

Pensions Committee

22 March 2023

Report title	Responsible Investment Update	
Originating service	Pension Services	
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Recommendations for action:

The Committee is asked to note:

1. The Fund's draft Voting Principles 2023 [Appendix A].
2. The Fund's engagement and voting activity for the three months ending 31st December 2022 [Appendices B and C].
3. The issues discussed by Local Authority Pension Fund Forum (LAPFF) that are set out in the Quarterly Engagement Report, which is available on the LAPFF website: [LAPFF Quarterly Engagement Report](#)
4. The research and engagement activity undertaken by EOS at Federated Hermes, as set out in the Annual Review, is available on the EOS website: [EOS 2022 Annual Review](#)

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 economic, social and governance (ESG) investment factors. A significant part of the Fund's engagement programme is implemented through partnerships including 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 26 companies during the quarter¹, addressing climate change, human rights, and governance issues. Engagements were generally conducted through letter writing or meetings; two company engagements are currently categorised as change in process, whilst substantial and moderate improvements were documented in nine engagements.
- 3.3 This quarter LGPS Central undertook 883 engagements with 251 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, collaborative engagement partners or EOS in most 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 14 climate change engagements. One of these companies is categorised as in dialogue with a further 11 showing improvement.

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

- 3.5 In collaboration with investors from the Asia Transition Platform, LAPFF engaged with J-Power to discuss carbon emission reduction targets aligned with the Paris Agreement. A meeting with the Executive Vice President and Director covered their net zero commitment in all their operations and roadmap to provide a stable supply of electricity for the Japanese domestic market. LAPFF intends to continue challenging J-Power's strategy, including the company's strategy to invest in carbon capture and co-firing.
- 3.6 LAPFF has engaged with ArcelorMittal on the implementation of zero-carbon technologies and endorsing company initiatives through a 'Say on Climate' resolution. The company has joined the Energy Transition Commission (a LAPFF request from 2019) and highlighted the Mission Possible Partnership's 'net zero steel' report. There were discussions around Science-Based Targets initiatives to develop appropriate methodology for the steel sector. It is hoped that ArcelorMittal will issue a climate report after the Annual General Meeting (AGM).
- 3.7 As part of the Fund's continued involvement in the IIGCC Paris Aligned Asset Owners (PAAO) group, the Fund has published its net zero targets to support its PAAO commitment. This supplements the Climate Change Framework and Strategy on how the Fund approaches climate change and net zero commitments.
- 3.8 Alongside 532 investors, the Fund signed the 2022 Global Investor Statement to government regarding the climate crisis hosted by the Investor Agenda. The letter urges governments to adopt and implement policies that enable net zero and climate-resilient investment to scale in order to meet the objectives of the Paris Agreement.
- 3.9 The Fund responded to a Local Government Pension Scheme (LGPS) consultation from the Department for Levelling Up, Housing and Communities (DLUHC) regarding the mandatory reporting of climate risks. The Fund is supportive of the need to standardise best practice methodology in relation to climate reporting given the scale and consequences that the climate crisis poses.

Sustainable Food Systems

- 3.10 Extensive engagement has been conducted by EOS throughout 2022 on regenerative agriculture to improve farm biodiversity, soil health, crop yields and water flows in direct and indirect supply chains. Companies engaged include Carrefour, Kellogg's, Saputo and General Mills. One of the outcomes from these engagements included General Mills setting ambitions to advance regenerative agriculture to one million acres of farmland by 2030.
- 3.11 EOS engaged with Posco International. Following engagement, the company began discussion with the Roundtable on Sustainable Palm Oil (RSPO) to develop a sustainable palm oil strategy. This included implementation of a no deforestation, no peat and no exploitation (NDPE) policy in its palm oil subsidiary in 2022. They have also developed a large-scale environmental conservation and community development programme in accordance with RSPO guidelines.

- 3.12 One of the Fund's external managers co-signed letters to 12 food and beverage manufacturers under the ShareAction's Healthy Markets Initiatives on various topics such as transparency on nutrition strategies, progressing their nutrition strategies, disclosing the proportion of the company's portfolio and sales with healthy foods and drinks and setting targets to increase these sales. Engagement will continue with all companies to progress and monitor these objectives.

Human Rights

- 3.13 During the quarter LAPFF undertook three human rights engagements. One of these companies is categorised as in dialogue with a further two showing improvement.
- 3.14 There has been increasing human rights concerns following a military coup in Myanmar in 2021. LAPFF reached out to Tesco after they announced their responsible exit from the country in 2022 to discuss responsible exit and supply chain due diligence. The discussion explored whether companies could maintain leverage over factories and the human rights situation on the ground. LAPFF continues to monitor companies with supply chain links to Myanmar and engage with companies adopting a responsible exit.
- 3.15 LAPFF joined the Investor Alliance for Human Rights (IAHR) Uyghur Working Group as part of a collaborative engagement to address alleged Uyghur forced labour in supply chains. LAPFF led the engagement with The Home Depot asking the company to map the value chain inside and outside of China to identify direct and indirect business relationships with the East Turkestan/Xinjiang region. This included questions surrounding the company's audit programme including issues with undertaking thorough audits in Xinjiang. LAPFF continues to participate in the working group and continues to question The Home Depot's approach to human rights risks.
- 3.16 The Fund signed an investor letter with SHARE, a Canadian Investor Body, to address the human rights concerns at Amazon in relation to their commitments to freedom of association and collective bargaining. The letter asks the company to conduct third-party assessments of Amazon's commitments, policies and practices to ensure alignment with the International Labour Organisation (ILO) Declaration on Fundamental Principles and Rights at Work and UN Guiding Principles on Business and Human Rights. The letter requested Amazon to publish the assessment findings and recommendations publicly including the company's plans and timelines to implement these recommendations.

Responsible Financial Management

- 3.17 EOS engaged with Amazon following a shareholder proposal concerning tax avoidance. An exempt solicitation filed with the Securities and Exchange Commission outlined that the company did not disclose revenues, profits, or tax payments in non-US markets in standard reporting. EOS continues to engage with Amazon on this matter.
- 3.18 EOS engaged with Microsoft and Cisco. Shareholder proposals were filed for greater tax transparency in its 2022 annual meetings in line with the Global Reporting Initiative (GRI) tax criteria 207. Engagement continues with both companies on their tax practices in line with relevant legalisation.

Voting Globally

- 3.19 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, the latest iteration of which is due to be published following the quarter-end. The Fund has reviewed and updated its Voting Principles noting the important role voting places in the overall engagement strategy and in consultation with LGPS Central Ltd. Key updates to the document include: strengthening of expectation on board composition to further enhance diversity (Section 3.1) and increased expectations around disclosure including climate-related disclosure, gender pay, deforestation-related risks, human rights and modern slavery-related risks, and tax transparency (Section 3.5). A draft version of the Fund's updated Voting Principles can be found in Appendix A. This has been developed ahead of the 2023 voting season, with the final version to be presented to Committee for approval in June 2023.
- 3.20 The voting activity for the quarter across markets and issues can be found in Appendix C. During the period, the Fund voted at a total of 291 company meetings (2,321 resolutions) – 62 UK, 32 Europe, 39 North American, 35 Developed Asia, 96 Australasian and 27 in Emerging and Frontier Markets. At 148 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

- 3.21 One of the Fund's external managers voted in favour of a shareholder resolution against an iron ore company requesting Australian policy settings were consistent with the 1.5-degree Paris Agreement and to include climate sensitivity analysis with a 1.5-degree scenario in the company's audited financial statements. These resolutions received 12.7% and 18.7% support respectively.
- 3.22 EOS supported a Civil Rights Audit (CRA) shareholder proposal at Apple in 2022, which urged boards to oversee third-party audit to analyse the adverse impacts of companies' policies and practices on the civil rights of stakeholders. This proposal received 53.6% shareholder support.
- 3.23 LAPFF issued a voting alert in favour of Australasian Centre for Corporate Responsibility (ACCR) to oppose the BHP Chair, regarding the company's sustainability activities and voted in favour of three shareholder resolutions aiming to improve the company's climate practices.

Asset Owner Diversity Charter (AODC)

- 3.24 The Fund has continued its involvement with the Asset Owner Diversity Charter Working Group aiming to tackle diversity, equality, and inclusion (DE&I) within the asset management industry. To date, the Asset Owner Diversity Charter has engaged with asset owners, asset managers and consultants regarding their DE&I strategies and standardising an approach to assess the effectiveness of these strategies. Over the

quarter, the working group held an in-person event, 'AODC: Year in Review', to summarise the findings from the 'Asset Manager Diversity and Inclusion Questionnaire'. This opened conversations on how different industry participants are applying the knowledge from the questionnaire to improve their DE&I strategies and evaluate how AODC can continue to support and facilitate this progression. The Committee will be informed on any updates.

Correspondence

- 3.25 The Fund continues to receive correspondence from individual members of the public, and more established groups in connection with a range of topic areas such as climate change, human rights and calls for divestment.
- 3.26 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 Quarterly Engagement Report Q4](#)
- 8.2 EOS at Federated Hermes Public Engagement Report: [EOS 2022 Annual Review](#)

9.0 Schedule of Appendices

- 9.1 Appendix A – WMPF Draft Voting Principles 2022
- 9.2 Appendix B – WMPF Engagement Activity
- 9.3 Appendix C - WMPF Voting Activity