

# Pensions Committee

9 December 2015

<b>Report title</b>	Responsible Investment Activities	
<b>Originating service</b>	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 September 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. The update on the aerospace and defence industry campaign and associated press release. LAPFF engagement being cited as a factor in the decision by Singapore Technologies to cease in the design, production and sale of anti-personnel mines and cluster munitions.
4. The update on the Israeli-Palestinian engagement program.

## 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 July to 30 September 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 231 company meetings –91 UK, 33 European, 43 North American, 9 Japanese, 37 Asia (excluding Japan), and the remaining 18 meetings predominantly located in Australia/New Zealand and South America. During this period there were 13 meetings where the Fund supported all the resolutions put forward by companies. Approximately 35.2% of the resolutions were not supported by the Fund.

### *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 £175 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 A member of the Committee recently queried the next steps in the National Express engagement. The Committee may recall that the Fund supported the shareholder resolution at the company's May 2015 Annual General Meeting asking the company to conduct an independent review into labour issues in its US operations.

An additional query was also raised on the engagement with Sports Direct. The Fund opposed the company's annual report at its last AGM due to the following issues:

- Lack of disclosure on its human rights policies and how they are implemented;
- Significant number of "zero-hour" contracts
- Specific labour-related issues with its US subsidiary over the course of the year under review

LAPFF will be conducting further engagement on National Express and Sports Direct, details of which will be forthcoming to its members (including the Fund) in due course. The Fund will continue to keep the Pensions Committee updated as and when appropriate.

#### *Update on Divestment Campaign – Aerospace and Defence Industry*

- 3.6 Over the past two years, the Fund has been asked to consider excluding investments on ethical and social grounds, most recently certain armaments companies stemming from a campaign led by Coventry Deanery Justice and Peace Group. The Pensions Committee requested that LAPFF perform an assessment of whether certain aerospace and defence companies are producing or selling cluster munitions.
- 3.7 In total, nine companies were contacted in November 2014 regarding their involvement with cluster munitions, four of which responded (Alliance Techsystems, Lockheed Martin, Textron and Singapore Technologies). The four companies in question had explicit references to the production of cluster munitions on their websites and/or in their promotional materials. The engagement program of the four companies was completed in November 2014 and based on its findings, the Pensions Committee decided to not exclude the companies from its investment portfolio.
- 3.8 The Fund has been requested to conduct additional engagement with Textron to clarify its position on the production and sale of cluster munitions in light of new information. The Fund will have a teleconference call with the company in December 2015 and will provide an update to the Pensions Committee in March 2016.
- 3.9 On 11 November 2015, Singapore Technologies released a statement that it had ceased the design, production and sale of anti-personnel mines and cluster munitions. In a separate letter to the LAPFF, the company cited its engagement as a factor in the company's decision.
- 3.10 In November 2015, the Fund received some press on the issue from the Coventry Telegraph and the Birmingham Mail respectively, both of whom produced similar articles. The weblink to the Coventry Telegraph article is provided here for the Committee's reference: <http://www.coventrytelegraph.net/news/coventry-news/revealed-coventry-council-pension-fund-10354399>. The Fund has responded with a press release which

reconfirmed the Pension Committee policy position of engagement rather than exclusion. The press release is provided in Appendix 2.

### *Update on Israeli-Palestinian Campaign*

3.11 With regard to the action item from the previous Pension Committee meeting in September, the Fund will conduct a follow-up engagement in April with the following five companies as part of this program: Motorola, Veolia Environment, Caterpillar, Hewlett Packard, and G4S. The Fund will report the findings of the program to the Pensions Committee in due course.

## **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 July to September 2015:  
<http://www.lapfforum.org/Publications/engagement>

## **11.0 Schedule of Appendices**

- Appendix 1 (Voting and Engagement Activity)
- Appendix 2 (Press release on aerospace and defence industry)