

# Pensions Committee

29 June 2022

<b>Report title</b>	Responsible Investment Activities	
<b>Originating service</b>	Pension Services	
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## Recommendations for action:

The Pensions Committee is asked to note:

1. The Fund's second Annual Stewardship Report submitted to the Financial Reporting Council (FRC) in April 2022 which sets out stewardship activities undertaken by the Fund and its investment partners over 2021. The report is available on the Fund's website: [West Midlands Pension Fund - Stewardship \(wmpfonline.com\)](https://www.wmpfonline.com)
2. The Fund's Voting Principles which have been finalised and published on the Fund's website following the draft version that was presented at the March Pensions Committee meeting: - [West Midlands Pension Fund - Voting Globally \(wmpfonline.com\)](https://www.wmpfonline.com)
3. The Fund's engagement and voting activity for the three months ending 31 March 2022 [Appendices A and B].
4. The issues discussed by LAPFF are set out in the Quarterly Engagement Report, which is available on the LAPFF website: [LAPFF-QER-2022-Q1.pdf \(lapfforum.org\)](https://www.lapfforum.org)
5. 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-Q4-2021-2022.pdf \(lgpscentral.co.uk\)](https://www.lgpscentral.co.uk)

6. 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 \(hermes-investment.com\)](https://www.federatedhermes.com/eos-public-engagement-report)

## **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 Environmental, Social and Governance (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 50 companies during the quarter<sup>1</sup>, addressing human rights, climate change and governance issues. Engagements were generally conducted through letter writing or meetings; seven company engagements are currently categorised as change in process, whilst substantial and moderate improvements were documented in nine engagements.
- 3.3 This quarter LGPS Central undertook 1,346<sup>2</sup> engagements with 570 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.

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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.

- 3.4 In April the Fund submitted its Annual Stewardship Report to the Financial Reporting Council (FRC) for review. The report highlights stewardship activity undertaken by the Fund and its investment providers over 2021, which has developed following feedback from the FRC on the Fund's 2020 report. LGPS Central have also submitted their Annual Stewardship Report to the FRC for review. The FRC will confirm the outcome of their review and continuation of the Fund's signatory status in October 2022.

### *Climate Change*

- 3.5 During the quarter LAPFF undertook 28 climate change engagements. A number of these companies are categorised as change in process or showing improvement. LAPFF has sought improvement in Shell's climate change plans. LAPFF view Shell's net zero plans as not covering the necessary emissions reductions prior to 2050 and being dependent on customers and carbon offsets. A joint meeting with CA100+ members and the CEO of Shell was held in March 2021 which concluded that Shell's plans were not adequate. Whilst there hasn't yet been a shift in Shell's strategy, there appears to be more scepticism from asset managers and owners that had previously been supportive of Shell's plans in 2021.
- 3.6 As part of an engagement with the CA100+ investor collaborative group, LAPFF held a meeting with the Chair of LyondellBasell to discuss the company's climate transition plan and further progress to reduce its carbon emissions. The Chair was probed on the greatest challenges the company faces in moving to net zero and LAPFF asked for more detail around the company's plans. Subsequent correspondence with the Chair set out various areas of investor expectations discussed during the meeting. A further meeting is proposed after the company has issued its sustainability report later in 2022.
- 3.7 This quarter, LGPS Central's climate change engagement set comprised 292 companies with 380 engagement issues. Most engagements were undertaken via CA100+ with progress on 151 specific engagement objectives.
- 3.8 As co-lead in the CA100+ engagement with Glencore, LGPS Central have held multiple constructive dialogues with Glencore relating to the company's climate action plan. LGPS Central met with Glencore's CEO to discuss the company's climate progress report and raised concerns around the company's short-term greenhouse gas emissions target. Glencore received 23.72% opposition, including from LGPS Central, to their Transition Plan Report and will be expected to engage its shareholders to understand their concerns. LGPS Central have explained their vote rationale to the company and expect to continue constructive engagement with Glencore alongside the other co-leads of CA100+.
- 3.9 LGPS Central, alongside eleven institutional investors led a climate resolution at Credit Suisse asking the company to improve its climate risk disclosures, bring its coal, oil and gas policies in line with leading practice in the sector, and publish short and long-term targets to reduce its exposure to coal, oil and gas assets, on a timeline consistent with the 1.5°C goal of the Paris Agreement. Several rounds of engagement with Credit Suisse led to the company making several commitments in the weeks ahead of its AGM. However, LGPS Central believed the bank did not address several requests that were

made in the resolution including disclosing its capital markets fossil fuel activities. Ahead of COP26 last year, Credit Suisse was one of the banks which received a letter co-signed by LGPS Central with more than 100 investors, setting out expectations for Paris-alignment and protection and restoration of biodiversity.

### *Sustainable Food Systems*

- 3.10 Over the quarter LGPS Central and EOS engaged with Tyson Foods over a range of issues focusing on the company's practices and policies as well as encouraging better plastic-related risk management. LGPS Central supported a shareholder resolution which urged the company to reduce its use of plastic packaging as they view the company's action as lagging the practices of other supply-chain efforts to reduce plastic use and packaging waste. Although ultimately unsuccessful, this proposal was supported by 59% of independent shareholders and in LGPS Central's view this can bring attention to the continued use of plastic packaging. EOS has a long-standing engagement with Tyson and will continue dialogue with the company on various ESG-related issues including circular economy and plastic-related risk management.
- 3.11 LAPFF and EOS has partnered with the Farm Animal Investment Risk and Return (FAIRR) initiative which seeks to raise awareness of the material ESG risks and opportunities caused by intensive livestock production. The pandemic exposed and exacerbated the fundamental and structural human capital risks in the animal farming industry and through this engagement the group targeted the seven largest protein producers globally, the aim being to empower workers and support risk mitigation in three key areas: health and safety, fair working conditions and worker representation. LAPFF has signed onto collaborative engagements, one of which looks to address sustainable aquaculture, asking salmon companies to develop and disclose strategies for diversifying feed ingredients towards lower impact and more sustainable alternatives, and to implement better climate risk management.

### *Human Rights*

- 3.12 LAPFF, along with the Renova Foundation had a meeting with BHP to discuss LAPFF's concerns over progress regarding the house building after the Samarco tailings dam collapse at Mariana, Brazil in 2015. Whilst progress has been made the LAPFF Chair reiterated this was inadequate. LAPFF will continue to engage the companies, Renova, and the affected communities to have everyone's needs met as soon as possible.
- 3.13 LAPFF continues to ask a number of companies to undertake human rights impact assessments on their operations in the Occupied Palestinian Territories (OPT). LAPFF met with Bezeq and Motorola (alongside LGPS Central) over the quarter. Both meetings provided a starting point to continue dialogue going forward. The need for companies to carry out human rights impact assessments was highlighted, and Motorola were provided with a list of potential third-party providers who can assist with such an assessment. LAPFF also met with the UN Special Rapporteur on Human Rights to discuss a letter that was sent to LGPS Funds, as well as further information on company positions on the UN list and the process for this being refreshed and companies being removed from it. LAPFF will continue to engage with a number of companies it initially engaged with on this matter.

- 3.14 LAPFF has joined around 60 global investors in working groups, coordinated by the Investor Alliance for Human Rights. This provides the opportunity to collaborate going forward and corroborate notes and engagement strategies with a host of other investors. Issues under consideration include the use of Uyghur labour and the technology sector. LAPFF will be seeking meetings with those companies that have yet to respond, alongside Microsoft who provided further detail.

#### *Responsible Financial Management*

- 3.15 In March 2022 LGPS Central signed a letter to the US Securities and Exchange Commission (SEC), alongside over 100 other investors, in support of a shareholder proposal at Amazon asking for tax transparency. In a letter to Amazon in April, SEC ruled in favour of the shareholders who demanded a vote on the issue. The shareholder resolution, which will now be allowed to go to a vote at Amazon's AGM represents one of the first times the regulator has granted a shareholder request on tax matters.
- 3.16 LAPFF joined other investors in writing to the SEC referencing its upcoming Climate Disclosure Rulemaking. Co-ordinated by the US 'As You Sow' organisation, correspondence underscored the importance of requiring verified Scope 1 through 3 value chain carbon emissions-reporting with an emphasis on Scope 3 verified reporting.
- 3.17 LAPFF supported a collaborative letter to French auditors EY, PwC, KPMG and Deloitte, asking about disclosure on material climate-related risks. It raised the concern that if material climate risks are not properly examined, there may be questions over the reliability of auditor's opinions that these accounts meet the true and fair view standard as required under European Company Law.

#### *Voting Globally*

- 3.18 The Fund's Voting Principles 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. As mentioned last quarter the Fund has reviewed and updated its Voting Principles in consultation with appointed investment managers, including LGPS Central Ltd. The updated version was finalised in April 2022 ahead of the voting season and has strengthened expectations on board composition to enhance diversity (Section 3.1); enhancement of Auditor Independence and Remuneration practices (Sections 3.2 and 3.4); and inclusion of Section 3.5 '*Sustainable Business Practices*' which sets out enhanced expectations of company climate-related disclosures and transition plans and encourages commitment to biodiversity protection as part of a broader climate transition effort. Several company votes were conducted following Q1 2022. Key highlights will be summarised in the September reporting to the Pensions Committee.
- 3.19 The voting activity for the quarter across markets and issues can be found in Appendix D. During the period, the Fund voted at a total of 441 company meetings (4,867 resolutions) – 55 UK, 83 Europe, 39 North American, 232 Developed Asia, 5 Australasian and 27 in Emerging and Frontier Markets. At 221 meetings the Fund 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).

### *Correspondence*

- 3.20 The Fund continues to receive correspondence from individual members of the public, and more established divestment groups in connection with climate change, arms and weapons manufacturers, agricultural livestock production, human rights issues and calls for divestment.
- 3.21 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 Other Potential Implications**

- 7.1 This report contains no other potential implications

## **8.0 Schedule of background papers**

- 8.1 LAPFF Quarterly Engagement Report: [LAPFF-QER-2022-Q1.pdf \(lapfforum.org\)](#).
- 8.2 LGPSC Quarterly Stewardship Update: [LGPSC-Stewardship-Update-Q4-2021-2022.pdf \(lgpscentral.co.uk\)](#)
- 8.3 LGPSC Annual Stewardship Report 2021: [LGPS-Central-Annual-Stewardship-Report-2021-FINAL.pdf \(lgpscentral.co.uk\)](#)
- 8.4 EOS at Federated Hermes Public Engagement Report: [EOS Public Engagement Report \(hermes-investment.com\)](#)

**9.0 Schedule of appendices**

9.1 Appendix A – WMPF Engagement Activity

9.2 Appendix B – WMPF Voting Activity