14.0 Schedule of appendices**

14.1 Appendix A – Voting Policy

14.2 Appendix B – Climate Change Framework and Strategy

14.3 Appendix C – WMPF Engagement Activity

14.4 Appendix D - WMPF Voting Activity