



Pensions Committee

18 March 2015

Report Title Responsible Investment Activities
October to December 2014

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 31 December 2014, including Appendix 1.
2. The positive engagement outcome from the BP and Royal Dutch Shell shareholder resolution submissions.
3. The issues discussed by the Local Authority Pension Fund Forum (LAPFF) in the Quarterly Engagement Report which is available on their website:
<http://www.lapfforum.org/Publications/engagement>
4. Updates on the Fund's response to the cluster munition and Israeli-Palestinian campaigns and the National Express shareholder resolution/engagement respectively.
5. The Fund's collaborative engagement work with other pension funds regarding fund manager monitoring, culminating in the recently launched *Guide to Responsible Investment Reporting in Public Equity*, January 2015 (Appendix 2).

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 October to 31 December 2014.

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 Voting Globally

Summary of Voting Activity

- 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 296 company meetings –54 UK, 44 European, 57 North American, 4 Japanese, 82 Australia/New Zealand, 48 Asia (excluding Japan), 6 South American and 1 Russian. In respect of these meetings (a mixture of EGMs and AGMs) the Fund opposed, abstained or withheld* 932 resolutions out of a total of 2388, representing approximately 39% of all resolutions. During this period there were 43 meetings where the Fund supported all the resolutions put forward by companies.

*It should be noted that due to a combination of US state law and individual company bye-laws, votes pertaining to individual directors cannot be cast as “oppose” but have to be cast as “withheld”.

BP and Shell Shareholder Resolutions on Carbon Management

- 3.3 As indicated at the last Pensions Committee meeting, LAPFF were seeking member funds to co-file on 2015 annual general meeting shareholders resolutions at BP and Royal Dutch Shell respectively with regards to their carbon management practices. The Fund decided to co-file these shareholder resolutions with other like-minded LAPFF members as it believed that it was in alignment with its investment beliefs and responsible investment policy. The co-filing procedure was completed through the Fund's custodian in December 2014.

3.4 In an unprecedented move, BP and Royal Dutch Shell both publicly stated in January 2015 that they will recommend that their respective shareholders **support** the resolution. This represents a very positive engagement outcome for the Fund. The Fund will continue to monitor developments and support the engagement efforts of the LAPFF with regards to this issue as and when needed.

4.0 Engagement through Partnerships

Local Authority Pension Fund Forum

- 4.1 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 60 public sector pension funds in the UK with combined assets of over £125 billion. LAPFF members regularly meet together to discuss social, environmental and governance (ESG) issues and ways to promote high standards of corporate behaviour at investee companies.
- 4.2 With respect to the LAPFF-directed cluster munitions engagement, there is no recommended further course of action. As agreed at the previous Pensions Committee meeting, the Fund has decided to not adopt ethical exclusions as a matter of principle, and instead will continue to adopt its engagement policy accordingly.
- 4.3 A summary of LAPFF's engagement activities for the quarter are provided alongside the voting activity report in Appendix 1. The issues discussed by the LAPFF in the Quarterly Engagement Report is available on their website: <http://www.lapfforum.org/Publications/engagement>. Note that a summary of cluster munitions engagement is provided in the LAPFF engagement report (page 4).
- 4.4 At the December Pensions Committee meeting, there was also a discussion regarding National Express's North American operations and a proposed way forward, including the co-filing of a shareholder resolution for their upcoming 2015 AGM. Based on further research resulting from that discussion, the Fund decided that the following course of action was deemed appropriate which was approved by the Pensions Committee:
- Support the shareholder resolution at the upcoming 2015 AGM, in alignment with our voting policy;
 - Attend the 2015 AGM to vocally register our discontent at the Board; and,
 - Encourage other like-minded investors - including major shareholders - to support the resolution in the coming months.

Israeli-Palestinian Campaign

- 4.5 In August 2014, a request was made by a member in Coventry asking for disinvestment in all arms manufacturing companies and also in any companies that profit from the violations by Israel of international laws in Palestine. Councillor Turner and certain members of the Pensions Committee have since received identical letters from a number of members with regards to this campaign, to which the Fund has responded on his behalf highlighting our policy on ethical exclusions.
- 4.6 While the Pensions Committee has decided to retain its policy of not excluding companies for ethical reasons as noted above, a decision was made to retain the Fund's proxy voting advisor PIRC to conduct some additional research and engagement into this issue. The Fund will report back to the Pensions Committee as to the findings of the program as and when appropriate.

External fund manager monitoring

- 4.7 One key aspect of the Fund's responsible investment strategy is to hold external fund managers to account for their responsible investment approach. In support of this objective, the Fund and other large LGPS schemes¹ are amongst a group of UK pension funds with over £200bn of assets who have worked together to produce a *Guide on Responsible Investment Reporting in Public Equity*. Leanne Clements, the Fund's Responsible Investment Officer, was a Deputy Editor of the Guide.
- 4.8 Launched in January 2015, the Guide aims to clearly outline their expectations as to the future direction of reporting for listed equities to provide managers with a clearer picture of what they want to read and hear about when it comes to environmental, social and governance (ESG) integration, effective stewardship (voting and engagement activities) and most importantly, getting a better understanding of how these are contributing to improved long-term risk adjusted returns.
- 4.9 The Guide will be used as a platform for future discussions with external fund managers of listed equity. It has received a favourable response from the fund management community and the Fund itself has received some positive press after the launch. In general, fund managers welcomed the clarity the Guide provides and its progressiveness; asking them to focus their responsible investment reporting on how ESG is financially relevant to investment. The Fund will provide a short presentation on the Guide's contents at the next LAPFF Business Meeting in March.
- 4.10 A copy of the Guide is provided in Appendix 2.

¹ Strathclyde Pension Fund, Lothian Pension Fund, Environment Agency Pension Fund, NILGOSC, Merseyside Pension Fund

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 has no legal implications.

7.0 Equalities implications

7.1 This report has no implications for the Council's equal opportunities.

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 implications for the Authority's Human Resources Policies.

10.0 Corporate landlord implications

10.1 The report contains no direct corporate landlord implications.

11.0 Schedule of background papers

11.1 Background papers include

- Appendix 1 (Voting and Engagement Activity)
- LAPFF Quarterly Engagement Report October to December 2014:
<http://www.lapfforum.org/Publications/engagement>
- Appendix 2 (Guide to Responsible Investment Reporting in Public Equity, January 2015)