



Pensions Committee

6 September 2017

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

The Committee is recommended to:

1. Approve an update to the Responsible Investment Framework in which the WMITA fund is formally included within the scope of the framework (Appendix 1).

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 June 2017, including Appendix 2.
2. The issues discussed by LAPFF are set in the Quarterly Engagement Report which is available on their website:
<http://www.lapfforum.org/publications/qrly-engagement-reports/>
3. The update provided on the recent engagement activities with Hanwha Corporation.
4. Other activity undertaken to ensure the Fund continues to develop and support its approach to Responsible Investment.
5. That the Fund has responded to a motion from Birmingham City Council calling on WMF to divest from fossil fuels companies.

1.0 Purpose

- 1.1 To update the Pensions Committee on the work undertaken by the Investment team regarding their responsible investment activities between the period 01 April to 30 June 2017.

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 three main areas of responsible investment that we focus on: **engagement through partnerships, voting globally and shareholder litigation.**

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 ESG investment factors. A significant part of the Fund's engagement program is implemented through partnerships including the Principles for Responsible Investment (PRI), the Local Authority Pension Fund Forum (LAPFF), Institutional Investors Group on Climate Change (IIGCC) and the UK Pension Fund Roundtable.
- 3.2 Through LAPFF, the Fund engaged with 28 companies during the quarter. Most engagements concerned remuneration, climate change or general governance issues. Fifteen engagements led to a small, moderate or substantial improvement or a change in process. Most engagements were conducted by meetings arranged with the company Chair. On the subject of climate change, LAPFF engaged BP, Shell, Rio Tinto and Total, and the topics discussed included stranded assets, GHG emissions targets, carbon pricing, scenario analysis and the link between remuneration and climate change risk management. A summary of LAPFF's engagement activities for the quarter are provided alongside the voting activity report in Appendix 2. The issues are set out in the Quarterly Engagement Report which is available on LAPFF's website:
<http://www.lapfforum.org/publications/qrly-engagement-reports/>

- 3.3 Through the United Nations' Principles for Responsible Investment (PRI), the Fund is currently a support investor to four engagement topics, each of which concerns a number of holdings. As previously reported the Fund is a participant in engagements concerning (i) water scarcity risk in the supply chains of food & beverage and apparel companies, (ii) human rights risks in companies involved in the extractives sector and (iii) cyber security risk. West Midlands Pension Fund (WMPF) has recently decided to join an engagement on climate change risk which will be based upon the framework created by the Transition Pathway Initiative (TPI), of which the Fund is a founding member. This engagement will also be channelled through the PRI.

- 3.4 In June the Fund's RI Officer took the opportunity to attend the AGM of National Express Plc to challenge the Board on progress with union relations in the US. Attendance at the AGM was facilitated by LAPFF, including background research and preparation, and a member of LAPFF was in attendance at the AGMs. Following the AGM, National Express met with the US union, marking an improvement in company-union relations. WMPF's engagement is expected to conclude.
- 3.5 The Fund's RI Officer attended the AGM of National Grid Plc to ask a question about climate change risk. The officer asked the board whether the company would undertake the TCFD's recommendation to perform climate scenario analysis and disclose the results to shareholders. The company responded positively to the question and it is clear that the TCFD recommendations are already part of the company's thinking in terms of disclosing on climate risk. Whilst too late for this year's annual report, the company will have the opportunity to disclose using the TCFD's recommendations next year. WMPF will keep the situation under observation.
- 3.6 The Fund has signed a supporting letter from the Workforce Disclosure Initiative (WDI) to fifty target companies. WDI encourages companies to disclose business-relevant data concerning human capital management in a standardised and useable way.
- 3.7 Representatives from LAPFF attended an investor roundtable with Sports Direct International CEO Mike Ashley. The company has been an engagement target for LAPFF following allegations of poor labour practices at the company's Shirebrook facility (please see previous issues of LAPFF's quarterly engagement reports). Whilst some improvements in company practices have been achieved, investors would like to see the company go further to improve corporate governance and relations with employees. LAPFF representatives will also attend the Sports Direct AGM in September and continue to engage the company and communicate on progress.

Update on Cluster Munitions Engagement

- 3.8 WMPF continues to work with LAPFF on allegations of cluster munitions production at Hanwha Corporation. This follows successful engagements on the same topic with Lockheed Martin, Singapore Technologies, Textron and Alliant Techsystems. Members of the Pensions Committee were briefed in June on a positive development in this engagement. Having not received a response to its letter dated 18 April, the Chair of LAPFF has agreed to further escalate the issue. A new letter has been sent to the company. As part of the escalation of this engagement, the latest letter is being sent to the entire board (including Executive Directors and Non-Executives Directors). It is the Fund's view that it is preferable to attempt to engage the company to end its alleged involvement in cluster munitions rather than to divest (because the company would continue to manufacture the weapons following the Fund's divestment). It should be noted that engagements of this nature can often take time, but the Fund remains of the opinion that engagement is the best course of action at this point in time.

Following the June Pensions Committee meeting, the RI Officer wrote to interested scheme members on the latest developments on this issue. The Pensions Committee will continue to be kept informed of significant updates.

Voting Globally

- 3.9 The Fund currently has its own bespoke UK voting policy which our voting provider, Pensions and Investments Research Consultants Ltd (PIRC), executes on the Fund's behalf. The Fund follows the voting advice of PIRC for European, US, Japanese and Pacific region company meetings.
- 3.10 The voting activity for the quarter across markets and issues can be found in Appendix 2. During the period the Fund voted at a total of 1,745 company meetings – 231 UK, 395 European, 474 North American, 420 Japanese, 149 Asia (excluding Japan), 21 Australasian/ South African and 55 in the rest of the world. During this period there were 161 meetings where the Fund supported all the resolutions put forward by companies. Approximately 30% of the resolutions were not supported by the Fund. The largest number of resolutions that were opposed concerned the re-election of directors (usually voting against non-independent non-executive directors where the Fund or its advisors do not see sufficient independent oversight on a company board) and remuneration. This year saw the roll out of a large number of new remuneration policies – which will be in place for three years – at UK companies.
- 3.11 The “voting season” – a three-month window in which most investee companies hold their AGMs – began in April. Following this period, the Fund has decided to join forces with other responsible owners in writing joint letters to companies explaining the rationale for votes against management and setting expectations for the next 12 months. The Fund will seek meetings with companies where concerns are particularly acute. Four companies have been initially identified for joint letter writing. It is expected that this number will grow as the Fund identifies companies to which it will write directly.

Shareholder Litigation

- 3.12 As mentioned above, the pursuit of litigation against investee companies forms part of the Fund's Responsible Investment Framework. The fund partakes in shareholder litigation activities where it thinks monies can be recouped on behalf of the fund's members and where there is no risk of cost or penalty to the fund. Litigation is not considered unless the costs and benefits are known.
- 3.13 The Fund's shareholder litigation programme has continued in the manner reported previously.

Fossil Fuel Divestment

- 3.14 In July 2017 Birmingham City Council (BCC) voted in favour of a motion calling for WMPF to divest from companies involved in the coal, oil and gas industries (“fossil fuel companies”) over a period of five years. BCC's representative on the Pensions Committee has been mandated to bring forward this motion. The Fund has responded in line with the agreed RI Framework and this has been shared with Committee members for reference on issue to Cllr Khan, BCC's representative on the committee.

Other Activities

- 3.15 In-depth training on the Fund's Responsible Investment Framework was delivered to some members of the Pensions Committee in August 2017.
- 3.16 WMPF became one of the world's first asset owners to use the Taskforce on Climate-related Financial Disclosures (TCFD) framework to disclose its approach to managing climate change risk. This has been disclosed via the Fund's Annual Report for 2016-17.
- 3.17 West Midlands Pension Fund has been shortlisted for an award for Best Approach to ESG at the LAPF Investment Awards.

Responsible Investment Framework

- 3.18 The Committee is recommended to approve a minor update to the Fund's Responsible Investment Framework. The only change is to formally include the WMITA fund within the scope of the framework (Appendix 1). In practice, the Fund's RI activities already include the ITA fund, including investment stewardship and holding fund managers to account. There are no other changes to the framework at this point, but a broader review is anticipated in advance of April 2018.

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 Environmental implications

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

8.0 Human resources implications

- 8.1 This report contains no direct human resources implications.

9.0 Corporate landlord implications

- 9.1 This report contains no direct corporate landlord implications.

10.0 Schedule of background papers

- 10.1 LAPFF Quarterly Engagement Report April to June 2017:
<http://www.lapfforum.org/publications/qrly-engagement-reports/>

11.0 Schedule of Appendices

- 11.1 Appendix 1 (Updated Responsible Investment Framework, DRAFT for approval)
- 11.2 Appendix 2 (Voting and Engagement Activity)