

Pensions Committee

29 September 2021

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

The Pensions Committee is asked to note:

1. The Fund's engagement and voting activity for the three months ending 31 March 2021 [Appendices A and B].
2. The issues discussed by LAPFF are set out in the Quarterly Engagement Report, which is available on the LAPFF website: [LAPFF_QER02_2021_final-final.pdf \(lapfforum.org\)](#)
3. The voting and engagement activity of LGPS Central, as set out in the Quarterly Stewardship Report, available on the LGPS Central website: [LGPSC-Stewardship-Update-Q1-2021-22.pdf \(lgpscentral.co.uk\)](#)
4. The research and engagement activity undertaken by EOS at Federated Hermes as set out in the Quarterly Engagement Report, which is available on the EOS website: [EOS Public Engagement Report \(hermes-investment.com\)](#)
5. The Fund's involvement in the establishment of the first Asset Owner Diversity Charter.

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 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+), and the Principles for Responsible Investment (PRI).
- 3.2 Through LAPFF, the Fund engaged 59 companies during the quarter¹, addressing human rights, climate change and governance issues. Most engagements were conducted through meetings with company Chairpersons, attendance at company AGMs and letter writing; four company engagements are currently categorised as change in process, whilst substantial and moderate improvements were documented in eleven engagements.
- 3.3 This quarter LGPS Central undertook 1,441² engagements with 532 companies on behalf of the Fund, the majority of which were carried out by EOS. An overview of engagement activity by region and theme is provided in Appendix A. Most engagements were conducted through letter issuance or remote company meetings, where LGPS Central, 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.
- 3.4 The ongoing global COVID-19 pandemic continues to cause disruption with potentially long-lasting repercussions for the economy and society as a whole and the Fund continues to reflect and engage on the impact that this is having for companies and their stakeholders.

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

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

Climate Change

- 3.5 2021 may come to be viewed as a watershed year for climate change and investor Stewardship. With the Dutch court decision against Royal Dutch Shell and a majority support for a shareholder climate resolution at Chevron occurring in May, the more recent publications of the International Energy Agency's Net Zero by 2050 report³ and the Intergovernmental Panel on Climate Change Sixth Assessment report⁴ in advance of the United Nation's Climate Change Conference (COP26) taking place in November, EOS at Federated Hermes suggest that the tipping point for climate stewardship may have been reached.
- 3.6 This is a critical year for both corporate and policy makers in accelerating action towards the goals of the Paris Agreement - to limit global warming to well below 2, preferably to 1.5 degrees celsius, compared to pre-industrial levels. The focus is now on the UK and the contribution that pension funds and other institutional investors could make to help decarbonise the economy in a way that protects beneficiaries and secures just transition to net zero.
- 3.7 During the quarter LAPFF undertook 28 climate change engagements. One of the engagements are categorised as change in progress and substantial improvements have been recognised for two of the company engagements – one of which was National Grid. LAPFF, together with lead Climate Action 100+ (CA100+) investors (of which WMPF is a member) met with National Grid's Sustainability Manager and Director of Investor Relations to assess company progress against the CA100+ benchmark. National Grid has now set a new Scope 3 target to reduce carbon emission to 37.5% below its 1990 baseline by 2034, up from the previous target of 20% by 2030, and is aligned with the science-based targets initiative. Scope 3 emissions account for the largest proportion of the company's emissions and LAPFF welcome the amended mid-term target. LAPFF will continue to monitor National Grid's progress against its target.
- 3.8 This quarter LAPFF has increased momentum around the Say on Climate Initiative⁵, pressing companies to put their climate plans and strategies to vote at AGMs and allowing shareholders the opportunity to hold all companies more accountable for their carbon management activities – not just those with high carbon emissions. Whilst there have been mixed views on this initiative, there have been a number of positive outcomes from these votes. LAPFF was able to use Shell's say on climate resolution to express significant concerns about the company's climate plans and it is also putting pressure on companies that did not bring such resolutions to their AGMs this year to do so next year, for example Anglo American. The initiative is also driving much needed clarity for investors on how to assess company climate initiatives and evaluate company climate plans in a systematic and strategic manner.

³ International Energy Agency's Net Zero by 2050 report

⁴ <https://www.ipcc.ch/report/ar6/wg1/>

⁵ <https://www.sayonclimate.org/>

- 3.9 This quarter, LGPS Central's climate change engagement set comprised 247 companies with 310 engagements issues. There was engagement activity on 298 engagement issues and achievement of some or all specific engagement objectives on 109 occasions.
- 3.10 This quarter the Transition Pathway Initiative (TPI), of which LGPS Central is a member of the TPI's Steering Committee, published its annual State of Transition report. The TPI is a tool set up to assess how companies manage climate change risk and their future carbon performance. At present the average management quality level of the 400 companies across 16 sectors that have been assessed is 2.6 (ranking from 0-4, with 4 being the highest), inferring that companies are half way between building capacity on climate change and integrating climate change into operational decision making.

Sustainable Food Systems

- 3.11 Overfishing, plastic pollution, temperature rise, and chemical contaminants have impacted the health of our oceans, upon which billions of people depend for their sustenance and livelihoods. Oceans help to regulate the climate and the water cycle, as well as being a source of food and used for shipping routes. However, following centuries of treating the oceans as an inexhaustible resource at least a third of fish stocks are depleted, while microplastic pollution has become endemic, with potentially dangerous consequences for human health. This quarter EOS at Federated Hermes undertook a focus period of research to explore why these issues matter to investors and the five themes that most closely relate to ocean sustainability: climate change, pollution, sustainable fishing, biodiversity, and human rights.
- 3.12 Today, the global community is starting to see the importance of managing its impact on the oceans. Failing to protect marine ecosystems will have negative consequences for the global economy, posing a systemic risk to long-term investments. EOS profess that investors should be aware of these risks and how the companies in which they are invested impact the oceans. EOS is further encouraging companies to commit to having a net-positive impact on biodiversity throughout their operations and supply chains by 2030 at the latest.
- 3.13 Engagement undertaken by the Fund's pool company further addresses the need for a reduction in plastic production throughout supply chains. This quarter LGPS Central's single-use plastics engagement set comprised 30 companies with 51 engagement issues⁶. There was engagement activity on 39 engagements and achievement of some or all engagement objectives on 19 occasions.
- 3.14 LGPS Central has continued its engagement with six packaging companies through a Principles for Responsible Investment plastics working subgroup. The group established expectations of companies to: set targets for their use of sustainable materials; disclose progress against these targets; outline the initiatives they are using to reduce plastic pollution; ensure alignment between their materials strategy and carbon emissions reduction strategy; and include sustainability-related key performance indicators in executive remuneration. LGPS Central has witnessed high receptiveness to the

⁶ There can be more than one plastic-related engagement issue per company.

engagement from these companies, fuelled by a greater interest in sustainability from the company's customer base.

Human Rights

- 3.15 On behalf of the Fund, LAPFF has engaged 35 companies on human rights issues during the quarter. Change in progress was realised for two mining companies. LAPFF aimed to raise the link between unresolved human rights issues and financial performance at mining companies. Engagement has focused upon BHP, Vale, Rio Tinto, Anglo American and Glencore. LAPFF has asked Rio Tinto, BHP and Vale whether the companies would be willing to quantify the financial cost of its social failures. Noting the complexities in doing so, LAPFF deem that it would be helpful for investors to understand some of the financial consequences of mining companies' social failings in order to make clear that they are losing money when companies do not respect human rights and broader social issues in their operations. LAPFF will continue to drive home the link between social and environmental failures by mining companies and poor or reduced long-term financial returns for investors. LAPFF estimate that making this link for companies and investors alike will take some time, but that it will continue to keep on the agenda for engagement with these companies.
- 3.16 As previously reported to Pensions Committee, LAPFF continues to engage with companies operating in Occupied Palestine Territories (OTPs). In June 2021 LAPFF wrote to sixteen of the companies initially engaged requesting that they undertake human rights impact assessments (HRIAs) related to their operations in the Territories. The aim is that companies operating in the Territories will better understand the importance of undertaking these HRIAs, not only to highlight where the companies might be complicit in human rights infringements, but also to provide insight on potential investment risks for shareholders. LAPFF also met with representatives from the UN including the Office of the United Nations High Commissioner for Human Rights (OHCHR) to better understand the methodology used in producing the reports the OHCHR has issued on this issue in previous years. LAPFF has based its company engagement targets on the list published by OHCHR in February 2020. LAPFF will continue to press the companies with which it has engaged to undertake these HRIAs; Pensions Committee will be kept up to date on progress.
- 3.17 This quarter the Fund has continued participation in Rathbone's modern slavery engagement project, which is currently engaging 62 FTSE350 companies to request compliance with the Modern Slavery Act. The act requires companies with a turnover of more than £36 million per year to post a modern slavery statement on their website; this statement must be approved by the board, signed by a director, and reviewed annually. As at the end of June 2021, all companies had responded to Rathbone's request and 55 are now compliant.
- 3.18 During the quarter LGPS Central's technology and disruptive industries engagement set comprised 31 companies with 48 engagements issues. There was engagement activity on 40 engagement issues and achievement of some or all engagement objectives on 11 occasions. The Fund continues to support the New Zealand Superfund's collaborative engagement with social media companies' engagement, which has a targeted focus upon Facebook, Alphabet and Twitter. During the quarter, as a direct response to the NZ Superfund's engagement efforts, the charter for Facebook's Risk and oversight Committee

has been updated to include ‘the sharing of content on its services that violate the Company’s policies’. The NZ Superfund deem this to be a major win for the Collaboration and a real strengthening of governance and accountability for the Risk and Oversight Committee on this issue, putting the Board on the front foot in working towards prevention of the issue rather than just fire-fighting inherent problems.

Responsible Financial Management

- 3.19 This quarter, LGPS Central’s tax transparency engagement set comprised 7 companies with 7 engagement issues. There was engagement activity on 2 engagements and achievement of some or all engagement objectives on three occasions.
- 3.20 During the quarter, through a PRI tax working group, LGPS Central co-signed a letter to the European Parliament supporting a draft directive on public country-by-country reporting (CBCR) in the EU. LGPS Central views it as vital that multinational companies provide disaggregated information on taxes paid in all countries and across operations. The proposal would require public reporting of certain information such as revenues, number of employees, profit or loss before tax, tax accrued and paid, accumulated earnings, stated capital and tangible assets.
- 3.21 Many companies already provide revenue, profit and tax paid by territory which is submitted to tax authorities. This is best practice under existing OECD Base Erosion and Profit Shifting guidelines, which means that companies already collect the data and can provide it to stakeholders more broadly. CBCR is crystallising as best practice in tax transparency, for instance through a Global Reporting Initiative Tax Standard which was launched in early 2020. While only a minority of multinationals currently provide shareholders and other stakeholders with CBCR, those that do view it as an opportunity to “demystify” tax and have expressed to us that it has largely been well received by stakeholders.

Voting Globally

- 3.22 The Fund’s voting policies are currently executed by EOS via a contract held by LGPS Central Ltd, the Fund’s asset pool company. The Fund has contributed to and endorses LGPS Central’s Voting Principles. The Fund will renew its Voting Principles and submit to Committee for approval in December 2021, ahead of the 2022 AGM season.
- 3.23 The voting activity for the quarter across markets and issues can be found in Appendix B. During the period, the Fund voted at a total of 1,756 company meetings (24,798 resolutions) – 203 UK, 388 Europe, 501 North American, 485 Developed Asia, 22 Australasian and 157 in Emerging and Frontier Markets. At 1,208 meetings we 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).
- 3.24 With the 2021 AGM season ending, LGPS Central have outlined that it is clear that there is increasing pressure on companies, in all sectors, to address climate change and other

ESG factors within their business models. The Voting section of LGPS Central's Q1 2021-22 Stewardship Update (page 9) provides greater detail.

Asset Owner Diversity Charter

- 3.25 The Fund has been involved in the development of the first Asset Owner Diversity Charter⁷, which aims to tackle diversity bias within the asset management industry. Working alongside five other institutional investors, the Charter working group established a set of actions that asset owners can commit to: include diversity & inclusion in manager selection; monitor selected managers for Diversity & Inclusion on an ongoing basis; and lead and collaborate in this area to encourage broader industry change.
- 3.26 As of the launch date (2nd August 2021), the Charter has already been backed by 17 signatories representing £1.08 trillion in assets under management/consultancy. LGPS Central Ltd have declared their commitment to joining this initiative and we will now seek to engage all WMPF investment managers on this initiative and monitor progress over time.

Correspondence

- 3.27 The Fund continues to receive correspondence from individual members of the public, and more established groups in connection with climate change and the course of action the Fund takes to support accelerated action by all parties in response to this risk. The Fund statement on Climate Change action and support for engagement over divestment was updated in September 2021, has been posted on the Fund website and referenced in response to individual queries. During the quarter the Fund also received queries and correspondence on responsible investment topics relating to investments held in companies operating in Palestine and the arms trade. As referenced in section 3.16, the Local Authority Pension Fund Forum is continuing a programme of engagement over 2021 on behalf of the Fund and is monitoring both UN activity and the developing political situation in the area. Pensions Committee will be kept updated of progress with this engagement.
- 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.

⁷ [Asset Owner Diversity Charter | Diversity Project](#)

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 Responsible Investment Framework.

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 – June 2021](#)

10.2 [LGPS Central Quarterly Engagement Report Quarter 1 2021-22](#)

10.3 [EOS at Federated Hermes Public Engagement Report:](#)

11.0 Schedule of appendices

Appendix A – WMPF Engagement Activity

Appendix B – WMPF Voting Activity