

Pensions Committee

7 December 2016

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

The Committee is asked to note:

1. The Fund's voting and LAPFF's engagement activity for the three months ending 30 September 2016, including Appendix 1.
2. The issues discussed by LAPFF are set in the Quarterly Engagement Report which is available on their website:
http://www.lapfforum.org/Publications/engagement/files/Q3_2016_QER_FINAL.pdf
3. An update on the Israeli-Palestinian engagement program and the outcome of shareholder resolutions on carbon management and climate change risk within the mining sector.
4. The arrangements being made for the re-tender of the Fund's Proxy Voting service provider and the LAPFF research and engagement partner.

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 July to 30 September 2016.

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 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 252 company meetings – 94 UK, 39 European, 41 North American, 47 Japanese, 9 Asia (excluding Japan), and the remaining 22 meetings predominantly located in Australia/New Zealand and South America. During this period there were 13 meetings where the Fund supported all the resolutions put forward by companies. Approximately 34.0% of the resolutions were not supported by the Fund. The largest number of resolutions that were opposed related to the independence of directors, the independence of the auditor or annual reports that failed to meet best practice.

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 65 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/files/Q3_2016_QER_FINAL.pdf

- 3.5 Following a request by this Committee in 2014, LAPFF initiated a programme of engagement with companies that were suspected of producing or selling cluster munitions. This included a series of letters and follow-up conference calls. The programme was completed in November 2014 and based on its findings, the Pensions Committee decided not to exclude the companies from its investment portfolio. Since that time, two of the companies Singapore Technologies and Textron have issued statements stating that they have ceased the design, production and sale of cluster munitions.
- 3.6 However, as discussed at the last meeting of this Committee, the Fund recently received an enquiry regarding another portfolio company, Hanwha Corporation (Korea). It was alleged that this company was also involved in the manufacture of cluster munitions. Therefore the Fund has written to LAPFF to request that they approach this company and ascertain the extent of any involvement in the production or sale of cluster munitions and whether they have any responsible investment policies that regulate their involvement in this area.

Update on Israeli-Palestinian Engagement

- 3.7 Members will recall that in 2014, the Fund was approached by a group known as the Wolverhampton Palestine Solidarity Campaign (WPSC). Following this initial approach, the Committee agreed that the Fund would undertake a programme of engagement with five companies that were highlighted as benefiting from Israel's occupation of Palestinian land.

The engagement programme was carried out during 2015 and by the summer of 2016, it was confirmed that one of the companies had sold its business interests in Israel and three of companies had implemented human rights risk into their business processes in accordance with the UN Guiding Principles on Business and Human Rights.

As reported at the September committee, the one company still to implement the UN Guiding Principles on Business and Human Rights is Motorola. The company had previously indicated that they would be responsive to further dialogue on the issue.

Therefore, the Fund has written to Councillor Quinn, the chair of the LAPFF Committee requesting that engagement with the company should be continued to encourage and advocate compliance with the UN Guiding Principles. Councillor Quinn has agreed to have a scoping paper written to determine the merits of engagement with Motorola and this will now be considered at the next meeting of the Executive early in the New Year.

More recently, WPSC requested a further meeting with the Chair and the Leader. At this meeting, the Chair was able to provide an update on the engagement programme to date and to reiterate the Committee's decision not to divest its holdings in these companies but rather to engage with them and monitor their progress in dealing with the situation. It was also suggested that WPSC reach out to other local authority pension funds to review the actions that they have taken regarding this issue.

WMPF Voting Services

- 3.8 Members will recall that the contract to provide proxy voting services for the Fund held for a number of years the Pensions and Investments Research Consultants Ltd (PIRC) is due to end on 31 March 2017.
- 3.9 PIRC were last appointed in 2012, under a five year contract with the option to extend for a further two years. PIRC have agreed to arrange for a 12 month extension to the contract to take effect from 1 April 2017 and the Council's procurement team will arrange for a notice to this effect to appear in OJEU.

LAPFF Contract

- 3.10 As reported at the June meeting of the Pensions Committee, the current LAPFF contract is up for renewal as of 31 May 2017, and as the City of Wolverhampton Council manage the financial administration of LAPFF, the Fund is responsible for managing the re-tender process. The LAPFF executive has endorsed the use of the LGPS National Framework for Stewardship Advisory Services (subject to a successful launch), in order to complete the re-tender project in the most efficient and cost-effective fashion. The five-member sub-committee appointed by the LAPFF executive to run this project includes Geik Drever.
- 3.11 The Framework was launched on Monday 14 November, and the invitation to tender was sent to the suppliers listed on the Framework on the same date. The tender responses will be evaluated (with clarification interviews, if required, held in mid-December) and the sub-committee will report to the LAPFF executive on 18 January 2017, at which point the recommended service provider will be agreed; Geik Drever will then report to a special meeting of the Pensions Committee on 7 February 2017, at which the service provider will be approved.

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

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 July to September 2016:
http://www.lapfforum.org/Publications/engagement/files/Q3_2016_QER_FINAL.pdf

12.0 Schedule of Appendices

- Appendix 1 (Voting and Engagement Activity)