

Pensions Committee

20 March 2024

Report title	Responsible Investment Activities	
Originating service	Pension Services	
Accountable employee	Shiventa Sivanesan	Assistant Director – Investment Management and Stewardship
	Email	Shiventa.Sivanesan@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood	Executive Director of Pensions
	Email	Rachel.Brothwood@wolverhampton.gov.uk

Recommendation for decision:

The Pensions Committee is asked to note and approve:

1. The Fund's 2024 Responsible Investment Framework [Appendix A].

Recommendations for noting:

The Pensions Committee is asked to note:

1. The updated draft of the Fund's Voting Principles which is expected to be finalised post quarter-end [Appendix B].
2. The draft version of the Fund's 2024 Annual Stewardship Report. A final version will be submitted to the Financial Reporting Council by the end of May 2024 [Appendix C].
3. The Fund's engagement and voting activity for the three months ending 31st December 2023 [Appendices D and E].
4. The issues discussed by LAPFF are set out in their Quarterly Engagement Report which is available on the LAPFF website: [LAPFF Quarterly Engagement Report](#).
5. The research and engagement activity undertaken by EOS at Federated Hermes is in their Annual Review and is available on the EOS website: [EOS 2023 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 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 44 companies during the quarter¹, addressing climate change, environmental, human rights, and governance issues. Engagements were conducted through meetings and/or letter writing. LAPFF is actively engaging with seven companies that are showing improvements following its engagement. Examples include AXA on Climate Change, Mercedes-Benz Group on Human Rights, and KKR & Co Inc on Diversity Equality and Inclusion. One company, SANOFI, made 'substantial improvement' on its environmental risks management. Dialogue was also established with 29 companies, opening opportunities for further influence with ongoing engagements.
- 3.3 We ask that Pensions Committee note that EOS and LGPS Central do not produce quarterly engagement reports for the Q4 period. Case study examples from EOS included in this paper are taken from their 2023 Annual Review. In the absence of their quarterly engagement report, engagement examples and data from LGPS Central have been provided by their Responsible Investment and Engagement (RI&E) Team. These examples will be published formally in LGPS Central's 2024 Annual Stewardship report in May.

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

- 3.4 During the quarter EOS undertook 1137² engagements issues and objectives with 332 companies on behalf of the Fund. Most engagements were conducted through letter issuance or remote company meetings, where 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.
- 3.5 This quarter LGPS Central undertook engagement with 707 companies, both direct and collaborative, prominently on climate change.

Climate Change

- 3.6 During the quarter LAPFF undertook 23 climate change engagements. Twenty of these engagements are categorised as being in dialogue with a company. One engagement is classified as showing a moderate improvement and a further two show that changes are being implemented as a result of LAPFF's engagement with the company.
- 3.7 LAPFF engaged with BP to assess the impact that CEO Bernard Looney's departure had had on BP's climate commitments. A meeting with Chair Helge Lund confirmed no change to BP's climate goals. In line with the recommendation to transition away from fossil fuels at COP28, LAPFF will continue to urge BP and others to phase out fossil fuels, particularly addressing Scope 3 emissions tied to products sold.
- 3.8 LAPFF collaborated with two CA100+ investors, aiming to enhance National Grid's disclosure and accountability regarding lobbying. LAPFF met with National Grid's Chief Sustainability Officer to address the delay in National Grid connecting their clean energy project to the grid due to existing regulations. Ongoing concerns include infrastructure speed and the US gas distribution challenge. LAPFF anticipates timely disclosure reports and a shareholder vote on the transition plan, planning further engagement in 2024.
- 3.9 During the quarter LGPS Central undertook engagements on climate change with 704 companies on 707 objectives and issues, on behalf of the Fund.
- 3.10 During the quarter EOS engaged with DZ Bank on climate change and greenhouse gas emissions reductions and urged DZ Bank to align its coal policy with industry best practices. EOS had raised initial concerns with the company in Q4 2020, after which DZ Bank revised its policy, withdrew from direct coal financing across its value chain and stopped indirectly financing conglomerates without a clear coal exit plan. EOS considers the changes that DZ Bank has made to be insufficient, emphasising the lack of a clear timeline for exiting from coal along with undefined financing criteria. Ongoing engagement aims at further revisions, including corporate-level exclusion criteria in the coal financing policy.

Sustainable Food Systems

- 3.11 LAPFF (a member of the Valuing Water Finance Initiative) has been actively engaging with Chipotle on water stewardship since 2019. In 2022, Chipotle undertook a water risk

² There can be more than one engagement issue per company, for example board diversity and climate change.

assessment which uncovered significant stress in its supply chain. In October 2023, the CERES benchmark ranked Chipotle below expectations for quick-service restaurants. LAPFF have since engaged with the company and have discussed the need for a more ambitious water stewardship approach. LAPFF will continue engagement with Chipotle in 2024 and work with them to set ambitious targets based on Chipotle's water risk assessment and recent guidance from the science-based targets network.

- 3.12 LAPFF sought a meeting with Nestlé focused on evaluating the integration of regenerative agriculture into its strategy, aiming to understand specific goals, initiatives, and progress in sustainability. Discussions highlighted Nestlé's commitment to sustainable practices, with ongoing monitoring of their regenerative agriculture implementation planned. Future engagements will extend scrutiny to the broader agri-food sector, observing how others adopt similar strategies as new methods and technologies emerge.
- 3.13 One of WMPF's asset managers has been engaging with a European beverage company. The manager asked that the company enhance their water disclosures and consider water risks in their supply chain. Last quarter progress was made when the company affirmed their commitment to complete the Carbon Disclosure Project's 'water security' questionnaire in 2024. They also expressed their intention to conduct a formal assessment of water risks within their supply chain.

Human Rights

- 3.14 During the quarter LAPFF undertook six human rights engagements on behalf of the Fund³. KKR & Co Inc and Mercedes-Benz Group have shown small improvements as a result of the engagements. LAPFF remains in dialogue with SAP SE, Vale SA, and Glencore PLC. LAPFF still awaits a response from the fifth company Exxon Mobil Corp.
- 3.15 LAPFF engaged with SAP, a German technology company, to discuss their specific risks related to Artificial Intelligence (AI), particularly in human rights functions. The meeting covered the company's framework and processes for risk identification and prevention of negative impacts, including discrimination. LAPFF will continue its engagement with technology companies to monitor and ensure the development and implementation of appropriate frameworks and safeguards as AI technology evolves.
- 3.16 LAPFF engaged with Glencore on their environmental and human rights practices during a biannual meeting with Glencore's Chair Kalidas Madhavpeddi. Discussions focused on Glencore's engagement with communities from Colombia and Peru who are affected by Glencore's respective Cerrejon and Antapaccay projects, with limited insights shared. LAPFF organised a seminar with impacted communities and engaged with IndustriALL representatives. Stakeholder feedback suggests Glencore may face a union and community campaign in the coming year. LAPFF is seeking a follow-up meeting to address concerns and urge Glencore to strengthen stakeholder engagement mechanisms and climate practices.
- 3.17 This quarter LGPS Central undertook human rights related engagements with 3 companies, on behalf of the Fund, on 3 engagements issues and objectives.

³ Including engagements that are not explicitly classed by 'human rights' by LAPFF such as employment standards, Diversity Equality and Inclusion and social risks

- 3.18 EOS has continued to engage Comcast Corp on human capital issues. EOS historically asked the company to refresh its board and improve both its gender and ethnic dimensions, with a minimum expectation of 30% gender diversity on the board. These concerns were reiterated to Comcast Corp in Q4 2023 and Comcast expressed its intention to increase the number of female directors from two to three and outlined a plan for board refreshment.
- 3.19 EOS also engaged Procter & Gamble Co with the objective of enhancing disclosure on human rights due diligence, including grievance mechanisms, and reporting on violations and remediation. Following engagement, the company has taken steps to identify high-risk materials and is actively working on achieving full traceability for palm oil. Procter & Gamble Co have acknowledged the importance of transparent reporting on supply chain violations and expressed a commitment to expanding its reporting on human rights issues beyond the palm oil supply chain. EOS' ongoing engagement with the company includes monitoring progress of its plans to improve disclosure on human rights due diligence.

Responsible Financial Management

- 3.20 LGPS Central engaged with AstraZeneca PLC to discuss current and planned changes to board remuneration. LGPS Central expressed the need to understand the reasons behind AstraZeneca's proposed target increase and maximum compensation for variable elements. Criticism was voiced regarding the inclusion of only one ESG goal in the long-term compensation component, with a desire for alignment with the company's "2030 Bold Ambition" strategy. LGPS Central also sought clarification on insufficient disclosure related to long term incentive performance measures and expressing concern about the CEO's maximum opportunity exceeding the broad guideline. In response, AstraZeneca outlined its executive remuneration structure, emphasising key performance measures and a focus on challenging financial key performance indicators for industry-leading growth. AstraZeneca have reaffirmed that a high payout is contingent on delivering value in alignment with the company's philosophy.
- 3.21 EOS engaged with Bayer AG with the objective of achieving meaningful progress in transparency regarding the company's tax approach, including incentives, transfer pricing, and country-by-country reporting. In a call with the head of tax this quarter, EOS urged Bayer to enhance transparency on tax practices. Although the company expressed concerns about potential backlash, it acknowledged growing stakeholder interest. Subsequently, Bayer increased its tax transparency by publishing its tax policy and approach on its website, reporting tax payments in its sustainability report, and disclosing its governance structure for tax transparency. In Q1 2022, Bayer's sustainability report aligned with the Global Reporting Initiative's 207 tax criteria, but country-by-country information was not provided due to data unavailability, prompting the company to explore ways to collect this data.

Voting Globally

- 3.22 The voting activity for the quarter across markets and issues can be found in Appendix E. During the period, the Fund voted at a total of 322 company meetings (2,575 resolutions) – 59 UK, 28 Europe, 35 North America, 51 Developed Asia, 98 Australasian and 51 in

Emerging and Frontier Markets. At 166 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).

Responsible Investment Framework

- 3.23 The Fund's Responsible Investment Framework defines the beliefs and principles that underpin our policies, processes and responsible investment activities that we undertake. Following an annual review of the framework changes have been made to reflect the enhancements we have made to our approach of integrating responsible investment across the Fund's investment strategy. Included within the framework are the Fund's updated engagement themes for 2024-2027. The engagement themes have been selected following research and analysis from peers and industry, considering investment risk to the portfolio, and are sufficiently aligned to the themes from the Fund's core external managers including LGPS Central. The engagement themes have been recommended and discussed with the Committee at the December 2023 Committee meeting and further training has been provided in March 2024 on these themes. Appendix A contains the Responsible Investment Framework.

Voting Principles

- 3.24 The Fund's Voting Principles outlines the UK voting guidelines that have been developed with external managers and LGPS Central. They have been updated in tandem with LGPS Central's Voting Principles, which will be published in March 2024. International voting guidelines are set in line with EOS' recommendations. This review focuses on reinforcing existing policy with key updates and strengthening expectations around sustainable business practices, including companies' engagements with Nature Action 100+; company's management of climate-related risks against the Paris Accord; increased diversity at senior management and the responsiveness of company boards to engagement. A draft version of the Voting Principles can be found in Appendix B. This is expected to be finalised in April 2024 ahead of the voting season.

Annual Stewardship Report

- 3.25 The draft 2024 Annual Stewardship Report discloses the Fund's responsible investment and stewardship activities during the 2023 calendar year. The 2024 report has been developed taking into account feedback provided by the Financial Reporting Council (FRC) on the Fund's 2023 report and internal gap analysis to FRC's requirements. Enhancements made include a particular emphasis on the identification and management of risks, as well as articulating the Fund's initiatives in engaging with stakeholders. The section detailing customer engagement demonstrates our efforts to facilitate knowledge sharing and assess the level of interest and awareness with regards to responsible investment. We welcome any feedback and comments from members of the Committee before the report is submitted to the FRC for review in May 2024.

Votes Against Slavery

3.26 The Votes Against Slavery initiative requests companies to publish a Modern Slavery Agreement in line with the UK 2015 Modern Slavery Act. This ensures companies have processes in place to identify and tackle modern slavery in their business or supply chains. In 2023, the focus was on companies in the FTSE 350. 27 out of 29 non-compliant companies identified have since published a modern slavery statement, with the remaining two due to be completed in 2024. In 2024, we continue to be a signatory of the initiative, which will now progress to focus on non-compliance in the FTSE 350 and FTSE AIM.

Correspondence

3.27 The Fund continues to receive correspondence from individual members of the public, and more established divestment groups in connection with human rights, technology companies, nuclear development, and fossil fuels.

3.28 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 EOS at Federated Hermes 2023 Annual Review: [EOS 2023 Annual Review](#)

9.0 Schedule of Appendices

9.1 Appendix A – Responsible Investment Framework

9.2 Appendix B – Draft Voting Principles

- 9.3 Appendix C – Draft 2024 Annual Stewardship Report
- 9.4 Appendix D – WMPF Engagement Activity
- 9.5 Appendix E – WMPF Voting Activity