

Pensions Committee

27 September 2023

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

The Pensions Committee is asked to note:

1. The Fund's engagement and voting activity for the three months ending 30th June 2023 [Appendices A and B].
2. The issues discussed by Local Authority Pension Fund Forum (LAPFF) set out in the Quarterly Engagement Report, which is available on the [LAPFF website](#) for the quarter.
3. The research and engagement activity undertaken by EOS at Federated Hermes, as set out in the Public Engagement Report, which is available on the [EOS website](#) for the quarter.
4. The voting and engagement activity of Local Government Pension Scheme (LGPS) Central, as set out in the Quarterly Stewardship Report, is available on the [LGPS Central website](#) 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

Activity across Engagement Themes

- 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 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 84 companies during the quarter¹, addressing climate change, human rights, and governance issues. Engagements were generally conducted through alert issuance and written correspondence. Improvements were documented in 8 out of the 13 company engagement meetings undertaken.
- 3.3 This quarter LGPS Central undertook 1578 engagements with 460 companies on behalf of the Fund, the majority of which were carried out by EOS. Against 553 specific objectives, there was achievement for some or all objectives on 149 occasions. Most engagements were conducted through letter issuance or remote company meetings, where LGPS Central, collaborative engagement partners, or EOS - in the majority of cases, met or wrote to the Chair, a Board member, or a member of senior management.

Climate Change

- 3.4 This quarter LAPFF undertook 56 climate change engagements with 43 companies.
- 3.5 During the quarter LAPFF met with the Chair of Shell to discuss the challenges of decarbonisation. The Chair of Shell indicated that Shell will be publishing a new Climate Transition Plan before the 2024 Annual General Meeting. Following the meeting, LAPFF

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

recommended voting for the re-election of the Chair given he was relatively newly appointed and will be engaging with the new Climate Transition Plan. Of particular interest to LAPFF is the extent of disclaimers in the Shell's Transition Plan itself and in Shell's Annual Report's reference to the transition plan. LAPFF conclude that the Transition Plan is not reliable enough to be included for strategic purposes in the Annual Report, the requirements for which it has legal thresholds of reliability.

- 3.6 Through the investor-led initiative Climate Action 100+ (CA100+), LAPFF engaged with National Grid due to concerns with gaps in the company's disclosure and transition plans, continued involvement in gas distribution, and delays in the roll out of clean energy in the UK. After several meetings, National Grid worked through LAPFF and CA100+'s concerns, suggested how it could instil best practice moving forward, and announced it would publish a comprehensive review of its climate lobbying activities and address delays in grid connection (as per LAPFF and CA100+ requests). LAPFF will continue to monitor and engage with the company over the coming year.
- 3.7 This quarter, LGPS Central's climate change engagement set comprised 247 companies with 520 engagements issues. Most engagements were undertaken via CA100+ and EOS with progress seen for 75 specific engagement objectives.
- 3.8 LGPS Central, through EOS, engaged with Smurfit Kappa Group, a paper packaging company, regarding its biomass investments in Colombia. The company has set time-bound targets to eliminate its coal usage by the end of the decade, which, in 2021, accounted for 4% of its energy mix. Due to the significant boiler-fed heat requirements for pulp and paper production, the intention is to upgrade to biomass boilers, which will simultaneously reduce the company's emissions. It was also suggested to the company to define an "ex-Colombia" policy due to Columbia's coal-reliance as a sovereign. This is an ongoing engagement and further updates will be provided to Pensions Committee when they are available.
- 3.9 LGPS Central also undertook engagement with Phillips 66, an American energy company, as to how it manages its relationships with climate change trade associations. LGPS Central asked the company to provide reporting that demonstrates its alignment with trade associations and decisions made where misalignment existed. The company intends to publish a report with specific engagement examples, which LGPS Central intends to review.

Sustainable Food Systems

- 3.10 This quarter, LGPS Central engaged 20 companies on 23 plastic-related issues, which fall under the Fund's Sustainable Food Systems engagement theme. There was progress on five specific engagement objectives.
- 3.11 EOS, on behalf of the Fund, engaged 3M Co, a multinational conglomerate company, to encourage the company to become a signatory to the global commitment on plastics and set quantitative, time-based targets to eliminate problematic and unnecessary plastics. This quarter, the company stated that they had endorsed the Business Coalition for a Global Plastics Treaty and had reduced its virgin fossil-based plastics by £54.2 million. The

company set a target in 2021 to reduce virgin fossil-fuel based plastics by £125 million by 2025. Although 3M Co have not achieved 50% of their goal yet, the company is making the necessary steps to target pollution and create a circular economy.

- 3.12 EOS led another engagement with Anglo American PLC to discuss its water catchment management. The company had demonstrated improvement of its own water use management by recycling and reusing water in its Amandelbult and Venetia mines resulting in a 26% reduction in water usage since 2015. However, more work is required in streamlining best practice across all operations and at the wider catchment level. Currently the company is working to commercialise a desalination water solution plant in Los Bronces in response to prolonged droughts in Chile.

Human Rights

- 3.13 During the quarter LAPFF undertook 25 human rights engagements with 15 companies.
- 3.14 LAPFF met with HSBC to address climate leadership and human rights concerns following the increasing integration of Hong Kong into mainland China. The company has been criticised for blocking the accounts of activists and payment of pensions for citizens leaving Hong Kong. A shareholder proposal suggested to split UK and Hong Kong business to ease the human rights concerns, but this was strongly opposed by management. A follow-up meeting will be held to explore how HSBC can manage the challenge of having substantial retail operations in Hong Kong now that it is under effective control of mainland China. LAPFF has been invited to further discuss climate finance and reporting with HSBC.
- 3.15 LAPFF met with Vale to discuss its response to the Mariana tailings dam collapse and LAPFF's recent visit to Brazil. The company was open to LAPFF's input, however, there were concerns regarding the lack of communication with the affected communities and how to incorporate their voice into the company's approach to tailing dam safety as an additional early warning measure. LAPFF will continue to engage with both the company and the affected community members on this matter.
- 3.16 This quarter LGPS Central undertook human rights engagements with 220 companies on behalf of the Fund, the majority of which were carried out by EOS. The engagements comprised 424 engagements issues and objectives and progress on 38 specific engagement objectives.
- 3.17 Through PRI Advance, EOS engaged with Duke Energy Corp on setting timebound plans to assess human rights issues in the company's operations, supply chain mapping and due diligence process. The company clarified that its current due diligence of suppliers involved desktop audits, sustainability assessments, scored survey results and continuous improvement training. The company stated it had good oversight on their tier one suppliers but not their tier two or three suppliers. These practises were enforced in response to forced labour risks, the company had taken action to reduce its solar supply chain to two suppliers to reduce and monitor human rights risks more effectively. Future engagement will focus on the disclosure of Duke Energy Corp's process for enforcing its supply chain workers' rights policy including information about the audit process.

Responsible Financial Management

- 3.18 This quarter, LGPS Central engaged with 4 companies on 5 tax-transparency issues, which fall under the Fund's Responsible Financial Management engagement theme. There was progress on 3 specific engagement objectives.
- 3.19 EOS engaged with Marathon Petroleum Corp to encourage the company to publish a responsible taxation policy aligning with the Global Reporting Initiative (GRI) Tax Standard and disclose itemised payments to governments at national, state, and local levels to which the company agreed. EOS will continue monitoring this engagement.
- 3.20 LAPFF reached out to Kingfisher regarding their recent actions increasing wages for their lowest paid staff to above inflation levels. In April, LAPFF met with the company and discussed its efforts around employee engagement and support for employees such as salary increases. The company also described the steps that they were taking business-wide in this context. LAPFF will continue to monitor company's remuneration processes for both CEO and employee pay.

Voting Highlights

- 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 1,717 company meetings (25,169 resolutions) – 196 UK, 371 Europe, 513 North American, 468 Developed Asia, 16 Australasian and 153 in Emerging and Developing Markets. At 1,218 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 did not see sufficient independent oversight on a company board).
- 3.22 EOS, during the 2023 AGM season, made voting recommendations at 9,032 meetings with at least one vote recommendation against management at 69% of meetings. In the US, there were a record number of proposal on issues such as responsible tax, human and digital rights and equality, diversity and inclusion (EDI). EOS identifies laggard companies that fail to manage climate-related risks through various climate risks indicators and has voted against directors at 285 companies (more detail on individual company voting recommendations is detailed within EOS's Q2 2023 Public Engagement Report).
- 3.23 During the 2023 AGM season, LAPFF issued a record number of voting alerts for over 50 climate-related shareholder resolutions and 55 voting recommendations for ESG resolutions at mining and technology companies. Climate-related resolutions featured topics such as transition plans, adequate target setting, lobbying and the Just Transition. Half of the resolutions LAPFF issued alerts for received 20% or more of shareholder votes (shareholder support for resolutions at company level are given in LAPFF's Q2 2023 Quarterly Engagement Report).
- 3.24 Following concerns over lack of investment in the climate transition since 2022, the Fund (through LGPS Central) voted in favour for a shareholder proposal that requested that Glencore: disclose the company's capital expenditure; disclose its alignment to the Paris

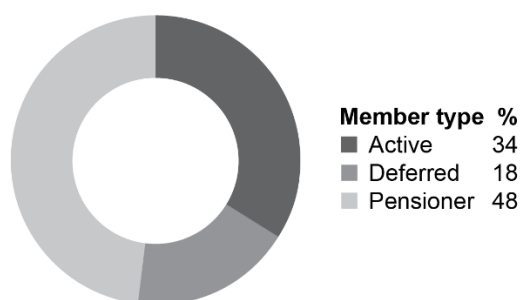
Agreement; and provide comparison of the company's projected thermal coal production against the International Energy Agency's Net Zero Scenario timelines for the phasing out of unabated thermal coal for electricity generation, in both advanced and developing economies. The proposal did not pass and received only 29.2% shareholder support. Glencore have stated that they will publish an update within six months of the 2023 AGM.

- 3.25 Through LGPS Central, the Fund supported a shareholder resolution requesting for Amazon.com Inc to commission an independent study of Rekognition, which is an artificial-intelligence-driven facial recognition technology. This is following concerns regarding inbuilt biases in the algorithms and potential individual civil rights abuses. Though the company states that potential misuse of their technology is covered through existing policies and procedures, it is believed that an independent review assessing the potential human rights violations would be beneficial to the company and investors. The proposals received 38% support. The level of support received for this resolution continues to send a strong message to the Board that investors are cognisant of the emerging risks that Artificial Intelligence poses.

2023 Responsible Investment Survey

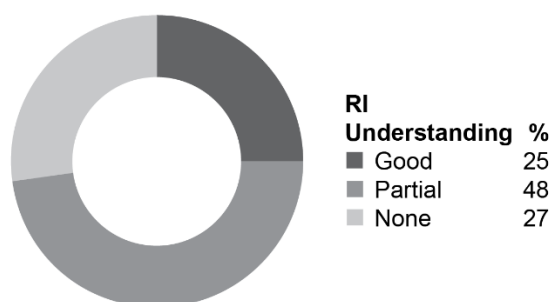
- 3.26 In May 2023 the Fund launched a pilot Responsible Investment (RI) survey to all scheme members with a registered email address. The survey was open for three weeks and was designed to engage members on the topic of RI and gauge members' awareness and understanding of RI.
- 3.27 A response rate of approximately 4% was achieved, with 7,305 individual member responses received. Almost 50% of responses received were from pensioner members, 34% from active members, and 18% from deferred members (Figure 1).

Figure 1: Respondents by member type



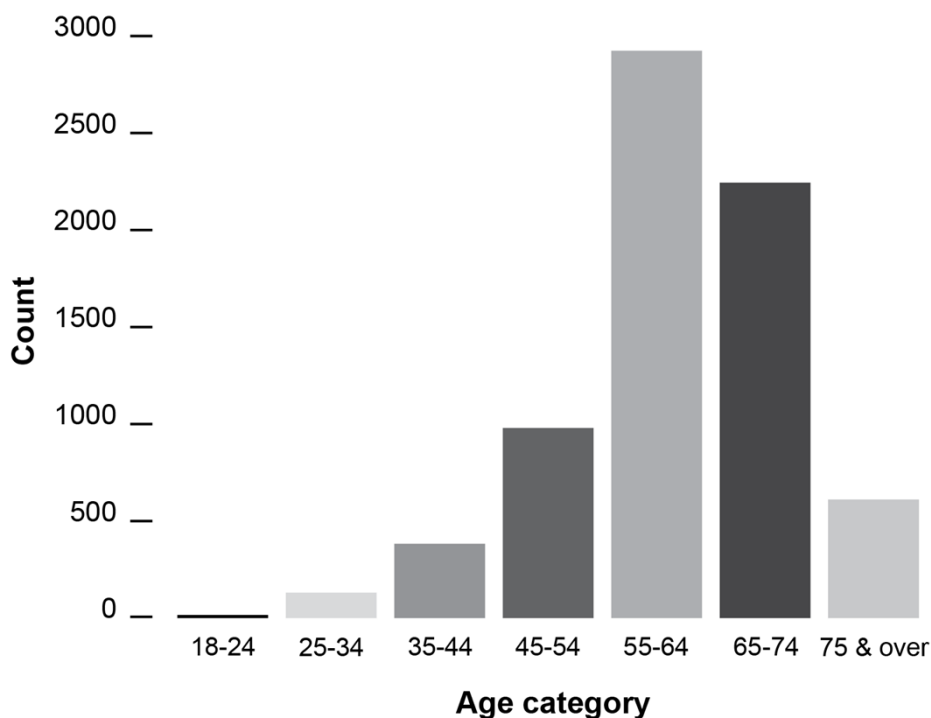
- 3.28 When asked to identify a level of RI understanding, high level results show that 25% of members profess to have good RI understanding, 48% have partial, and 27% have no RI understanding (Figure 2). Analysis indicates that the greater exposure members have to the Fund's RI content, accessed through the Fund's website, RI articles in member newsletters, Pensions Committee reports and formal RI policies, the greater the members' RI understanding.

Figure 2: Level of RI understanding



3.29 On examination of the survey respondents by age (Figure 3), results show that the highest number of responses received were from members aged between '55 and 64'. The lowest number of responses received were from members aged '18 and 24'.

Figure 3: Respondents by age category



3.30 Fund Officers are currently undertaking further analysis of the survey results with a view to informing and developing an effective Responsible Investment Engagement Strategy. Key areas of priority are likely to be around review of existing and potential future content available to members, strategies to increase member engagement and raising awareness and understanding of Responsible Investment and the Fund's approach.

UK Stewardship Code

- 3.31 In May 2023 the Fund submitted its [Annual Stewardship Report](#) to the Financial Reporting Council. The report documents the Fund's stewardship activities over the past year and demonstrates the Fund's ambition to be leaders in the active stewardship of its assets and ultimately deliver improved outcomes and sustainable futures for all. In late August 2023, the Fund was pleased to learn that it successfully achieved signatory status to the [UK Stewardship Code](#) again, for the third consecutive year.

Rathbones' Modern Slavery Engagement with FTSE 350 companies

- 3.32 Last quarter, the Rathbones' Modern Slavery Engagement identified 38 non-compliant FTSE 350 companies with the 54 reporting requirements of the Modern Slavery Bills Act. A final target list consisted of 29 non-compliant companies. By the end of the quarter, 24 out of 29 companies became compliant with the remaining companies in the process of producing or amending their modern slavery statements or undergo further monitoring and engagement. Progress update on the remaining companies will be provided in the next quarter.

Asset Owner Diversity Charter (AODC)

- 3.33 The Fund has continued its involvement with the Asset Owner Diversity Charter (AODC) working group which seeks to improve diversity and inclusion throughout the investment industry. Following the deployment and adoption of the 'Asset Manager Diversity and Inclusion Questionnaire', the charter aims to continue its work in encouraging more asset owners to become signatories; engaging with asset managers to complete the questionnaire and streamline reporting efforts to encourage its adoption.

Correspondence

- 3.34 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, human rights issues and calls for divestment.
- 3.35 There has been increasing industry-wide debate questioning the validity and models which underpin climate scenario analysis. The Fund has undertaken climate scenario analysis since 2017 and the outputs from climate scenario analysis are one of many climate-related metrics that the Fund reports on which are used as part of a wider risk management framework. The Fund continues to be aware of the current limitations associated with climate scenario analysis and welcomes development to modelling and methodology in this area.
- 3.36 The Fund has experienced increased correspondence in relation to live engagements that are linked to the Economic Activity of Public Bodies (Overseas Matters) Bill which is currently passing through Government. Further information on this Bill is contained within the regulatory update report.

3.37 The Fund continues to respond to all correspondence and will continue to monitor progress on the issues outlined, with updates provided to each quarterly Pensions Committee Meeting.

4.0 Financial Implications

4.1 The promotion, integration and management of environmental, social and governance factors amongst companies in which the Fund invests is complementary to the Fund's objective of maximising financial returns, as it is widely believed that these factors improve 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 EOS at Federated Hermes Public Engagement Report: [EOS Public Engagement Report](#)

8.3 LGPS Central Quarterly Stewardship Update: [LGPSC Quarterly Stewardship Update](#)

9.0 Schedule of Appendices

9.1 Appendix A – WMPF Engagement Activity Q2 2023

9.2 Appendix B – WMPF Voting Activity Q2 2023