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WOLVERHAMPTON
COUNCIL

Pensions Committee

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Report title	Responsible Investment Activities	
Originating service	Pension Services	
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Report to be/has been considered by	Rachel Brothwood Email	Executive Director of Pensions Rachel.Brothwood@wolverhampton.gov.uk

Recommendations for action:

The Pensions Committee is asked to note:

1. The publication of the Fund's Annual Stewardship Report 2023 outlining the Fund's stewardship activities during 2022 aligned with the 2020 Stewardship Code [Appendix A – link provided within report].
2. The Fund's engagement and voting activity for the three months ending 31st March 2023 [Appendices B and C].
3. The issues discussed by LAPFF are set out in the Quarterly Engagement Report, which is available on the LAPFF website: [LAPFF Quarterly Engagement Report](#) for the quarter.
4. The voting and engagement activity of LGPS Central Ltd, as set out in the Quarterly Stewardship Report, is available on the LGPS Central website: [LGPS Central Quarterly Stewardship Report for the Quarter](#).
5. The research and engagement activity undertaken by EOS at Federated Hermes, as set out in the Public Engagement Report, is available on the EOS website: [EOS Public Engagement Report](#) for the quarter.

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 environmental, social and governance (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+), the Transition Pathway Initiative (TPI), and the Principles for Responsible Investment (PRI).
- 3.2 Through LAPFF, the Fund engaged 54 companies during the quarter¹, addressing climate change, human rights, and governance issues. Engagements were generally conducted through letter writing or meetings; company engagement is currently categorised as change in process for 4 companies, whilst substantial and moderate improvements were documented in 6 engagements.
- 3.3 This quarter LGPS Central undertook 1,307² engagements with 346 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 with the Company Chair, a Board member, or a member of senior management.

Climate Change

- 3.4 During the quarter, LAPFF undertook 9 climate change engagements. Two of these companies are categorised as in dialogue with a further 2 showing moderate improvements since previous engagements.

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.

- 3.5 For 2023, LAPFF will continue its 'Say on Climate' workstream which allows shareholders to vote on companies' net zero transition plans at their AGMs. In April 2022, the HM Treasury established the UK Transition Plan Taskforce, which aims to develop a 'gold standard' for climate transition plans. As of yet, only a small number of companies have stated that there would be an annual 'Say on Climate' vote whilst others specified a vote would occur every three years alongside their triennial climate plan. Most companies did not have a 'Say on Climate' vote and instead preferred to lean on existing engagement with stakeholders. LAPFF intends to engage with these companies and stress the importance of the 'Say on Climate' vote.
- 3.6 LAPFF is a member of the CA100+ transport group aiming to engage with the largest emitters in the automotive sector on incoming regulations, such as the ban on petrol vehicles sales and tightening emission standards. LAPFF participated in an engagement with General Motors discussing the impacts of the US's Inflation Reduction Act, target setting and progress in meeting these ambitions. The company plans to have capacity in excess of one million EV units in North America and China by 2025. LAPFF will continue to monitor progress on targets, plans, investments and deliver of targets.
- 3.7 This quarter, LGPS Central's climate change engagement set comprised 559 companies with 812 engagements issues. Most engagements were undertaken via CA100+ and EOS with progress on 72 specific engagement objectives.
- 3.8 As part of Climate Action 100+ engagement, LGPS Central has continued to co-lead on engagement with Glencore on their climate transition efforts and its assurance. Following a meeting with the Head of Sustainable Development at Glencore, concerns were raised about the efficacy of climate dialogues, in which LGPS Central recommended comparing the companies' short and medium-term decarbonisation targets to the International Energy Agency's 1.5-degree coal trajectory and to set 2030-specific targets. The company are assessing whether to provide disclosure and will revise its climate strategy, which will be presented at their 2024 AGM.
- 3.9 LGPS Central has joined the Finance Sector Deforestation Action Group focusing specifically on commodity-driven deforestation by engaging with companies that are exposed to commodities such as wood, palm oil, soy, beef, pulp and paper. Lowe's Companies Inc., the second-largest US hardware retailer, has set 2050 net zero ambitions aligned with the Science Based Targets Initiative and has committed to 100% of the company's wood to be sourced from sustainable sources (either certified or controlled). The company has partnered with the Worldwide Fund for Nature and Forest Forward, to develop strategies to reduce their forest footprint. The company actively engages with suppliers and indigenous people to investigate the practice of Free and Prior Informed Consent.

Sustainable Food Systems

- 3.10 This quarter, LGPS Central have engaged 26 companies on 28 engagement issues and objectives, under the Fund's Sustainable Food Systems engagement theme.
- 3.11 EOS at Federated Hermes and LAPFF have engaged with Nestle on the company's financial and ESG strategies and undertaken dialogue on their plastic reduction target.

The company made a commitment to make 100% of their packaging recyclable or reusable and to reduce the use of virgin plastics by 30% by 2025. The company is also under engagement from ShareAction's Health Markets, which aims to promote, and increase access to healthier consumer diets.

- 3.12 LAPFF continues to engage with Chipotle Mexican Grill regarding its approach to water stewardship. The company undertook a water risk assessment to identify areas of water stress within the supply chain in 2022, in which there was a significant portion of their suppliers operating in areas of high-water stress. During the quarter, the company had discussed its progress in completing a water stress evaluation for its supply chain, forecasting the impact of water stress in 2040 and developed a mitigation roadmap to establish water stewardship throughout its operations. LAPFF is a lead investor in the Valuing Water Financed Initiative, whereby Chipotle will be benchmarked against its peers on water stewardship to inform target setting and supply chain management.

Human Rights

- 3.13 During the quarter, LAPFF undertook 16 human rights engagements and is in dialogue with one company.
- 3.14 The Fund, alongside LAPFF, signed a letter to Amazon regarding concerns to the company's practices on freedom of association alongside Canadian shareholder organisation, 'SHARE'. LAPFF takes the view that Amazon's definition of freedom of association is misaligned with international labour law. The International Labour Organisation Committee has heard 44 cases against the US or individual US states for their laws and practices on this topic. LAPFF intends to engage Amazon through The Big Tent group of investors, following unsuccessful engagement.
- 3.15 LAPFF has been selected to join the Principle for Responsible Investment (PRI) Advance working group to improve human rights standards in the mining and renewable energy industries notably with Anglo American and Vale. Initial meetings with both companies covered short, medium, and long-term objectives of engagement. LAPFF will continue to work with other investor members to action these objectives and liaise with affected stakeholders affected by the companies' operations.
- 3.16 This quarter LGPS Central undertook human rights engagements with 120 companies on behalf of the Fund, the majority of which were carried out by EOS. This quarter our human rights related engagements comprised 157³ engagements issues and objectives.
- 3.17 LGPS Central has engaged with a Chinese communication company ensuring that civil liberty and freedom of expression are not undermined by Chinese censorship law. The company reached out to LGPS Central regarding becoming a signatory to the UN Global Compact but was at risk of failing to comply with Principle 2⁴ on the grounds of complicity of human right abuses. It was recommended to the company to publish a transparency report, policy on government requests and its human rights due diligence process. The company had published a privacy policy user service agreement and law enforcement data request handling procedures. The company is currently working on disclosure of an

³ There can be more than one engagement issue per company, for example board diversity and climate change.

⁴ [The Ten Principles | UN Global Compact](#)

ESG report that LGPS Central will review. LGPS Central has taken a lead investor role with the company and will establish goals and milestones for engagement.

Responsible Financial Management

- 3.18 This quarter, our tax transparency engagement set comprised 8 companies with 9 engagement issues and objectives. There was progress on 3 specific engagement objectives.
- 3.19 LGPS Central, alongside peer investors, discussed Barrick Gold's feedback regarding the disclosure of country-by-country tax reporting and details of subsidiaries which are registered in low tax jurisdictions after the publication of their inaugural tax report. This is part of ongoing engagement with the company providing annual feedback and expectation setting to the company. Since Barrick Gold is a member of the International Council on Mining and Metals, the company is expected to follow country-by-country reporting by 2050. This will continue to be a key engagement point moving forward.

Annual Stewardship Report 2023

- 3.20 The Fund submitted the third iteration of its Annual Stewardship Report (ASR) to the Financial Reporting Council (FRC) on 31st May 2023. The report outlines the Fund's alignment to the UK Stewardship Code 2020, which sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. The ASR outlines the Fund's continued focus on stewardship activities both as a responsible asset owner and employer. The report comprises the Fund's key stewardship achievements and responsible investment, engagement, and voting activity for the 2022 calendar year.
- 3.21 During the year the Fund enhanced its reporting in relation to climate-related risks which includes new climate scenario modelling. Key focus areas for the Fund over the next few years will be developing its internal reporting, oversight, and data framework across its investment portfolio to enable more meaningful analysis and reporting across all the Fund's assets and improving the quality of decision-making as well as meeting the expected increase in climate related disclosure requirements. The Fund will continue to work with its investment partners, including LGPS Central Limited, to enhance the quality and coverage of data across our portfolio so that we can monitor progress of our climate strategy and net zero ambitions. The Fund believes that having a flexible approach is of great importance in the current environment and we expect our approach to evolve as the landscape and industry develops. The Fund expects to receive confirmation of retention of its 2020 Stewardship Code signatory status along with feedback on the report from the FRC in September 2023

Rathbones' Modern Slavery Engagement with FTSE 350 Companies

- 3.22 For the fourth consecutive year, the Fund has become signatory to Rathbones' Modern Slavery Initiative. During 2022, the initiative, backed by 122 investors with £9.6 trillion in assets under management, successfully lobbied 41 out of 44 target companies to become compliant with section 54 of the Modern Slavery Act. In 2023 Rathbones will

continue engagement with the three outstanding companies and will commence new engagement with a further 38 non-compliant FTSE 350 companies.

Occupational Pensions Stewardship Council

- 3.23 During the quarter the Fund joined the Occupational Pensions Stewardship Council (OPSC)⁵ which exists to promote and facilitate high standards of stewardship of pension assets. The 2023 workstream commences in June 2023; the Fund has signed up to the 'Member Focus' strand which will allow the Fund to feed into and learn from conversations with peer pension schemes and industry experts, how to understand Fund member preferences and priorities through a stewardship lens.

Voting Globally

- 3.24 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 454 company meetings (5,205 resolutions) – 43 UK, 97 Europe, 38 North American, 235 Developed Asia, 5 Australasian and 37 in Emerging and Frontier Markets. At 241 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

- 3.25 LGPS Central supported a shareholder proposal for Apple Inc requesting the company report its median pay gap for both race and gender to prevent misinterpretation of the data across all its jurisdictions. The company is seen as lacking in terms of pay gap reporting compared to its peers. A similar proposal was put forward in 2022 receiving shareholder support of 33.6%. In 2023, LGPS Central continued to support the shareholder proposal in line with the Fund's views on diversity, equality, and inclusion. Proposals received 33.8% support.
- 3.26 LGPS Central supported a shareholder proposal requesting A.P. Moller Maersk, a shipping company, to disclose its efforts on human and labour rights in accordance with the UN Guiding Principles on Business and Human Rights and communicate any human rights related financial risks that the company had identified and/or addressed. The company is a signatory to the UN Global Impact and previously provided extensive disclosures on the issues of human and labour rights, however not the financial risks related to it. The proposal did not pass.
- 3.27 LGPS Central supported a shareholder proposal at Metro's, a Canadian food retailer; a shareholder proposal was put forward at the AGM requesting that the company adopts near- and long-term science-based greenhouse gas emission reduction targets inclusive of Scope 3 emissions across the entire value chain. The proposal also requested that the company adopts climate transition plans aligned to the Paris Agreement with a net zero by 2050 target and expressed in absolute emissions. These transitions plans should be put

⁵ [Occupational Pensions Stewardship Council - GOV.UK \(www.gov.uk\)](https://www.gov.uk)

forward for an advisory vote at least every three years. To track progress annually, climate-related financial risks disclosures should be made in line with best practice guidelines such as the Taskforce on Climate-related Financial Disclosures. Though the proposal failed to pass, it garnered 28.7% support from its shareholders.

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, arms and weapons manufacturers, agricultural livestock production, human rights issues and calls for divestment. 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](#)
- 8.2 LGPS Central Quarterly Stewardship Update: LGPSC [Quarterly Stewardship Report for the Quarter](#)
- 8.3 EOS at Federated Hermes Public Engagement Report: [EOS Public Engagement Report](#)

9.0 Schedule of appendices

- 9.1 [Appendix A – Annual Stewardship Report 2023](#)
- 9.2 Appendix B – WMPF Engagement Activity

9.3 Appendix C – WMPF Voting Activity