

Pensions Committee

23 June 2021

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

The Pensions Committee is asked to note:

1. The Fund's engagement and voting activity for the three months ending 31 March 2021.
2. The issues discussed by LAPFF are set out in the Quarterly Engagement Report, which is available on the LAPFF website: [LAPFF QER1 2021.pdf \(lapfforum.org\)](#)
3. The voting and engagement activity of LGPS Central, as set out in the Quarterly Stewardship Report, available on the LGPS Central website: [LGPSC-Stewardship-Update-Q1-2021.pdf \(lgpscentral.co.uk\)](#)
4. The research and engagement activity undertaken by EOS at Federated Hermes as set out in the Quarterly Engagement Report, which is available on the EOS website: [EOS Public Engagement Report \(hermes-investment.com\)](#)
5. The Fund's 2021 Annual Stewardship Report, available at <https://www.wmpfonline.com/CHttpHandler.ashx?id=17878&p=0>

1.0 Purpose

- 1.1 To update the Pensions Committee on the work undertaken in relation to 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 framework. There are three main pillars to the framework: selection (of assets), stewardship (of assets), and transparency & disclosure.

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 programme is implemented through partnerships including 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), Climate Action 100+ (CA 100+), and the Principles for Responsible Investment (PRI).
- 3.2 Through LAPFF, the Fund undertook approximately 60 engagements with 38 companies during the quarter, addressing human rights, climate change and governance issues. Most engagements were conducted through dialogue with company Chairpersons; eight engagements are currently categorised as change in process, whilst substantial and moderate improvements were documented in 11 engagements.
- 3.3 The quarter LGPS Central undertook 1,563¹ engagements with 605 companies on behalf of the Fund, the majority of which were carried out by EOS. Against 579 specific engagement objectives set by EOS, there was achievement of some or all on 137 occasions. Most engagements were conducted through letter issuance or remote company meetings, where LGPS Central, collaborative engagement partners or EOS in a majority of cases met or wrote to the Chair, a Board member or a member of senior management.
- 3.4 Through LGPS Central and EOS, the Fund has been closely monitoring the developing engagement activity in support of responsible financial management, with focus on the banking sector and company response to social needs highlighted by the COVID-19 pandemic. Topical issues such as fair tax payment and coronavirus vaccine distribution have come to the fore as attention turns to global recovery.

¹ There can be more than one engagement issue per company, for example board diversity and climate change.

- 3.5 The ongoing global COVID-19 pandemic continues to cause disruption with potentially long-lasting repercussions for the economy and society as a whole and the Fund continues to reflect and engage on the impact that this is having for companies and their stakeholders. During 2020, LGPS Central signed IIGCC-coordinated letters to EU and UK leaders calling for a sustainable recovery from the COVID-19 pandemic.

Climate Change

- 3.6 With the UN's COP26 meeting set to take place in November 2021, this is a critical year for both corporate and policy makers in accelerating action towards the goals of the Paris Agreement - to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels. The focus is now on the UK and the contribution that local authority pension funds and other institutional investors can make to help decarbonise the economy in a way that protects beneficiaries and secures just transition to net zero.
- 3.7 An investor group including LGPS Central have also asked the COP26 President (The Rt. Hon Alok Sharma) to support investors by seeking publication of key underlying assumptions tied to the International Energy Agency's (IEA's) Net Zero Emissions 2050 scenario. Further clarity from IEA on underlying assumptions and commodity price projections for this scenario will provide a basis on which to conduct further analysis into the implications of climate change for investment portfolios and asset allocation decisions.
- 3.8 During the quarter LAPFF undertook climate change engagement with 22 companies. Four of the engagements are categorised as change in progress and substantial improvements have been recognised for five of the company engagements, one of which was Anglo American PLC.
- 3.9 LAPFF wrote to Anglo American in November 2020 as part of a collaborative initiative coordinated by Sarasin and Partners, underscoring the vital role of accounting and audit in driving the net-zero transition. LAPFF received one of its best responses obtained to date from the Audit Committee Chair (ACC) who stated that the company has undertaken a review of climate risks in its financial statements and will publish the results in its forthcoming Annual Report and Accounts. The ACC has asked that, due to clear parallels, issues raised in this engagement be aligned with engagement undertaken by Climate Action 100+, of which the Fund, LAPFF and LGPS Central are members.
- 3.10 For the first time, companies are seeing 'say on climate' resolutions at their AGMs this year. LAPFF has supported the say on climate resolutions and has issued voting alerts on these resolutions at a number of companies. LAPFF and LGPS Central voted to oppose Shell's climate plan; the Fund is supportive of this position and communicated this response to correspondence received on the topic in the run up to the AGM on 18 May. While Shell's net-zero by 2050 goal and accompanying targets are ambitious, they are still not fully aligned with Paris and a 1.5 °C temperature rise. It is our view that we can and should ask more of leading companies, in order to really see a step-change for the sector and we will continue to support engagement and dialogue with Shell to this effect.

- 3.11 This quarter LGPS Central's climate change engagement set comprised 252 companies with 324 engagement issues. There was engagement activity on 315 engagement issues and achievement of some or all specific engagement objectives on 102 occasions.
- 3.12 LGPS Central is co-leading or in the focus group of eight climate change engagements with CA100+ companies. Through a combination of direct and collaborative engagement, LGPS Central have engaged with an electric utility on the topics of Paris Alignment and corporate lobbying practices. The company lacked top-line statements on climate policy and its industry association relationships are considered to contradict its positive advocacy on climate policy. Following a period of engagement, the company has agreed to conduct an annual review of its trade association memberships and hire a new staff member with an investor relationship focus. Looking forward, LGPS Central and fellow investors would like to see a stronger climate ambition, including a commitment to clear medium and long-term greenhouse gas reduction targets.
- 3.13 In 2017 the pool company's Stewardship provider, EOS, raised its concerns about the weakness in Hyundai Motor's sustainability performance, particularly the carbon intensity of its vehicles, as revealed in a report published by the Carbon Disclosure Project. With little initial improvement, EOS continued to question vehicle sustainability performance over the next three years, including meeting with the independent chair in 2018. Hyundai has now made good progress in improving the sustainability of its vehicles, launching a number of lower emissions models including hybrid, plug-in hybrid and fully electric vehicles. The company is also accelerating the development and promotion of hydrogen fuel cell vehicles and plans to increase its sustainable vehicle models from approximately 3.8% to 20% of total sales by 2025.

Sustainable Food Systems

- 3.14 This quarter LGPS Central's single-use plastics engagement set comprised 33 companies with 41 engagement issues². There was engagement activity on 39 engagements and achievement of some or all engagement objectives on 11 occasions.
- 3.15 Through the PRI Plastic Working group, LGPS Central has continued its engagement with six packaging companies. With increased governmental attention on the negative impacts of plastic use, in tandem with consumers calling for less harmful alternatives, investee companies in the plastic value chain are becoming exposed to increasing regulatory, environmental and reputational risks. The investor group has put forward expectations of companies to: set targets for their use of sustainable materials and disclose progress against those targets; outline the initiatives they are using to reduce plastic pollution; ensure full alignment between the company's sustainable materials strategy and carbon emissions reduction strategy; and include sustainability-related performance KPIs in executive remuneration.

² There can be more than one plastic-related engagement issue per company.

- 3.16 During January 2021, LAPFF met with Tesco to discuss the company's long-term strategy relating to health and nutrition. Part of the objective of this engagement was to encourage the company to disclose metrics relating to the proportion of healthy versus unhealthy produce available to customers and to set relevant targets to improve the availability of healthy items. This engagement aligns with the Healthy Markets initiative being coordinated by ShareAction. Tesco outlined that it already collected data relating to health and nutrition. Since the engagement took place, ShareAction has announced the filing of a resolution at the upcoming Tesco AGM requesting that the company disclose the share of total food and non-alcoholic drink annual sales by volume made up of healthier products and publish a target to significantly increase that share by 2030.
- 3.17 During the quarter EOS had a meeting with the coordinators of the Finance for Biodiversity Pledge³ to share initial ideas about the focus and objectives for the engagement group. EOS shared views on how companies with material impacts on biodiversity could be identified, whether by sector or sub-theme. This task is challenging in the absence of a single metric, such as greenhouse gas emissions, that would enable comparison between different companies' biodiversity impacts. EOS emphasised the importance of setting clear engagement goals so that companies understand the aims and requests of the collaborative engagement group. These are yet to be defined, although we suggested that there should be an emphasis on positive impacts as well as mitigating negative impacts.

Human Rights

- 3.18 On behalf of the Fund, LAPFF has engaged two companies on human rights issues during the quarter. In April 2021 the Financial Times reported on the UK High Court ruling that Ryanair must pay passengers for flights cancelled during a 2018 strike. Payouts are expected to be between 250 and 400 Euros per passenger amounting to millions of Euros as around 15 million passengers were affected. LAPFF has attended Ryanair AGMs, written voting alerts, and met with the company to warn of the financial consequences of the company's failure to engage adequately with unions and workers.
- 3.19 LAPFF has been engaging with Vale and BHP for around two years in relation to both the Samarco and Brumadinho dam collapses. LAPFF deem Samarco to be a particular concern in relation to the time it is taking to make appropriate reparations. Given the delays, LAPFF's primary objective is to put pressure on BHP, Vale, and Renova to speed up the reparations process. LAPFF will continue to engage with the companies and affected communities in the hopes of speeding up reparations. It will check in monthly with Renova and the communities to ensure that it has the accurate number of houses to post on the LAPFF website. This process highlights the importance of ensuring that companies prevent these disasters rather than scrambling to make reparations, where these are even possible, after the fact.

³ <https://www.financeforbiodiversity.org/>

- 3.20 The Fund has re-joined the Rathbones modern slavery engagement initiative to improve employment standards in companies' supply chains. Rathbones is re-running its vote against slavery engagement in 2021 with 69 FTSE350 companies after success in 2020 in getting target companies to comply with the UK Modern Slavery Act. As per end April 2021, all companies have responded and 45 are now compliant. Initial positive responses have given an opening for future meetings to discuss companies' approaches to modern slavery. This is an important step beyond the initial ask of compliance with the Modern Slavery Act, to focus on the content of the statement and to enable investors an understanding of the key risks facing individual companies.
- 3.21 During the quarter LGPS Central's technology and disruptive industries engagement set comprised 31 companies with 52 engagements issues. There was engagement activity on 49 engagement issues and achievement of some or all engagement objectives on eight occasions. LGPS Central has joined a collaborative investor engagement, led by the Council on Ethics to the Swedish National Pension Funds discussing human rights risks with a group of American technology companies. The collaboration has developed a set of human rights expectations which were shared and discussed with the identified technology companies in Q4 2020. These expectations are designed to provide a baseline for ongoing engagement and a means for more constructive and effective dialogue.
- 3.22 The Fund continues to support the New Zealand Superfund's collaborative engagement with social media companies' engagement, which has a targeted focus upon Facebook, Alphabet and Twitter. During the quarter, as a direct response to the NZ Superfund's engagement efforts, the charter for Facebook's Risk and Oversight Committee has been updated to include 'the sharing of content on its services that violate the Company's policies'. The NZ Superfund deem this to be a major win for the Collaboration and a real strengthening of governance and accountability for the Risk and Oversight Committee on this issue, putting the Board on the front foot in working towards prevention of the issue rather than just fire-fighting inherent problems.

Responsible Financial Management

- 3.23 This quarter, LGPS Central's tax transparency engagement set comprised 14 companies with 14 engagement issues. There was engagement activity on 9 engagements and achievement of some or all engagement objectives on three occasions. During 2020, LGPS Central collaborated with five fellow European investors to engage a selection of companies across technology, telecommunication, finance and mining sectors. During the last quarter, LGPS Central held discussions to assess progress for these engagements and whether to expand the scope of the project.
- 3.24 LGPS Central consider four of the six companies engaged during 2020 to be largely lacking in tax transparency. There are "red flags" on issues like companies having subsidiaries incorporated in one jurisdiction but which are tax residents in another jurisdiction paying zero tax. This does not appear to be in line with OECD's Base Erosion and Profit Shifting Framework, which the pool company see as a standard that is relevant to assessing responsible tax behaviour. LGPS Central will continue engagement with the four "laggard" companies and are assessing the inclusion of some more companies that

appear to pursue particularly aggressive tax strategies and/or lack a tax policy, and/or pay the lowest effective rate of tax.

Voting Globally

- 3.25 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.
- 3.26 During the quarter LGPS Central revised their Voting Principles to reflect their heightened expectations on companies in two areas. LGPS Central would firstly like to see stronger diversity on Boards both in terms of gender and ethnicity. They expect FTSE 100 and 250 companies to have at least 33% women on their Boards. The Pool company have also reinforced their view that companies should align their operations and business strategy with the Paris Agreement. LGPS will consider voting against the Chair of companies if there is not clear justification when these expectations have not been met. WMPF will renew its Voting Principles and submit to Committee for approval in December 2021, ahead of the 2022 AGM season.
- 3.27 The voting activity for the quarter across markets and issues can be found in Appendix B. During the period, the Fund voted at a total of 477 company meetings (4,996 resolutions) – 68 UK, 101 Europe, 45 North American, 212 Developed Asia, 3 Australasian and 48 in Emerging and Frontier Markets. At 199 meetings we recommended opposing one or more resolutions. The largest number of resolutions that were opposed concerned board structure and remuneration (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

- 3.28 The Fund continues to receive correspondence from individual members of the public, and more established divestment groups in connection with climate change and calls for divestment. During the quarter the Fund received queries and correspondence on responsible investment topics relating to investment in Palestine and the arms trade.
- 3.29 Through membership of the Local Authority Pension Fund Forum (LAPFF) dialogue with both Palestinian and Israeli interest groups have taken place following the Supreme Court decision on the 29th April 2020. In its work for the LGPS, the Forum undertakes holdings-based engagement with the aim of protecting long-term shareholder value through adherence to the appropriate standards of human rights and humanitarian law. LAPFF undertook preliminary engagement during Q4 2020 with three of the seventeen companies identified by the United Nations and operating in Occupied Palestinian Territories with the objective of understanding and promoting company conduct and publication of human rights impact assessments. The Forum is continuing a programme of engagement over 2021 and is monitoring both UN activity and the developing political situation in the area.

- 3.30 Engagement on the Fund's behalf is also undertaken through LGPS Central's external stewardship provider, EOS at Federated Hermes, with whom it shares the view that companies operating in areas of conflict have enhanced governance obligations thus demanding enhanced transparency and use of leveraged opportunities for engagement over the longer term for positive change. Through a variety of engagements and asks for further due diligence on Human Rights risks and HR policy, company commitments have been secured to help ensure equal employment opportunities and prevent discrimination. Engagement has led to one company confirmed a cessation of activities linked to the construction of illegal or contested settlements. These engagements will continue in 2021 and the engagement approach is apolitical, while distinguishing between those situations that contravene international law and those that do not.
- 3.31 The Fund continues to respond to all correspondents and will continue to monitor progress on the issues outlined, with updates to each quarterly Pensions Committee Meeting.

Leadership and Policy Development

- 3.32 The IIGCC Net Zero Investment Framework was launched on 10 March. This aims to provide a comprehensive set of recommended actions, metrics and methodologies to enable both asset owners and asset managers to maximise the contribution they can make to decarbonisation of the global economy in tackling climate change. It provides an important tool to support alignment with net zero and is one output from the Paris Aligned Investor Initiative (PAII) that the West Midlands Pension Fund, along with LGPS Central, has contributed to since 2019. The Fund continues to support PAII and development of framework implementation through two working groups.
- 3.33 In March 2021 Climate Action 100+ released its Net Zero Company Benchmark which assesses the world's largest corporate greenhouse gas emitters on their progress in the transition to a net zero future. The benchmark framework, developed in collaboration with signatory investors and leading climate research, will be a valuable resource for investors attempting to assess and engage with corporations on their progress and alignment with key commitments. This, together with the IIGCC framework will inform a review of the Fund's Climate Change Framework and Strategy over 2021/22.

Annual Stewardship Report 2021

- 3.34 In April 2021 the Fund submitted its first Annual Stewardship Report (ASR) to the Financial Reporting Council. The ASR provides an overview of the Fund's approach to stewardship and the efforts taken to ensure that WMPF practices stewardship at the highest level both in our own operations and throughout our investment chain. It covers each of the 12 principles of the UK Stewardship Code 2020 grouped into four categories: Purpose and Governance, Investment Approach, Engagement and Exercising Voting Rights and Responsibilities. The Fund is proud of the outcomes and effective actions that it was able to demonstrate within its first ASR and expects our approach to continue to evolve as we continue to engage in collaboration with key partners to drive our common ambition to build sustainable futures for all.

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.

8.0 All other implications

8.1 Environmental implications are addressed through the Fund's Responsible Investment Framework. This report contains no other direct implications.

10.0 Schedule of background papers

10.1 LAPFF Quarterly Engagement Report:
[LAPFF_QER1_2021.pdf \(lapfforum.org\)](#)

10.2 LGPS Central Quarterly Engagement Report:
[LGPSC-Stewardship-Update-Q1-2021.pdf \(lgpscentral.co.uk\)](#)

10.3 EOS at Federated Hermes Public Engagement Report:
[EOS Public Engagement Report \(hermes-investment.com\)](#)

10.4 The Fund's 2021 Annual Stewardship Report, available at
<https://www.wmpfonline.com/CHttpHandler.ashx?id=17878&p=0>

11.0 Schedule of appendices

11.1 Appendix A: WMPF Engagement Activity

11.2 Appendix B: WMPF Voting Activity