

Pensions Committee

12 December 2018

Report title	Responsible Investment	
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 2018, including Appendix A.
2. The issues discussed by LAPFF are set in the Quarterly Engagement Report which is available on the LAPFF website:
<http://www.lapfforum.org/publications/qrtly-engagement-reports/>
3. The issues discussed in the LGPS Central Quarterly Stewardship Report which is available on the LGPS Central website: <https://www.lgpscentral.co.uk/responsible-investment/>
4. Other activity undertaken to ensure the Fund continues to develop and support its approach to Responsible Investment.
5. Correspondence received during the period and the Fund's response.
6. The proposed beliefs about climate change and its potential impact on the Fund, from which a Climate Change Strategy and Framework will be developed.
7. That the Fund is signatory to the 2018 Global Investor Statement to Governments on Climate change

1.0 Purpose

- 1.1 To update the Pensions Committee on the work undertaken by the Fund in relation to responsible investment 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 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

Stewardship

- 3.1 The Fund's strategy is to engage with its investee companies and other key stakeholders through partnerships and directly. 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 programme 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 63 companies during the quarter. Most engagements concerned shareholder rights. Seven engagements led to a small, moderate or significant improvement. Most engagements were conducted by letters addressed to the company Chair. A summary of LAPFF's engagement activities for the quarter are provided alongside the voting activity report in Appendix A. The issues are set out in the Quarterly Engagement Report which is available on LAPFF's website: <http://www.lapfforum.org/publications/qrtly-engagement-reports/>
- 3.3 The Fund's stewardship themes for 2018 are climate change, cyber security and diversity. These themes have been selected because they have both financial relevance and resonance with the Fund's stakeholders. The Fund is, primarily through partnerships, engaging with companies, fund managers and other relevant organisations, and using its voting rights to drive change and signal the importance of these issues to institutional investors. Progress on each theme is reported to the Pensions Committee on a quarterly basis.

Climate Change

- 3.4 The Fund is leveraging its partnership arrangements with the Transition Pathway Initiative (TPI), Institutional Investor Group on Climate Change (IIGCC), Carbon Disclosure Project (CDP), Climate Action 100+ (CA100+), and LGPS Central's internal RI resources. The Fund is a founding partner of TPI and integrates TPI's carbon risk analyses into its voting decisions. As part of CA100+ the Fund, via LGPS Central, was represented at shareholder meetings with a large UK-listed oil & gas company and a dual-listing mining company. At each engagement, significant progress was made towards the CA100+'s three engagement objectives, and on gaining transparency on corporate lobbying activities.
- 3.5 LAPFF engaged 8 companies during the quarter on climate change. This included, in partnership with the 50/50 project, Ford Motor Company, BP Plc and General Electric. The Fund's stewardship provider (see below) was engaging 90 portfolio companies on the subject of climate change during the quarter in review.

Cyber Security

- 3.6 Within the PRI's collaborative engagement on cyber security, which includes c50 listed companies, the Fund has co-led on two UK-based companies. Following improvements and meeting 100% of the assessment indicators, engagements with these companies have been drawn to a successful conclusion. Our PRI collaborators progressed engagements with Worldpay, Thermo Fisher and HSBC during the quarter in review. Engagement with other companies in the collaboration continues.

Diversity

- 3.7 The Fund has continued to engage companies on their approaches to diversity, primarily through its membership of the 30% Club Investor Group. Through the 30% Club and LGPS Central, the Fund is leading an engagement with a company in the energy sector. Whilst the near-term objectives for the engagement concern gender diversity, which is lacking in the current board composition, the Fund expects the company to have an approach that covers broader aspects of diversity including ethnicity. During a meeting with the company Chair and the Executive Committee member responsible for Diversity and Inclusion, the company articulated very clearly its strategy for promoting ethnic diversity, and how this leads to operational and cultural improvements.
- 3.8 Through its voting partner, the Fund has engaged Centrica Plc on gender diversity on the board, which currently stands at less than 25%. Throughout the year three directors were female although one has stepped down and the company is yet to replace her. Whilst the company Chair will step down this year and the chairmanship of the Nominations Committee will pass to another individual, it is expected that the company will review its board composition with an expectation to achieve greater than 25% female representation on the Board.

Finally, the Fund voted against company Chairs where there is a lack of diversity at board level.

Shareholder Voting

- 3.9 The Fund currently has its own bespoke UK voting policy which is executed by LGPS Central (using a third-party stewardship provider). The Fund follows the voting advice of the stewardship provider for overseas markets.
- 3.10 The voting activity for the quarter across markets and issues can be found in Appendix A. During the period the Fund voted at a total of 262 company meetings – 95 UK, 37 European, 50 North American, 12 Japanese, 44 Asia (excluding Japan), 14 Australasian/ South African and 10 in the rest of the world. During this period there were 30 meetings where the Fund supported all the resolutions put forward by companies. Approximately 31% of the resolutions were not supported by the Fund. In the UK market, 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.
- 3.11 The Fund voted to oppose the re-election of Sports Direct Chair Keith Hellawell, as the Fund has done three times previously. Mr Hellawell announced during the AGM that he has decided to step down. We voted against the Chairs of BT Group and Stobart Group owing to poor levels of female representation on the Board.
- 3.12 At the Ryanair AGM the Fund voted in line with two voting recommendations issued by the Local Authority Pension Fund Forum (“LAPFF”). Owing to poor handling of recent operational issues and workforce relations, and owing to a lack of sufficient disclosure, we voted against the Chairman David Bonderman and against the annual report. We were joined by c30% of the shareholders in refusing to support Mr Bonderman’s re-election.
- 3.13 Amazon Inc. faces various regulatory issues including anti-trust and issues with its workforce such as low pay and employee contractual status. Our Stewardship Provider met the company at its headquarters. Regarding anti-trust, the company stated that over half of sales on Amazon.com are by third-parties and argued that there are limits on the data from third-parties that are accessible to Amazon's own sales teams. Regarding the workforce, Amazon emphasised the equal access to benefits for all employees and the focus on diversity and inclusion. Amazon has since publicly announced significant pay increases for its low paid employees.
- 3.14 The Fund voted to oppose the remuneration reports at SSE Plc, Ashtead Plc and Diageo Plc over concerns around quantum and excessive variable pay relative to peers. In relation to the proposed election of John O'Higgins (CEO of Spectris Plc), as a Non-Executive director at Johnson Matthey Plc, we voted to abstain on balance. While Mr O'Higgins will step down from his Chief Executive role, this will take place over a long time period (12 months), and his election could have been delayed to the next AGM to reduce potential conflicts of interest in the interim.

Shareholder Litigation

- 3.15 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.
- 3.16 The Fund's shareholder litigation programme has continued in the manner reported previously.

Other Activities

- 3.17 The Fund became signatory to the [2018 Global Investor Statement to Governments on Climate Change](#).

The statement calls on governments to:

- Achieve the Paris Agreement's goals;
- Accelerate private sector investment into the low carbon transition; and
- Commit to improve climate-related financial reporting.

4.0 LGPS Central Responsible Investment

- 4.1 The Fund has a number of investment mandates agreed with LGPS Central. Through its Responsible Investment & Engagement Framework and its Statement of Compliance with the UK Stewardship Code, LGPS Central is able to help implement the Fund's own Responsible Investment Framework. LGPS Central issues Quarterly Stewardship Reports to demonstrate progress on matters of investment stewardship. The latest report can be found at Appendix C and also on their website following each quarter <https://www.lgpscentral.co.uk/responsible-investment/>
- 4.2 Following the transition of certain assets to LGPS Central Limited in April 2018, and the novation of the Fund's Voting Services contract with Pirc Limited to LGPS Central Limited, the Fund's Voting Principles were executed by LGPS Central Limited using a temporary six-month contract with Pirc Limited. In August and September 2018, LGPS Central Limited ran a mini-competition through the National LGPS Frameworks to procure a long-term provider of stewardship services (relating to engagement and voting). LGPS Central received four very strong responses to its Invitation to Tender. As a result of this process, Hermes EOS has been selected as the stewardship provider for LGPS Central Limited. This means that the Fund's Voting Principles are, effective from 3rd October, implemented by LGPS Central Limited via Hermes EOS.

5.0 Communications

- 5.1 The Fund was shocked and saddened to learn that Cllr Ian Greenwood passed away on 13 November. Following re-election to the City of Bradford Council in May 2018, Cllr Greenwood was elected Chair of LAPFF in July. The Fund has expressed its condolences through the appropriate means.
- 5.2 During September 2018 the Fund responded to correspondence received from Divest WMPF and Friends of the Earth, outlining the Fund's approach to managing climate risk.
- 5.3 On 9 November 2018 three campaign groups (Platform London, Friends of the Earth Scotland, and Friends of the Earth) published a report that summarised their opinion on the preparedness for climate change of a number of local authority pension funds. The Fund was among those included in the report's sample. The Fund has issued a statement on its website relating to its climate change strategy.
<http://www.wmpfonline.com/CHttpHandler.ashx?id=16778&p=0>

6.0 Climate change risk

- 6.1 Building on research and analysis undertaken earlier in the year, the Fund is developing a *Climate Change Strategy and Framework*. This will describe the Fund's proposed plan to address the financial risks to the Fund posed by climate change over a four-year period (2019-2023). This period is set to coincide with several key events in 2023:
- First global stock take under Article 14 of the Paris Agreement
 - Culmination of the Climate Action 100+ engagement programme
 - IPCC Sixth Assessment Cycle concludes in 2023

The proposed *Climate Change Strategy and Framework* will be reviewed on an annual basis to ensure its ongoing suitability for the Fund's long-term strategic objectives.

- 6.2 Whilst climate change risks and opportunities are already managed within the Fund's Responsible Investment Framework, the Committee is recommended to adopt a specific framework built around beliefs relating to climate change.

Proposed beliefs

- 6.3 The proposed beliefs, set out in Appendix B, are divided into three sections: the economics of climate change; the energy transition; purposeful climate stewardship.
- 6.4 The Committee is recommended to note and endorse the beliefs ahead of further development of the Strategy and Framework, which is planned for presentation to Committee in March.

7.0 Financial implications

7.1 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.

8.0 Legal implications

8.1 This report contains no direct legal implications.

9.0 Equalities implications

9.1 This report contains no equal opportunities implications.

10.0 Environmental implications

10.1 Environmental implications are addressed through the Fund's Responsible Investment Framework.

11.0 Human resources implications

11.1 This report contains no direct human resources implications.

12.0 Corporate landlord implications

12.1 This report contains no direct corporate landlord implications.

13.0 Schedule of background papers

13.1 LAPFF Quarterly Engagement Report:
<http://www.lapfforum.org/publications/qrtly-engagement-reports/>

13.2 LGPS Central Quarterly Stewardship Report
<https://www.lgpscentral.co.uk/responsible-investment/>

14.0 Schedule of Appendices

14.1 Appendix A (Voting and Engagement Activity)

14.2 Appendix B (Proposed beliefs in relation to climate change)

14.3 Appendix C (LGPS Central Ltd Quarterly Stewardship Report, 2nd Quarter 2018)