

# Pensions Committee

14 December 2022

<b>Report title</b>	Responsible Investment Activities	
<b>Originating service</b>	Pension Services	
<b>Accountable employee</b>	Shiventa Sivanesan	Assistant Director – Investment Management and Stewardship
	Tel	01902 556659
	Email	<a href="mailto:Shiventa.Sivanesan@wolverhampton.gov.uk">Shiventa.Sivanesan@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Rachel Brothwood	Executive Director of Pensions
	Tel	01902 551715
	Email	<a href="mailto:Rachel.Brothwood@wolverhampton.gov.uk">Rachel.Brothwood@wolverhampton.gov.uk</a>

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## Recommendations for decision:

The Pensions Committee is asked to note and approve:

1. Publication of the Fund's 2022 Taskforce for Climate-related Financial Disclosure (TCFD) Report [Appendix A].
2. The Fund's 2022 Responsible Investment Framework [Appendix B].

## 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 2022 [Appendices C and D].
2. The issues discussed by the Local Authority Pension Fund Forum (LAPFF) are set out in the Quarterly Engagement Report, which is available on the LAPFF website: [LAPFF-QER-2022-Q3-Final.pdf \(lapffforum.org\)](https://www.lapffforum.org/LAPFF-QER-2022-Q3-Final.pdf)
3. The voting and engagement activity of the Local Government Pension Scheme (LGPS) Central, as set out in the Quarterly Stewardship Report, available on the LGPS Central website: [LGPSC-Stewardship-Update-Q2-2022-2023.pdf \(lgpscentral.co.uk\)](https://www.lgpscentral.co.uk/LGPSC-Stewardship-Update-Q2-2022-2023.pdf)

4. The research and engagement activity undertaken by EOS at Federated Hermes as set out in the Public Engagement Report, which is available on the EOS website: [EOS Public Engagement Report \(hermes-investment.com\)](https://www.federatedhermes.com/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 prior 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 and disclosure.

### *Taskforce for Climate-related Financial Disclosures (TCFD)*

- 2.2 The climate crisis continues to be at the forefront of investors' concerns due to the potential materialisation of climate-related risks and their impact to investments, communities and nature. As a result, the Fund continues to assess, monitor and manage its climate-related risks. This is the sixth year in which the Fund has disclosed its action and approach to assessing and managing the risks associated with climate change and is an area which the Fund continues to develop. Further information is provided in the report in Appendix A.

### *Responsible Investment Framework*

- 2.3 The Fund has reviewed and updated its Responsible Investment Framework that outlines the Fund's guiding principles and approach to Responsible Investment. A copy of the updated document is provided in Appendix B. The Responsible Investment Framework is a critical element of the investment process ensuring that the Fund continues to build a sustainable future for all by considering environmental, social and governance factors within its approach. Changes made to the Framework in 2022 reflect the evolution of the Fund's Responsible Investment approach since prior review and approval in March 2021, including:

- Reference to the Fund's update Climate Change Framework and Strategy 2021, including Net Zero commitment;
- The Fund's signatory status to the 2020 UK Stewardship Code (in 2021 and 2022); and
- Review and re-statement of the Fund's commitment and core engagement theme of Human Rights.

### *The Intuitional Investors Group on Climate Change (IIGCC) Target Disclosure*

- 2.4 As part of ongoing work with IIGCC and the Paris Aligned Asset Owners Initiative, following the quarter-end the Fund, as part of its signatory obligations, submitted its disclosure statement around its net zero targets and plans for aiming to continue to develop its approach and framework to achieve its commitments.

### *Local Government Pension Scheme (England and Wales): Governance and Reporting of Climate Change Risks Consultation*

- 2.5 Following the quarter-end, the Fund responded to the consultation by the Department for Levelling Up, Housing and Communities (DLUHC) regarding the mandatory reporting on the assessment, management and disclosure of climate-related risks. The Fund's early adoption of voluntary TCFD reporting framed its responses and submission. A copy of the Fund's response has been shared with the Committee.

## **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 LAPFF, EOS at Federated Hermes ('EOS' - via a contract held by LGPS Central Ltd, the Fund's investment pool operator), the 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 36 companies during the quarter<sup>1</sup>, addressing climate change, human rights, and governance issues. Engagements were generally conducted through letter writing or meetings; 2 company engagements are currently categorised as change in process, whilst substantial and moderate improvements were documented in 8 engagements.
- 3.3 This quarter LGPS Central undertook 831 engagements with 313 companies on behalf of the Fund, the majority of which were carried out by CA100+.

### *Climate Change*

- 3.4 During the quarter LAPFF undertook 10 climate change engagements. 10 of these companies are categorised as in dialogue with a further 3 showing improvement.
- 3.5 This quarter, LAPFF issued a voting alert recommending a vote against National Grid's transition plan. This involved concerns that despite draft climate action plans from Massachusetts and New York state agencies proposing nearly 10 million households adopting electric heat pumps by 2050, National Grid still envisaged 50% of households in

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

these states to have some form of gas burning system. National Grid representatives provided more detail on 1.5°C alignment and the challenge for the gas business in the US. Correspondence has been sent to National Grid to identify and overcome potential policy barriers in relation to the decarbonisation of the powers and utilities sectors.

- 3.6 Mizhuo, a financial service company in Japan, established medium targets for the carbon intensity of the electric power sector following a collaborative meeting in July. This used the lower end of the International Energy Agency (IEA) Net Zero Emissions by 2050 Scenario, and the upper end of the IEA's Sustainable Development Scenario. Mizhuo also has an engagement policy to support clients managing transition risks with a trigger when clients show no willingness or relevant strategy to address transition risks in one year. LAPFF will continue to engage with Asia-based utilities and financial companies.
- 3.7 This quarter, LGPS Central's climate change engagement set comprised 191 companies with 310 engagements issues and objectives<sup>2</sup>. Most engagements were undertaken via CA100+ with progress on 144 specific engagement objectives.
- 3.8 LGPS Central and EOS's engagement with NextEra centres around the ongoing CA100+ initiative. Following votes against the Chair at NextEra Energy's (NEE) Annual General Meeting (AGM) in May, due to inadequate management of climate-related risks, NEE announced net zero goals by 2045 without reliance on offsets for their Scope 1 and 2 emissions. CA100+ investors are pushing for a meeting at board level to discuss the gaps including clear pathways for absolute emission reductions, capex alignment with the real net zero target and policy advocacy.
- 3.9 This quarter, LGPS Central voted against Barclay's Climate Strategy, Targets and Progress 2022 report in May 2022. Barclays have used the International Energy Agency's Net Zero by 2050 Roadmap for the Energy Sector (IEA NZE2050) analysis as a reference and has set specific 2030 sector emissions intensity targets for energy, power generation, cement, and steel. These target ranges for emission intensity are not fully aligned with IEA's NZE analysis and some of their restrictive policies are insufficient. Engagement will continue focusing on their climate transition efforts and updates to targets phasing out the financing of US thermal coal power generation by 2030.

### *Sustainable Food Systems*

- 3.10 This quarter, LGPS Central actions on the Sustainable Food Systems theme engaged with 11 companies with 15 engagement issues and objectives<sup>3</sup>.
- 3.11 The Global Commitment, led by the Ellen MacArthur Foundation (EMF) with the UN Environment Programme, is an initiative with more than 500 organisations aiming to develop a circular economy by reusing, recycling and composting plastic. For companies, who have signed up to the Global Commitment, the use of virgin plastics has peaked. Plastics have been mainly eliminated through recycling, but more efforts are required in terms of redesign and reusing plastics. From an investor's perspective, companies will

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<sup>2</sup> There can be more than one climate-related engagement issue and/or objective per company.

<sup>3</sup> There can be more than one sustainable food systems related engagement issue and/or objective per company.

need to have clear strategies on plastic including plastic reporting and switching to sustainable alternatives.

### *Human Rights*

- 3.12 This quarter our human rights related engagements comprised 54 companies with 93 engagement issues and objectives.
- 3.13 The LAPFF Chair travelled to Brazil to investigate the communities affected by tailings dams in Conceição do Mato Dentro, Mariana, and Brumadinho. This trip was an element of LAPFF's broader work on mining and human rights, which is highlighted in the mining and human rights report LAPFF published in April 2022. The motivation for the trip reflects LAPFF's view that social and environmental impacts by investee companies are financially material for investors.
- 3.14 LAPFF continues to investigate issues of Uyghur forced labour in Xinjiang and other regions of China. LAPFF joined the Investor Alliance for Human Rights Uyghur Region Engagement Group earlier in the year. The Forum reached out to the Australian Strategic Policy Institute (ASPI), which produced the report 'Uyghurs for Sale' in March 2020, linking 82 global brands to factories in the Xinjiang region to potential cases of forced Uyghur Labour. Following LAPFF's meeting with ASPI representatives, it was implied that companies operating in the Xinjiang region could not undertake the thorough levels of due diligence they were claiming to be able to do. LAPFF followed up with questions to both Cisco and Dell after meetings earlier in the year, but neither company responded.
- 3.15 EOS at Federated Hermes continue to engage with technology companies on a broad range of human rights such as freedom of expression, data protection, content moderation and other industry-specific issues. With Meta Platforms, Inc. EOS participated in a joint investor call regarding eliminating emotional bias from artificial intelligence; dissemination of paid and labelled political content and acknowledge tension between freedom of expression and hate speech, bullying, misinformation etc. Meta has improved disclosure on children's rights but is lacking metrics and targets to show the effectiveness of their efforts.

### *Responsible Financial Management*

- 3.16 This quarter, our tax transparency engagement set comprised 5 companies with 5 engagement issues and objectives. There was progress on 1 specific engagement objective against a total of 4 objectives.
- 3.17 Experian has published a standalone tax report, following engagement with LGPS Central. The expectation is for companies to disclose tax-relevant Country-by-Country-Reporting (CBCR) showing jurisdiction-wise activities and tax paid. Experian was encouraged to disclose a tax contribution report including CBCR, using the Global Reporting Initiative (GRI) Tax Standard 207. LGPS Central believe that the company meets the core element of the standard with room for improvements in relation to CBCR. Experian plans to incorporate feedback in their tax report next year.

### *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.
- 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 277 company meetings (3,260 resolutions) – 116 UK, 40 Europe, 33 North American, 44 Developed Asia, 14 Australasian and 30 in Emerging and Frontier Markets. At 120 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).

### *Voting Key Highlights*

- 3.20 LGPS Central voted against the reappointment and remuneration of the Director at Reliance Industries Ltd. As a member of the Governance committee, his role is prominent to the company's climate action and yet company performances on climate change was below expectations in comparison to others in the oil and gas sector. This included failure to disclose Scope 3 emissions. This proposal did not meet the required shareholder support to be passed, therefore LGPS Central will continue to raise concerns on climate change and governance issues.
- 3.21 LGPS Central supported a proposal requiring General Mills to report absolute reduction in plastic packaging use. General Mills has already set goals to make 100% of its packaging recycled or recyclable by 2030 and investing in a flexible film recycling facility. But in comparison to its peers who have joined the Ellen MacArthur New Plastics Economy Global Commitment, the company is lagging. Multiple US states have enacted legislation placing the responsibility of post-consumer package waste on companies and adopting minimum recycled content standards. With these significant risks, the resolution passed with 56.5% votes. The company is currently undergoing engagement with EOS at Federated Hermes on deforestation matters also.
- 3.22 LGPS Central supported a shareholder proposal at Sainsbury's AGM in July on Living Wage accreditations. As a proactive company in paying minimum wages, LGPS Central believes that Sainsburys should set an industry example by being Living Wage accredited. This would involve paying indirect workers, such as cleaners and security staff, real living wage and support staff and broader society during the cost-of-living crisis. The proposal received 16.7% support but failed to pass.
- 3.23 LGPS Central supported eight shareholder proposals at Tesla's AGM in August including reporting climate change lobbying in line with the Paris Agreement. While there is no evidence of misalignment between Tesla's lobbying and the Paris Agreement objective, additional disclosure would facilitate better management of climate-related opportunities and risks. This received 34.3% support. Another proposal involved eradicating child labour in the company's battery supply chain, which received 10.4% votes.

## *Correspondence*

- 3.24 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. During the quarter the Fund received queries and correspondence on responsible investment topics relating to investment in Occupied Palestine Territories (OPT). LAPFF is continuing a programme of engagement over 2022 on behalf of the Fund and is monitoring both UN activity and the developing political situation in OPT areas. Pensions Committee will be kept abreast of progress.
- 3.25 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-Q3-Final.pdf \(lapfforum.org\)](#)
- 8.2 LGPS Central Quarterly Stewardship Update: [LGPSC-Stewardship-Update-Q2-2022-2023.pdf \(lgpscentral.co.uk\)](#)
- 8.3 EOS at Federated Hermes Public Engagement Report: [EOS Public Engagement Report \(hermes-investment.com\)](#)

## **9.0 Schedule of Appendices**

- 9.1 Appendix A – 2022 Taskforce for Climate-related Financial Disclosure (TCFD) Report

9.2 Appendix B – 2022 Responsible Investment Framework

9.3 Appendix C – WMPF Engagement Activity

9.4 Appendix D – WMPF Voting Activity