

Pensions Committee

21 September 2022

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 30 June 2022 [Appendices A and B].
2. The Fund has retained its signatory status to the UK Stewardship Code, following submission its second Annual Stewardship Report to the Financial Reporting Council (FRC) in April 2022.
3. The issues discussed by Local Authority Pension Fund Forum (LAPFF) are set out in the Quarterly Engagement Report, which is available on the LAPFF website: [LAPFF-QER-2022-Q2.pdf \(lapfforum.org\)](#)
4. The voting and engagement activity of Local Government Pension Scheme (LGPS) Central, as set out in the Quarterly Stewardship Report, available on the LGPS Central website: [LGPS-Central-Stewardship-Update-Q1-2022-2023.pdf \(lgpscentral.co.uk\)](#)
5. 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 \(hermes-investment.com\)](#)

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.
- 2.2 In April the Fund submitted its Annual Stewardship Report to the Financial Reporting Council (FRC) for review. The report highlighted stewardship activity undertaken by the Fund and its investment providers over 2021, which has developed following feedback from the FRC on the Fund's 2020 report. In September 2022, the Fund received the outcome of the FRC's 2022 review, confirming continuation of the Fund's signatory status and noting the improvements made to reporting following feedback in 2021. LGPS Central Limited has also retained signatory status.

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 Environmental, Social and Governance (ESG) investment factors. A significant part of the Fund's engagement programme is implemented through partnerships including the 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+), the Transition Pathway Initiative (TPI), and the Principles for Responsible Investment (PRI).
- 3.2 Through LAPFF, the Fund engaged 90 companies during the quarter¹, addressing climate change, human rights, and governance issues. Engagements were generally conducted through letter writing or meetings; one company engagement is currently categorised as change in process, whilst substantial and moderate improvements were documented in 15 engagements.
- 3.3 This quarter LGPS Central undertook 1,451² engagements with 470 companies on behalf of the Fund, the majority of which were carried out by EOS. Most engagements were conducted through letter issuance or remote company meetings, where LGPS Central,

¹ This is a consolidated figure representing the number of companies engaged, not the number of engagements.

² There can be more than one engagement issue per company, for example board diversity and climate change.

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.

Climate Change

- 3.4 During the quarter LAPFF undertook 46 climate change engagements. 30 of these companies are categorised as in dialogue with a further 8 showing improvement.
- 3.5 Over the quarter, LAPFF announced one major initiative related to climate change linked to its work on 'Say on Climate'. LAPFF aims to issue up to 50 voting alerts to members on company climate plans over the course of the next twelve months. The goal of this initiative is to drive home the importance of ensuring investors weigh in meaningfully on corporate climate strategies and initiatives. The 'Say on Climate' initiative will be assessed for its role in encouraging companies to take climate measures in line with the Paris Agreement. LAPFF has already issued several climate-related voting alerts. While LAPFF is pleased to see an increasing number of company resolutions seeking investor support for corporate climate plans, the goal is not to rubber stamp these plans. The resolutions will be assessed on their merits, not merely on the basis that plans have been put to a vote.
- 3.6 LAPFF is co-leading engagement with Suzano, a pulp and paper company as part of the Climate Action 100+ engagement group. Following concerns over the ambition of its emissions reduction targets and its climate policy engagement disclosures, Suzano joined the Business Ambition for 1.5°C and Race to Zero initiatives, signed the commitment to the Science-Based Target Initiative (SBTi) – an element raised by LAPFF - and joined the CDP Supply Chain on Climate Change looking to addressing emissions throughout the value chain. This marks real progress for the company, focussing on supply chain-based emissions has been an issue LAPFF has consistently raised with Suzano.
- 3.7 This quarter, LGPS Central's climate change engagement set comprised 217 companies with 404 engagements issues. Most engagements were undertaken via CA100+ with progress on 63 specific engagement objectives.
- 3.8 LGPS Central and EOS's engagement with NextEra centres around the ongoing CA100+ initiative. In March 2022, LGPS Central co-signed a letter addressed to NextEra's Lead Independent Director, seeking to discuss an explicit net zero target consistent with a 1.5C pathway, and the separation of Chair and CEO. As the latter did not get support from the company, LGPS Central voted against the Lead Director. The first request saw the company release its updated ambition on carbon emissions in June. LGPS Central welcomed the company's increased ambition but recognises that more work is required to be fully aligned with Paris goals, in particular greater disclosure and target setting on Scope 3 emissions.
- 3.9 Shell has set a net zero by 2050 ambition and a plan on how this will be achieved; however, gaps remain in terms of governance, ambition, and strategy. While through constructive CA100+ engagement, Shell was the first in its sector to seek an advisory vote on its climate strategy at the 2021 AGM, the 2022 update on its energy transition plan was met by 20.1% opposition, including LGPS Central. LGPS Central welcomed Shell's commitment on low-carbon projects and its ambition to reduce oil production by

10-20% by 2030, but noted it came short to meet the International Energy Agency's 1.5C target. Failure to disclose absolute emissions associated with its net carbon intensity targets and a lack of an operating plan and budget to meet its 2050 goals were highlighted by LGPS Central.

- 3.10 Methane accounts for about 20% of global greenhouse gas emissions but is more effective than carbon dioxide at trapping heat in the atmosphere over the short term. The importance of methane was recognised at COP26 when the US and EU announced a partnership to cut methane emissions by 30% by 2030, from 2020 levels. Over 100 countries signed up to the Global Methane Pledge, acknowledging the urgency of the issue. Under its Engagement Plan, EOS is seeking a 60 to 75% reduction in oil and gas operational methane emissions by 2030, from a 2015 baseline. Specifically, EOS asks for methane reduction commitments and implementation plans aligned with the UNEP-managed Oil & Gas Methane Partnership (OGMP) 2.0, which offers a step-change improvement in the transparency and credibility of reported methane emissions from oil and gas operations and has encouraged several actors in the oil and gas industry to join the partnership such as Occidental Petroleum and filed a shareholder proposal with Chevron for a report on the reliability of methane emission disclosures.

Sustainable Food Systems

- 3.11 This quarter, LGPS Central actions on Sustainable Food Systems theme engaged with 23 companies, over 29 engagement issues and objectives.
- 3.12 EOS report that through their engagement they are seeing some emerging best practice in regenerative agriculture, with technology and partnerships helping to develop practices which increase biodiversity, enrich soil, improve watersheds and enhance ecosystem services. They continue to encourage food manufacturers and retailers to implement and promote transition strategies which can play a role in reducing supply chain risk.
- 3.13 The PRI-led plastics working group, a collaborative engagement with six packaging companies supported by LGPS Central, is brought to a close after good progress. This engagement project with six packaging companies, asked these to reduce, re-use and replace fossil-fuel based plastics in their packaging products. This engagement project will now be closed after two years due to steady progress by these packaging companies. While greater ambition in short/medium-term targets and a greater degree of removal of plastics are expected, LGPS Central is now considering whether engagement effort should be focused on another part of the plastics value chain. LGPS Central will discuss next steps with investor collaborators during Q3 2022.

Human Rights

- 3.14 This quarter our human rights related engagements comprised 90 companies with 124 engagements issues and objectives.
- 3.15 LAPFF announced the visit by LAPFF Chair, to communities affected by the Mariana and Brumadinho tailings dam collapses in Minas Gerais, Brazil, driven by the findings of a [major report on mining and human rights](#) issued by LAPFF at the beginning of the quarter. This report covers concerns that there has not been enough progress on

housing reparations, among other issues, following the Mariana tailings dam collapse, and also covers mining impacts by Anglo American, BHP, Glencore, Rio Tinto, and Vale in Australia, Colombia, Papua New Guinea, Madagascar, Mongolia, and the US. This report has been issued alongside a new human rights strategy for LAPFF that is focused on ensuring corporate impacts that lead to improved human rights outcomes.

- 3.16 LAPFF reached out to several companies this quarter, continuing to push for them to undertake human rights impact assessments on their operations in the Occupied Palestinian Territories. LAPFF first met with Booking Holdings in 2021 with a follow up meeting held this quarter (alongside LGPS Central). LAPFF spoke with the company about publishing a human rights statement which it has now subsequently done. It would appear that the company recognises it has a way to go in developing its human rights strategy across all conflict zones but is continuing to apply due diligence on its operations. General Mills reached out in May to announce that it had sold its stake in a joint venture in East Jerusalem, leaving it with no further business operations in Israel.
- 3.17 Over the last two years, the Fund, LGPS Central and LAPFF have been members of a collaborative investor-initiative on human rights (Modern Slavery) convened by Rathbones Group Plc (Rathbones). Phase III of this ongoing engagement project has seen LGPS Central co-sign letters to 44 FTSE 350 companies that have failed to meet the minimum reporting standards of the Modern Slavery Act 2015. As at the end of June 2022, 40 of these companies are compliant with the Act, with LGPS Central and the initiative following up with further engagement and monitoring of progress.

Responsible Financial Management

- 3.18 This quarter, our tax transparency engagement set comprised 5 companies with 5 engagement issues and objectives. There was progress on two specific engagement objectives against a total of three objectives. Two companies published stand-alone tax reports following investor engagement.
- 3.19 Together with four fellow European institutional investors, LGPS Central had constructive engagement with six global companies to discuss tax transparency and responsible tax behaviour, in particular that the companies share tax-relevant Country-by-Country Reporting (CBCR) to make a meaningful assessment of their tax behaviour. Two of the companies, Barrick Gold, and Experian, published stand-alone tax reports during the quarter. We welcome the companies' stand-alone tax reports which we consider an acknowledgement by the companies of the risks around tax behaviour.

Voting Globally

- 3.20 The Fund's Voting Principles 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. As mentioned last quarter the Fund has reviewed and updated its Voting Principles in consultation with appointed investment managers, including LGPS Central Ltd. The updated version of the [Voting Principles](#), finalised in April 2022, has been in place over the voting season and has strengthened expectations on board composition to enhance diversity (Section 3.1); enhancement of Auditor

Independence and Remuneration practices (Sections 3.2 and 3.4); and inclusion of Section 3.5 '*Sustainable Business Practices*' which sets out enhanced expectations of company climate-related disclosures and transition plans and encourages commitment to biodiversity protection as part of a broader climate transition effort. Several company votes were conducted in Q2 2022.

- 3.21 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 1,747 company meetings (25,089 resolutions) – 213 UK, 380 Europe, 517 North American, 470 Developed Asia, 21 Australasian and 146 in Emerging and Frontier Markets. At 1,234 meetings the Fund 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).

Voting Key Highlights

- 3.22 Management-proposed say-on-climate votes gained momentum in 2022 following its debut in 2021. There were approximately 30 such votes, asking shareholders to approve transition plans or providing an update on previously approved plans. LGPS Central continues to take a robust approach to assessing these plans and voted against a number, which were considered to be not fully aligned to 1.5°C scenario, including plans proposed by BP, Rio Tinto, Glencore, Shell, and Barclays.
- 3.23 LGPS Central supported eleven shareholder proposals at Amazon's AGM, including a shareholder proposal on packaging materials to encourage better plastic-related risk management, and a proposal on responsible tax behaviour asking Amazon to disclose global tax practices and risks to investors, by producing a tax transparency report aligned to the Global Reporting Initiative (GRI) Tax Standard. Neither of the proposals met the required shareholder support to be passed, but garnered encouraging support.
- 3.24 Barclays published its updated climate strategy, targets, and progress report for an advisory vote at its AGM on 4 May. Following an analysis of Barclays' updated climate strategy as well as a review of its long-standing engagement with the bank, LGPS Central decided to vote against the advisory resolution due to misalignment with International Energy Agency Net Zero Emissions, which may not lead to absolute emission reductions and its delayed exit from US coal power generation sector. 19.19% of shareholders voted against this proposal.
- 3.25 LGPS Central opposed JPMorgan CEO's one-off special award valued at \$50m on top of his \$34.5mn normal compensation, which was deemed excessive and not reflective of institutional failure around compliance violations which has led to multiple fines paid by the bank. LGPS Central also supported a shareholder proposal requesting the bank to adopt a fossil fuel financing policy consistent with IEA's net zero 2050 scenario. 68.98% of shareholders voted against the 'say on pay'; the first time the bank's board has lost such a vote since it was introduced in 2009, while the climate resolution received 11.55% support, broadly in line with the level received by similar shareholder proposals at other major American banks.

Correspondence

- 3.26 The Fund continues to receive correspondence from individual members of the public, and more established divestment groups in connection with climate change, arms and weapons manufacturers, agricultural livestock production, human rights issues and calls for divestment.
- 3.27 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.

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 Other Potential Implications

- 7.1 This report contains no other potential implications

8.0 Schedule of Background Papers

- 8.1 LAPFF Quarterly Engagement Report: [LAPFF-QER-2022-Q2.pdf \(lapfforum.org\)](#).
- 8.2 LGPS Central Quarterly Stewardship Update: [LGPSC-Stewardship-Update-Q1-2022-2023.pdf \(lgpscentral.co.uk\)](#)
- 8.3 EOS at Federated Hermes Public Engagement Report: [EOS Public Engagement Report \(hermes-investment.com\)](#)
- 8.4 WMPF Annual Stewardship Report: [Stewardship Code Reporting \(2022\).qxp WMPF Annual Stewardship Report - April 2021 \(wmpfonline.com\)](#)

9.0 Schedule of Appendices

- 9.1 Appendix A – WMPF Engagement Activity
- 9.2 Appendix B – WMPF Voting Activity

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