

Pensions Committee

22 June 2016

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

The Committee is recommended to:

1. Adhere to the Fund's engagement policy and to not adopt exclusion of companies on purely ethical criteria as a matter of policy.
2. Approve the Fund's updated Responsible Investment Framework

Recommendations for noting:

The Committee is asked to note:

1. The Fund's voting and LAPFF's engagement activity for the three months ending 31 March 2016, including Appendix 1.
2. The issues discussed by LAPFF which are set in the Quarterly Engagement Report available on their website: <http://www.lapfforum.org/Publications/engagement>
3. The Fund's engagement programme and the update on the Israeli-Palestinian engagement.

1.0 Purpose

- 1.1 To inform the Pensions Committee of the work undertaken by the Investment team regarding their responsible investment activities between the period 1 January to 31 March 2016.

2.0 Background

- 2.1 The Fund has a longstanding policy of supporting good corporate governance in the companies in which it invests, and challenging companies who do not meet 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 policy. There are two main areas of responsible investment that we focus on: **voting globally** and **engagement through partnerships**.

3.0 Responsible Investment Activities

Voting Globally

- 3.1 The Fund currently has its own bespoke UK voting policy which our voting provider, Pensions and Investments Research Consultants Ltd (PIRC), executes on our behalf. However, the Fund follows the voting advice of PIRC for European, US, Japanese and Pacific region company meetings.
- 3.2 The voting activity for the quarter across markets and issues can be found in Appendix 1. During the period the Fund voted at a total of 426 company meetings – 54 UK, 77 European, 64 North American, 53 Japanese, 139 Asia (excluding Japan), and the remaining 39 meetings predominantly located in Australia/New Zealand and South America. During this period there were 18 meetings where the Fund supported all the resolutions put forward by companies. Approximately 47.7% of the resolutions were not supported by the Fund.

Engagement through Partnerships

- 3.3 Our engagement program is predominantly implemented through the Fund's membership of the Local Authority Pension Fund Forum (LAPFF). The mission statement of the Forum is "to promote the investment interests of local authority pension funds and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest, commensurate with statutory regulations". LAPFF has a current membership of 70 public sector pension funds in the UK with combined assets of over £175 billion. LAPFF members regularly meet together to discuss environmental, social, and governance (ESG) issues and ways to promote high standards of corporate behaviour at investee companies.
- 3.4 A summary of LAPFF's engagement activities for the quarter are provided alongside the voting activity report in Appendix 1. The issues are set out in the Quarterly Engagement

Report which is available on LAPFF's website:
<http://www.lapfforum.org/Publications/engagement>.

- 3.5 LAPFF is continuing with its engagement programme with National Express and Sports Direct on labour issues. The Chair of LAPFF attended the AGM of National Express on 11 May and a meeting with Sports Direct has been requested.
- 3.6 The engagement with Textron on cluster munitions has been concluded and based on its findings, it is recommended that a policy of engagement, not exclusion, is maintained.
- 3.7 In the past three years, there has been engagement with construction companies on the blacklisting of workers. In May, it was reported that nearly 800 workers received a total of £50 million in compensation and £25 million in legal fees pursuant to settlements reached with Trade Unions. This engagement has now been concluded.

Update on Israeli-Palestinian Campaign

- 3.8 The Fund has completed its follow-up engagement with the following four companies as part of this program: Motorola, Caterpillar, Hewlett Packard, and G4S. The Committee may recall that the fifth company, Veolia Environnement, has already committed to selling its Israeli operations and thus there was no immediate need to actively reach out on this occasion. Based on the findings of the program, it is clear that three out of the four companies continue to integrate human risks considerations into its business processes (including how to operate in conflict-affected regions such as Israel). However as reported previously, one company still regards the issue as more of a reactive stakeholder management exercise, versus regarding it as more of a strategic issue. With regards to the other three companies, the Fund will continue to monitor this issue on a yearly basis. With regards to the laggard company, the Fund will explore how further to escalate this issue, such as through collaboration with other like-minded investors or other means. The Fund will continue to report to the Committee as to the progress of this engagement as and when appropriate.

4.0 Policy Update

- 4.1 The Fund's Responsible Investment Framework has been updated to reflect changes at the Fund and is attached to the 2015/16 accounts. No policy changes have been made.

5.0 Financial implications

- 5.1 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.

6.0 Legal implications

- 6.1 This report contains no direct legal implications.

7.0 Equalities implications

7.1 This report contains no equal opportunities implications.

8.0 Environmental implications

8.1 Environmental implications are addressed through the Fund's corporate governance policy.

9.0 Human resources implications

9.1 This report contains no direct human resources implications.

10.0 Corporate landlord implications

10.1 This report contains no direct corporate landlord implications.

11.0 Schedule of background papers

- LAPFF Quarterly Engagement Report January to March 2016:
<http://www.lapfforum.org/Publications/engagement>

12.0 Schedule of Appendices

- Appendix 1 (Voting and Engagement Activity)