

Pensions Committee

13 December 2023

Report title	Responsible Investment Activities	
Originating service	Pension Services	
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Recommendation for decision:

The Pensions Committee is asked to approve:

1. Publication of the Fund's 2023 Taskforce for Climate-related Financial Disclosure (TCFD) Report [Appendix A].

Recommendations for action:

The Pensions Committee is asked to note:

1. The updated draft of the Fund's Responsible Investment Framework. A final version of the framework will be sent to Committee for approval in March 2024 [Appendix B].
2. The Fund's engagement and voting activity for the three months ending 30th September 2023 [Appendices C and D].
3. The issues discussed by LAPFF as set out in the Quarterly Engagement Report, which is available on the LAPFF website: [LAPFF Quarterly Engagement Report](#) for the quarter to 30th September 2023.
4. The voting and engagement activity of LGPS Central, as set out in the Quarterly Stewardship Report, which is available on the LGPS Central website: [2023-11 LGPSC QSU v4.pdf \(lgpscentral.co.uk\)](#)

This report is PUBLIC

5. The research and engagement activity undertaken by EOS at Federated Hermes over the quarter, as set out in the Public Engagement Report, which is available on the EOS website: [EOS Public Engagement Report](#).

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

Responsible Investment Framework

- 3.1 The Fund's Responsible Investment (RI) Framework sets out the Fund's approach to integrating responsible investment across its investment strategy and defines the beliefs, principles and processes that underpin the work carried out by the Fund. As part of the annual review of the Responsible Investment Framework, the Fund is looking to enhance its policies and processes for monitoring asset managers' integration of responsible investment factors. A draft version of the updated RI Framework is included as Appendix B with the final version to be shared with Committee for approval in March 2024.
- 3.2 Following a review of the Fund's existing engagement themes, and through discussion with LGPS Central and the Fund's sustainable equity managers, the Fund is proposing a refresh of its engagement themes which are expected to run from 2024-2027. Further training on the proposed engagement themes will be provided to Committee in March 2024 ahead of the final version of the RI Framework which will be shared with Committee for approval.

Climate-related Financial Disclosures

- 3.3 Climate-related financial risks continue to be of upmost importance in protecting the value of the Fund's investments in the long term. The Fund has undertaken its annual climate-related financial analysis, reporting progress against its ambitions and targets. As outlined in the 2023 Climate-related Financial Disclosures report, to date, the Fund has achieved a 30% reduction in carbon intensity in its listed equity portfolio between December 2019 and March 2023. The Fund continues to work with its service providers to increase emissions data availability and extend carbon analysis to a broader range of asset classes where possible, aligning with latest industry best practice and standards.

Engagement through Partnerships

- 3.4 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).

- 3.5 Through LAPFF, the Fund engaged 57 companies during the quarter¹, addressing climate change, human rights, and governance issues. LAPFF engaged with a further 128 companies through collaborative engagement with the Say on Climate initiative and Nature Action 100 initiative. Engagements were generally conducted through letter writing, meetings or attendance at annual general meetings (AGMs). Nine company engagements are currently categorised with some level of improvement, four company engagements with a satisfactory response and 13 company engagements are in dialogue.
- 3.6 This quarter LGPS Central undertook 718² engagements with 221 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 a majority of cases met or wrote to the Chair, a Board member, or a member of senior management.

Climate Change

- 3.7 During the quarter LAPFF undertook 10 climate change engagements. Four of these companies are categorised as in dialogue with a further two showing improvement.
- 3.8 The LAPFF Chair met with the Chair of Taylor Wimpey to discuss the company's approach to climate change and the company's transition plans. The meeting covered the company's progress and plan in relation to its operational emissions, residual emissions, emission from selling homes and supply chain emissions. Since then, Taylor Wimpey has produced a transition plan with scope 1 to 3 emission targets and a net zero commitment by 2045. LAPFF aims to engage with similar companies in the sector on the same issue.
- 3.9 Through the CA100+ forum, LAPFF has continued to engage with National Grid to ensure the company's transition plan supports a swift transition for the users of its grid. LAPFF believes that the company is missing opportunities to decarbonise quickly and has additional concerns regarding the approach of the use of gas, delays in connecting renewables to the grid and disclosures on its energy transition. LAPFF will continue to engage with the company on these matters.
- 3.10 This quarter, LGPS Central's climate change engagement set comprised 196 companies with 355 engagements issues. Most engagements were undertaken via CA100+ with progress on 57 specific engagement objectives.

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.

- 3.11 EOS has set objectives for the Bank of Ireland to implement emissions reduction targets for its operations and Scope 3 portfolio emissions aligning to science-based pathways. This would involve changes to its lending practices and managing emissions from historical lending. The bank has subsequently published targets and its emission strategy validated by the Science Based Targets initiative (SBTi) including a 49% reduction in Scope 1 + 2 emissions from operations by 2030, commitment to sustainable lending through a 48% reduction in its mortgage portfolio emissions and a 56% reduction in its commercial real estate portfolio by 2030. EOS will continue to monitor the company's progress against its set targets.
- 3.12 EOS engaged with Delta Electronics to enhance its TCFD disclosures and its alignment to the Paris Agreement. Concerns were also raised about the company's use of internal carbon funds or capex to fund its climate transition. EOS request further clarification on its internal carbon pricing but the company was unable to provide detailed answers. In the company's 2022 ESG report, the company provided information on how its internal pricing mechanisms supports its climate ambitions and finances the transitions to electric vehicles.

Sustainable Food Systems

- 3.13 This quarter, LGPS Central engaged 17 companies over 18 engagement issues and objectives in relation to its Sustainable Food Systems theme.
- 3.14 EOS engaged with Ansell Ltd about the development of their circular economic strategy with goals linked to sourcing, use and disposal. The company has confirmed plans to launch its new framework to outline the sustainability characteristics of individual products. Lifecycle assessments of its products have been undertaken, such as its single-use gloves, which resulted in a partnership with a French recycling company to trial processing gloves into new products and reduce the environmental impact seen in the glove's end-of-life generation. EOS will continue to monitor this engagement and awaits the company's disclosure of its circular economy strategy.

Human Rights

- 3.15 During the quarter LAPFF undertook 22 human rights engagements³. Seven of these companies are categorised as in dialogue with a further six showing some level of improvement.
- 3.16 LAPFF engaged with Volkswagen on human rights and raw materials issues. Concerns were raised about a joint venture linked to the auto manufacturer's supply chains and alleged association with Uyghur forced labour. Volkswagen announced that they will undertake a social audit for the factory despite the backlash from Non-Governmental Organisations (NGOs) and labour groups stating the ineffectiveness of social audits in China. LAPFF will continue to monitor this engagement in line with increasing legislative instruments on EV supply chain issues and their links to human rights concerns.

³ Including engagements that are not explicitly classed by 'human rights' by LAPFF such as employment standards, Diversity, Equity and Inclusion (DEI) and social risks.

- 3.17 LAPFF met with Grupo Mexico for the first time. Grupo Mexico's increased attention from investors on environmental, social, and governance issues aligns with its inclusion in PRI's Advance human rights initiative. While acknowledging Grupo Mexico's established processes on paper, LAPFF notes a significant gap in its implementation with disparities between the company's self-reported human rights practices and community accounts. LAPFF intends to speak to the Sonora community, who was affected by the company's operations, to understand their perspective on the situation.
- 3.18 This quarter LGPS Central undertook human rights related engagements, on behalf of the Fund, the majority of which were carried out by EOS, with 90 companies with 124⁴ engagements issues and objectives.
- 3.19 In the quarter, LGPS Central engaged with the Chief Compliance Officer of an IT company on the issue of upholding the United Nations Guiding Principles on Business and Human Rights (UNGPs). The expectation was for the company to undertake human rights due diligence assessments and have established access to remedy programmes encompassing human rights. LGPS Central will monitor this engagement and have requested for the company to provide evidence of the company's human rights due diligence assessment.
- 3.20 EOS held a face-to-face meeting with DBS Bank on mitigating social impacts of Artificial Intelligence (AI). The bank employs a responsible data use framework, PURE (Purposeful, Unsurprising, Respectful, Explainable), implemented through measures such as training, approval mechanisms, compliance and audit assessments, committee debates, and fit-for-purpose reviews at different organisational levels. To ensure ethical use and address unintended biases, DBS evaluates its use cases against multiple dimensions, considering potential harm to customers, employees, and the disadvantaged. The bank is actively working on testing use cases with higher materiality, emphasising recourse and improving the explainability of its models. The engagement with DBS includes a call for increased transparency and oversight to further enhance its commitment to responsible AI and equality.

Responsible Financial Management

- 3.21 This quarter, our tax transparency engagement set comprised 1 company with 2 engagement issues and objectives.
- 3.22 EOS engaged with Exxon Mobil to publish a responsible taxation policy aligned with the Global Reporting Initiative Tax Fairness Standard. The company, acknowledging the need for enhanced transparency, is prepared to disclose itemised payments to governments at various levels in line with emerging Dodd Frank regulations. As of Q3 2023, Exxon Mobil has pledged compliance with forthcoming tax regulations mandating country-by-country reporting. EOS will sustain engagement to ensure continued progress on this front.

⁴ There can be more than one engagement issue per company, for example board diversity and climate change.

Voting Globally

- 3.23 The voting activity for the quarter across markets and issues can be found in Appendix D. During the period, the Fund voted at a total of 262 company meetings (3,205 resolutions) – 102 UK, 44 Europe, 27 North America, 41 Developed Asia, 11 Australasian and 37 in Emerging and Frontier Markets. At 130 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

- 3.24 LGPS Central, on behalf of the Fund, supported a shareholder proposal requesting for Constellation Brands to disclose its Scope 1-3 emission reduction plans in alignment with the Paris Agreement. The company has set Scope 1, 2 and 3 emission reduction targets validated by SBTi, but is considered a laggard in comparison to its peers. LGPS Central believe it would be useful for stakeholders to understand how the company will align itself to the Paris Agreement, manage greenhouse gas emissions and address climate risks. The vote received 31.0% support sending a strong message to the Board.
- 3.25 A shareholder proposal was put forward to Nike requesting for gender and ethnicity pay gap reporting to include its workforce beyond the UK. This follows a lawsuit filed in 2018 with allegations from two former employees regarding the company's culture, with fear of retaliation and unequal pay for women. A median pay gap report is expected to provide stakeholders with an understanding about the opportunities given to men and women and insights to the company's culture. The proposal received 29.6% support, highlighting concerns on diversity, equality and inclusion to the Board.
- 3.26 LGPS Central voted against a non-binding resolution on Wizz's remuneration policy deeming that the proposal was more relaxed than the original executive policy and was not stretching or challenging enough. The policy removed the financial element that related to the pay out of the ESG portion of the award and allowed full pay out if 100% target share price was hit during two consecutive quarters. 28.2% of stakeholders voted against the resolution.

Member Communication Strategy

- 3.27 The Fund is looking to integrate RI communications through its existing communication channels. This quarter, Fund officers presented at the Active Member Engagement Forum and created RI-focused leaflets to be distributed at the Member Roadshow events. The Fund also submitted a case study on its RI Member Survey to the Occupational Pensions Stewardship Council (OPSC) to share learnings and insights to the wider investment community. Upon further analysis the RI member survey achieved a response rate of 6.0% based on the members who received the survey, which is an increase in the response rate reported in the previous quarter's report.

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, conflict zones, nuclear development, water companies and human rights issues.
- 3.29 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

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 LGPS Central Quarterly Stewardship Update: [2023-11 LGPSC QSU v4.pdf \(lgpscentral.co.uk\)](#)
- 8.3 EOS at Federated Hermes Public Engagement Report: [EOS Public Engagement Report](#)

9.0 Schedule of appendices

- 9.1 Appendix A – Climate-related Financial Disclosure (TCFD) Report.
- 9.2 Appendix B – WMPF Responsible Investment Framework 2023 Draft.
- 9.3 Appendix C – WMPF Engagement Activity Q3 2023.
- 9.4 Appendix D – WMPF Voting Activity Q3 2023.