

# Pensions Committee

15 December 2021

<b>Report title</b>	Responsible Investment Activities	
<b>Originating service</b>	Pension Services	
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**Recommendation for decision:**

The Pensions Committee is asked to note and approve:

1. Publication of the Fund's 2021 Taskforce for Climate-related Financial Disclosure (TCFD) Report [Appendix A].

**Recommendations for noting:**

The Pensions Committee is asked to note:

1. The Fund's engagement and voting activity for the three months ending 30 September 2021 [Appendices B and C].
2. The issues discussed by LAPFF are set out in the Quarterly Engagement Report, which is available on the LAPFF website: [https://lapfforum.org/wp-content/uploads/2021/10/LAPFF\\_QER03\\_2021\\_03.pdf](https://lapfforum.org/wp-content/uploads/2021/10/LAPFF_QER03_2021_03.pdf)
3. The voting and engagement activity of LGPS Central, as set out in the Quarterly Stewardship Report, available on the LGPS Central website: <https://www.lgpscentral.co.uk/wp-content/uploads/2021/11/LGPSC-Stewardship-Update-Q2-2021-22-2.pdf>
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: <https://www.hermes-investment.com/uki/eos-insight/eos/public-engagement-report-q3-2020/>

## 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+), the Transition Pathway Initiative (TPI), and the Principles for Responsible Investment (PRI).
- 3.2 Through LAPFF, the Fund engaged 82 companies during the quarter<sup>1</sup>, addressing human rights, climate change and governance issues. Most engagements were conducted through letter writing; five company engagements are currently categorised as change in process, whilst substantial and moderate improvements were documented in four engagements.
- 3.3 This quarter LGPS Central undertook 607<sup>2</sup> engagements with 199 companies on behalf of the Fund, the majority of which were carried out by EOS. 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.

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

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

### *Climate Change*

- 3.5 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 local authority pension funds and other institutional investors can make to help decarbonise the economy in a way that protects beneficiaries and secures just transition to net zero.
- 3.6 During the quarter LAPFF undertook 68 climate change engagements. Five of the engagements are categorised as change in progress and substantial improvements have been recognised for three of the company engagements.
- 3.7 On behalf of the Fund, LAPFF has been engaging with Persimmon over a number of years following serious concerns about excessive executive pay, customer care and build quality. The Forum has also identified housebuilders as an important sector for climate change engagements, given the level of emissions from residential property. LAPFF therefore met with the Chair of Permission to discuss improvements in customer care and executive pay alongside how it was seeking to move to a net zero business model. Persimmon has made a commitment that all new homes will be net-zero by 2030 and for the company, including its operations, to be net zero by 2040. Under UK government policy, there will be no gas boilers installed in new homes from 2025 and the discussion focused on how Persimmon was seeking to prepare for this change. LAPFF deem that Persimmon has made improvements to customer care but there is scope for further improvements. While emission targets have been set it will be important to monitor their progress towards net zero.
- 3.8 The Institutional Investor Group on Climate Change (IIGCC), of which the Fund is a member, has published a guide on Investor Expectations of Companies on Physical Climate Risks and Opportunities. LAPFF has co-signed letters to 50 companies in sectors highly exposed to physical climate risk asking them to adopt the expectations set out in the guide. These expectations are to establish a climate governance framework, to undertake physical climate risk and opportunity assessment, to develop and implement a strategy for building climate resilience, and to identify and report against metrics to demonstrate progress over time.
- 3.9 This quarter, LGPS Central's climate change engagement set comprised 269 companies with 326 engagements issues. There was engagement activity on 295 engagement issues and achievement of some or all specific engagement objectives on 136 occasions.
- 3.10 During the quarter, under the scope of Climate Action 100+, LGPS Central met with the senior management of SSE Limited to provide views on the company's draft climate transition plan - to deliver a Paris-aligned emissions reduction pathway over the short, medium and long term. SEE were very receptive to the investor groups views and LGPS Central were pleased to see a clear net-zero by 2050 commitment accompanied by short- and medium-term targets in the transition plan. LGPS Central did have some concerns regarding the short-term emissions reduction targets to 2025, but the company

commits to regularly update interim emissions reduction targets based on latest scientific developments.

- 3.11 Through Climate Action 100+, LGPS Central have continued engagement with a diversified mining company on their efforts to reduce scope 3<sup>3</sup> greenhouse gas emissions and to develop a scope 3 emissions reduction programme. For this company, scope 3 emissions represent 96% of its total emissions and are a critical element to address. The company has presented initial actions to support the reduction of their scope 3 emissions. However, CA100+ would like to see this translate into measurable goals and will continue working with the company to develop quantitative targets. The company has signalled that it will not set numeric targets on Scope 3 emissions unless it is underpinned by a reasonable basis. The company is currently prepared to do this for 30% of its Scope 3 emissions as there is currently no reasonable basis to do this for emissions generated by steelmaking. Along with CA100+, LGPS Central will continue to monitor this issue and engage with the company in question.

### *Sustainable Food Systems*

- 3.12 Together with more than 100 investors and coordinated by ShareAction, LGPS Central co-signed letters to 68 banks setting out expectations for Paris-alignment and protection and restoration of biodiversity. Banks play a critical role in provision of finance to support transition to a low-carbon economy. Whilst banks have been previously asked to set targets in line with Paris, this letter specifically addresses biodiversity, alongside climate, as an area that banks are expected to assess in their risk management and in their dialogue with clients. Encouragingly, 45 banks have responded to the letter and dialogue is ongoing with a selection of these banks. The investor group's first ask was for banks to publish climate targets covering all relevant financial services that are aligned with global efforts to hold temperature rise below 1.5 degrees Celsius. Nineteen confirmed that they will publish new climate targets by the end of 2021, and/or their 2022 AGM. This includes BBVA, BNP Paribas, Citigroup, and Standard Chartered. A critical next step for the investor group is to assess whether these targets put banks on a clear path to net zero.
- 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 37 companies with 39 engagement issues<sup>4</sup>. There was engagement activity on 24 engagements and achievement of some or all engagement objectives on 19 occasions. LGPS Central has continued its engagement during the quarter with six packaging companies through a Principles for Responsible Investment plastics working subgroup. Good progress has been made in dialogue with a UK retailer that has committed to introducing products with microplastic filters within the next 18 months.
- 3.14 During the quarter LAPFF attended Sainsbury's 'Plan for Better' event and posed questions, both at this event and at the AGM, on the company's packaging practices, electric vehicles, supply chains, climate change and 'say on climate'. In 2020, Sainsbury

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<sup>3</sup> Scope 3 emissions are a consequence of the activities of the company but occur from sources not owned or controlled by the company. Some examples of scope 3 activities are extraction and production of purchased materials; transportation of purchased fuels; and use of products and services.

<sup>4</sup> There can be more than one plastic-related engagement issue per company.

announced its climate target to be net zero by 2040 and has this year announced Scope 3 emissions targets, which followed with a key theme of this year's ESG event being that the company was engraining ESG at the core of its business strategy. It is taking several steps in stores to tackle plastic packaging, opting for loose veg as opposed to prepacked. These steps have led Sainsbury to be recognised by Greenpeace as the retailer with the second highest proportion of loose fruit and vegetables in the market. LAPFF will be meeting with Sainsbury for a more in-depth conversation on the company's approach to a zero-carbon transition and will be querying the company further on a 'say on climate' vote.

### *Human Rights*

- 3.15 On behalf of the Fund, LAPFF has engaged four companies on eleven human rights issues during the quarter. Improvements following dialogue with two of the companies has been document by LAPFF.
- 3.16 As previously reported to Pensions Committee, LAPFF continues to engage with target companies operating in Occupied Palestine Territories (OPT). There are short-term and long-term objectives with this engagement. The short-term objective is to have the LAPFF target companies operating in this area engage meaningfully with LAPFF on their human rights practices in the OPT. The long-term objective is to have these companies produce credible, robust, independent human rights impact assessments of their practices in the OPT so that LAPFF members can assess whether the companies' human rights practices meet international human rights and humanitarian law standards. During the quarter LAPFF engaged with two companies, gaining insights into their human rights due diligence processes and one company has publicly announced that it is in the process of drafting its Human Rights Statement. LAPFF will continue to approach companies for engagement and to request meaningful responses to information requests. Pensions Committee will be kept up to date on LAPFF's progress.
- 3.17 During the quarter LGPS Central, as part of an investor coalition led by the Council on Ethics to the Swedish National Pension Funds, discussed human rights risk management with Amazon. The investor group shared a set of Investor Expectations with this and several other technology companies in December last year and were pleased to see that Amazon is taking promising steps to build out its Human Rights programme and carry out human rights' due diligence across its operations.
- 3.18 As part of a collaborative initiative co-ordinated by the New Zealand Superannuation Fund, over the past 30 months WMPF has taken part in an engagement project targeting the world's three largest social media companies (Facebook, Alphabet and Twitter). The project, which has now drawn to a close having seen significant progress made by each of the social media companies to stop the spread of objectionable material, but a continued focus on the evolution of preventative safeguards is needed. The engagement project received Stewardship Initiative of the Year award at the UN PRI 2021 Awards for its success in engaging these multinational giants by building a large collaboration of investors, escalating the engagement, and influencing progress.

*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 both occasions.
- 3.20 LGPS Central has initiated dialogue with an Anglo-Irish consumer credit reporting company on tax transparency and responsible tax behaviour. LGPS Central would like to see the company share tax relevant Country-by-Country Reporting (CBCR) with shareholders so that we can make a meaningful assessment of their tax behaviour. Over the next quarter the group is scheduled to reach out to six other companies that have been in scope of this engagement since 2020, to push for better tax disclosure and to tease out companies' preparedness for a global minimum tax rate that has now been agreed by the G7 Group.
- 3.21 Executive remuneration was a popular topic for the 2021 annual shareholder meeting season in India. In their quarterly engagement report, EOS have documented that it appears that many Indian companies are seeking to follow US models of pay, which can lead to excessive quantum and short-termism, rather than long-term sustainable value generation. EOS challenged cases of excessive quantum versus the median pay for employees, as well as the lack of metrics and performance hurdles in other cases. EOS recommended voting against items related to executive pay at HCL Technologies for these reasons but were pleased that the company was responsive to EOS' engagement call and EOS hope to see improvements next year.

*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 March 2022, ahead of the 2022 AGM season.
- 3.23 The voting activity for the quarter across markets and issues can be found in Appendix C. During the period, the Fund voted at a total of 271 company meetings (3,199 resolutions) – 105 UK, 47 Europe, 27 North American, 46 Developed Asia, 13 Australasian and 33 in Emerging and Frontier Markets. At 114 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).

*Asset Owner Diversity Working Group*

- 3.24 This quarter the Fund has continued its involvement in the Asset Owner Diversity Working Group, which earlier this year saw the development of the first Asset Owner Diversity Charter<sup>5</sup>, which aims to tackle diversity bias within the asset management industry. The Charter has now been backed by 19 signatories representing £1.88 trillion

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<sup>5</sup> [Asset Owner Diversity Charter | Diversity Project](#)



in assets under management/consultancy. In late November, the Fund's Responsible Investment Officer was involved in the development of a webinar delivered to Asset Managers explaining the rationale of the Charter and the expected aims of Asset Managers in Q1 2022 when the working group's initial manager questionnaire will be launched. To coincide with the webinar event, a pulse survey was sent to a handful of WMPF managers to assess their knowledge and commitment to diversity and the responses are being monitored.

### *Correspondence*

- 3.25 The Fund continues to receive correspondence from individual members of the public, and more established divestment groups in connection with climate change and calls for divestment. During the quarter the Fund received queries and correspondence on responsible investment topics relating to investment 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 abreast of progress.
- 3.26 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.

## **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: [https://lapfforum.org/wp-content/uploads/2021/10/LAPFF\\_QER03\\_2021\\_03.pdf](https://lapfforum.org/wp-content/uploads/2021/10/LAPFF_QER03_2021_03.pdf)

10.2 LGPS Central Quarterly Engagement Report: <https://www.lgpscentral.co.uk/wp-content/uploads/2021/11/LGPSC-Stewardship-Update-Q2-2021-22-2.pdf>

10.3 EOS at Federated Hermes Public Engagement Report: <https://www.hermes-investment.com/uki/eos-insight/eos/public-engagement-report-q3-2020/>

## **11.0 Schedule of appendices**

11.1 Appendix A – Taskforce for Climate-related Financial Disclosure (TCFD) Report 2021

11.2 Appendix B – WMPF Engagement Activity

11.3 Appendix C - WMPF Voting Activity