

Subject	Responsible Investment Update Quarter 4 2019/20	Status	For Publication
Report to	Authority	Date	11 th June 2020
Report of	Director		
Equality Impact Assessment	Not Required	Attached	No
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1 Purpose of the Report

- 1.1 To provide an update for members of the Authority on responsible investment activity during the period January to March 2020.

2 Recommendations

- 2.1 Members are recommended to:
- a. **Note the activity undertaken in relation to responsible investment issues during Quarter 4 of the financial year.**

3 Link to Corporate Objectives

- 3.1 This report links to the delivery of the following corporate objectives:

Investment Returns

To maintain an investment strategy which delivers the best financial return, commensurate with appropriate levels of risk, to ensure that the Fund can meet both its immediate and long term liabilities.

Companies which are well managed and appropriately address the Environmental, Social and Governance risks which they face are more likely to deliver strong returns making the achievement of the goals set out in the Investment Strategy more likely.

Responsible Investment

To develop our investment options within the context of a sustainable and responsible investment strategy.

Responsible investment is a fundamental part of the Authority's investment beliefs and are central to how the Authority invests. A central part of a responsible investment approach is transparency about the activity undertaken both by and on behalf of the Authority.

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times.

It is an important aspect of the Authority's accountability to stakeholders that the actions which it takes in relation to responsible investment are publicly reported so that there is proper transparency in relation to the Authority's activities.

4 Implications for the Corporate Risk Register

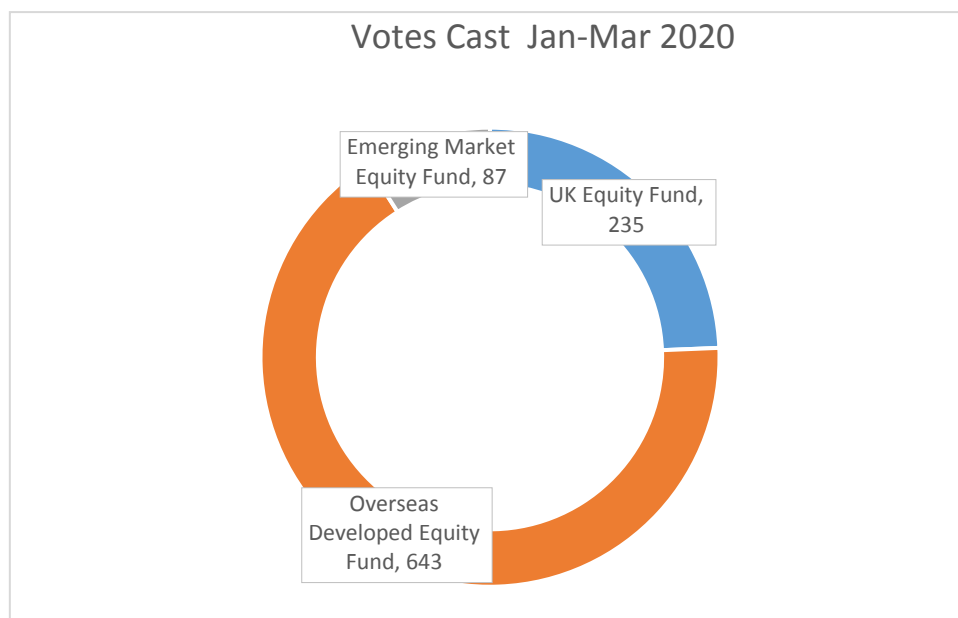
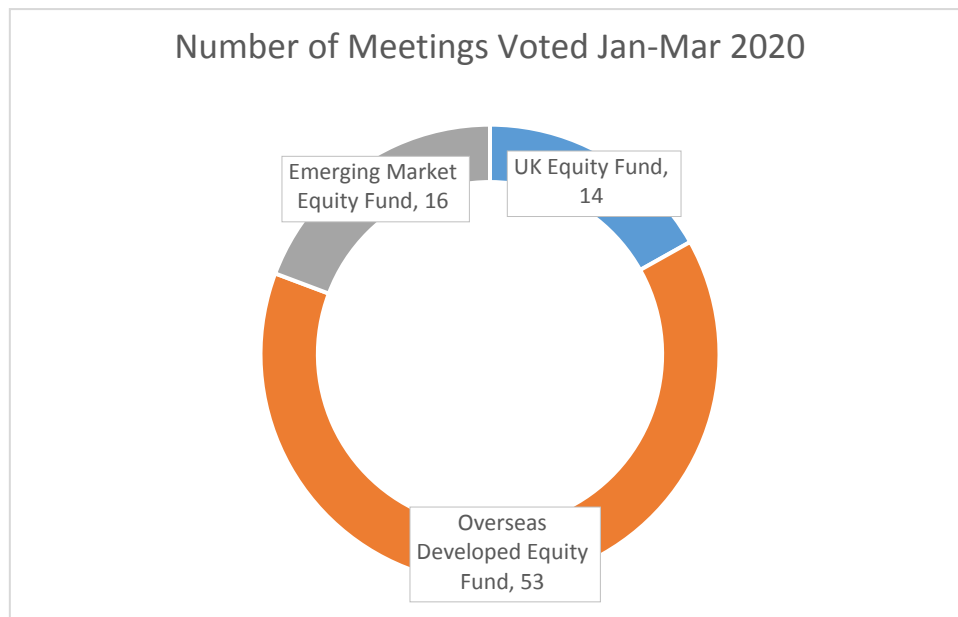
- 4.1 The actions outlined in this report raise no specific issues in relation to the Corporate Risk Register.

5 Background and Options

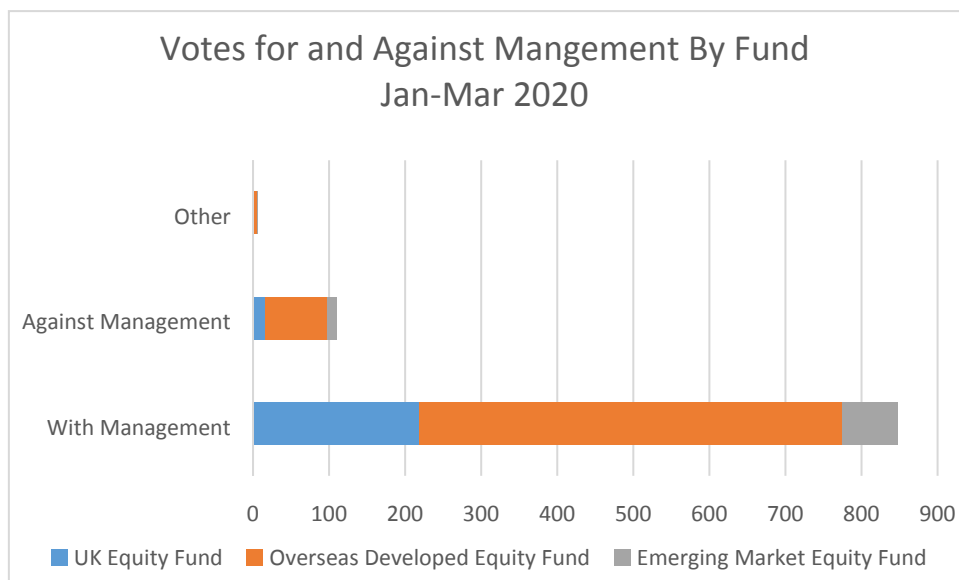
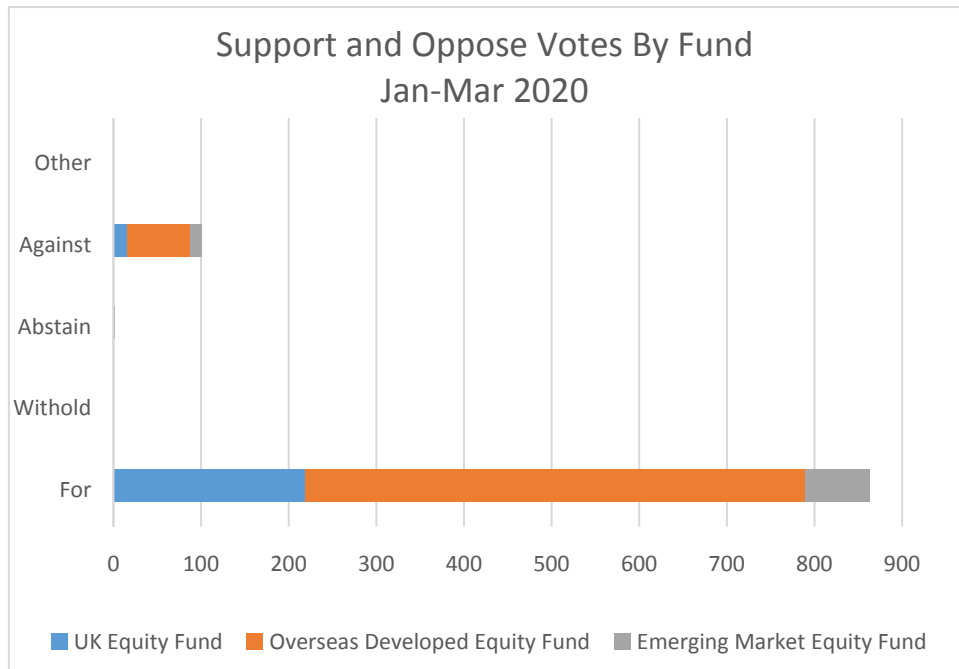
- 5.1 The Authority's approach to responsible investment is delivered through four streams of activity, largely in collaboration with the other 11 funds involved in the Border to Coast pool.
- Voting – Using the voting rights attached to shareholdings to influence the behaviour of companies to move in line with best practice.
 - Engagement through Partnerships – Working with others to engage in dialogue with companies in order to influence their behaviour and also to understand their position on key issues.
 - Shareholder Litigation – Joining in legal actions which seek to punish companies for corporate “misbehaviour” and thus protect the financial interests of the members of the pension fund.
 - Active Investing – Making positive choices about which companies to invest in having considered the full range of responsible investment issues based on the premise stated above that well governed companies will produce sustainable and superior returns. This is part of the Authority's overall investment philosophy and is not covered in this report.

Voting

- 5.2 The charts below illustrate at a high level how the Authority's holdings in listed equities were voted in the period to the end of March 2020. Detailed reports setting out each vote are available on the Border to Coast website. A full year picture of voting activity undertaken on the Authority's behalf will be provided in the Annual Report. The numbers of meetings and votes cast this quarter both showed an increase on the previous quarter as the industry moved towards peak voting season.



- 5.3 Again the greater global coverage being achieved in voting by Border to Coast and Robeco is evident in these charts. This is a significant benefit arising from the transfer of assets to the Pool.
- 5.4 Once again as shown in the charts below the majority of oppose votes and votes against management were in the overseas fund. While this is logical given this is where most votes and most meetings took place it also reflects particular issues, around the independence of Board Directors where traditional behaviour by companies is now being challenged. There were also a number of specific issues of note which were the subject of votes at company meetings within the overseas portfolio which are outlined below.



Covid-19

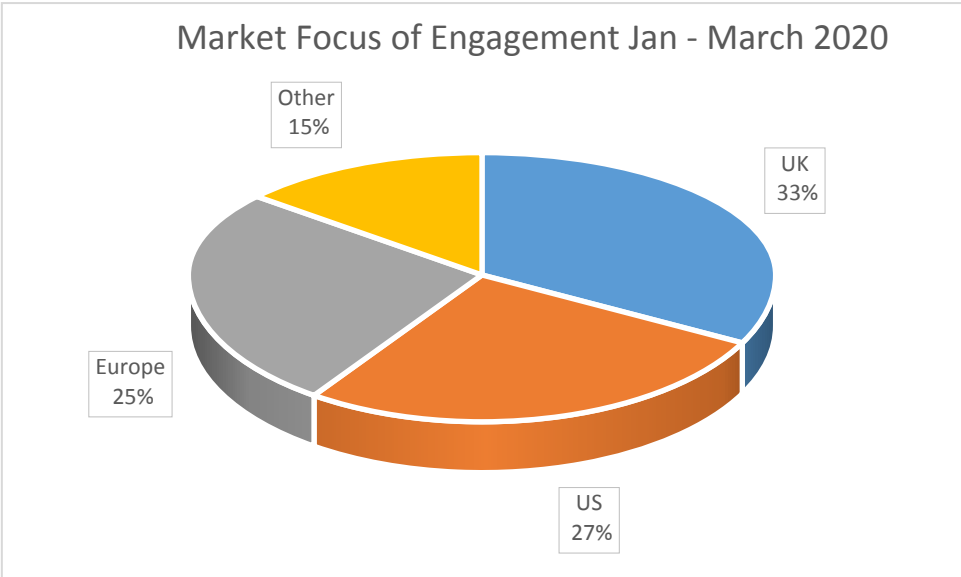
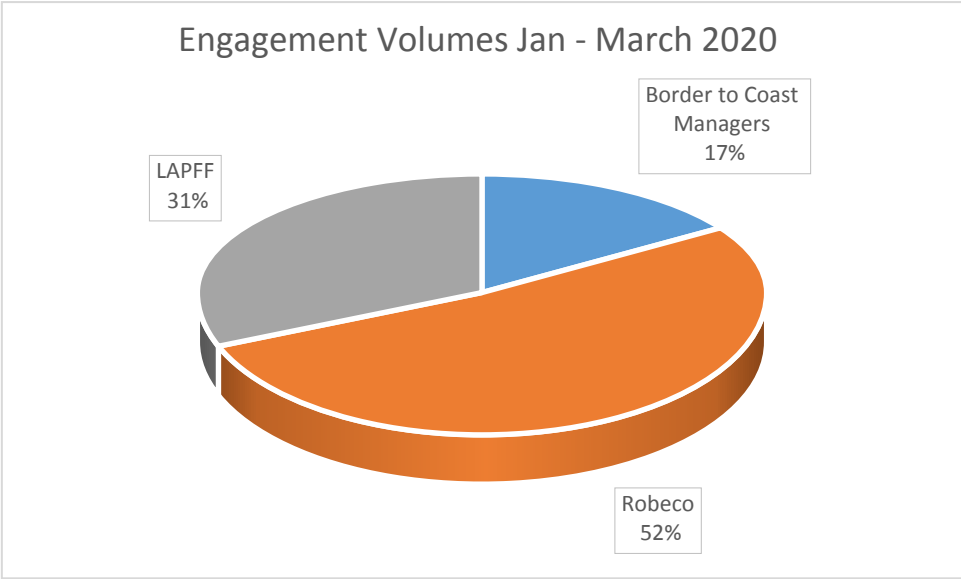
5.5 The global pandemic began to impact on the ability of companies to hold annual meetings in person towards the end of this period in many developed markets and somewhat earlier in some Asian markets. Depending on local rules this has seen company meetings being either cancelled, postponed or held virtually. In the latter case different companies have taken different approaches to facilitating the process for shareholders to raise issues with the Board. This ranges from companies which make significant efforts to facilitate as close to the same level of interaction as at a traditional meeting to those which simply stream a video of the formalities of the meeting taking place. Robeco and LAPFF are monitoring this situation and engaging with companies which are seen to fall below an acceptable standard. Where company meetings have been postponed (such as in Italy and the Netherlands) it is likely that an additional peak in the pattern of meetings will occur this year.

Voting Highlights

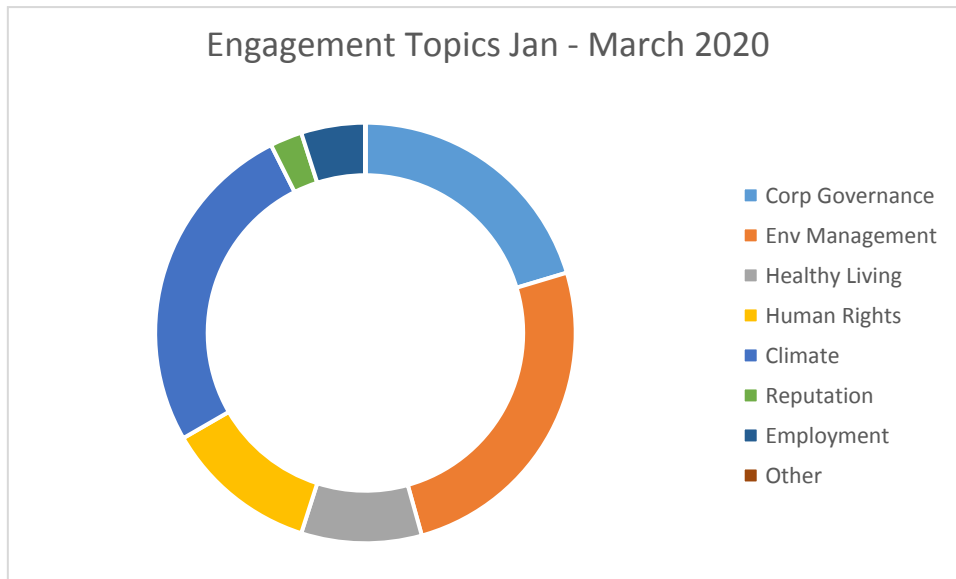
- 5.6 **Visa** – In this case a vote was cast against the advisory vote on executive pay for two reasons. Firstly despite good financial performance in the previous financial year the total quantum of pay for members of the executive team was considered excessive (with total CEO pay reported at c\$25m) and secondly the structure of the reward package in particular the long term incentive plan did not meet best practice standards. In particular incentives were skewed towards annual earnings based targets which are inherently short term. The incentive plan also makes extensive use of the award of stock options which are not tied to company performance.
- 5.7 **Apple** – In this case a vote was cast in favour of a shareholder proposal that requested the company to uphold freedom of expression globally and be more transparent about how it responds to the Chinese government's requests to restrict certain apps. This resolution attracted the support of 40% of shareholders. Apple's approach to this issue and its transparency on the issue is regarded as behind others in this field operating in China such as Microsoft, although it is regarded as being a leader in the area of privacy. As this is a serious long term reputational risk it is potentially a threat to shareholder value. This is an issue where the Authority received letters from a number of scheme members which received a response indicating the approach to be taken.
- 5.8 **Samsung** – Following significant turnover in the company's Board including the sentencing of the previous chair to 18 months in jail for offences against labour laws a vote was cast in favour of a number of new board members, who are demonstrably independent of the Company and who have skill sets which bring valuable additional expertise to the Board. In addition the Company responded positively to enquiries designed to gain assurance as to the independence of the individuals involved. This was a demonstration of a company in South Korea moving significantly in the direction envisaged by our voting guidelines.
- 5.9 **Shinhan Financial Group** – This is another South Korean company providing a similar but opposite case study to Samsung. In this case the company felt it appropriate to reappoint both the Chair and CEO to the Board when under investigation and/or charge for offences against South Korea's labour laws including nepotism. In this case the option available was to withhold a vote and this is what was done as we would wish to support candidates for leadership roles who demonstrably demonstrate the highest ethical standards.

Engagement

- 5.14 The bulk of engagement activity carried out in relation to the Authority's holdings is undertaken either by Border to Coast using Robeco as their agent or the Local Authority Pension Fund Forum (LAPFF) who use PIRC as their agent.
- 5.15 The graphs below illustrates how the balance of engagement activity over the quarter breaks down between the different organisations, the location of the companies and the topic of engagement.



5.16 Again this quarter the majority of engagement activity took place in the UK and the US which reflects the scale of the individual holdings and the nature of the topics and issues being engaged over as set out in the graph below:



5.17 In terms of specific developments from engagement in the quarter the following are of note:

- Robeco lead on engagement with 13 companies as part of the Climate Action 100+ initiative which both the Authority and Border to Coast support. A goal of this engagement is to ensure that the focus companies have aligned their business strategies with Paris Agreement through a range of measures. Companies are expected to set targets, and to demonstrate that they are implementing strategies to achieve their targets. Most of the companies under engagement (nine out of 13) have made positive progress in the alignment of their business strategies with the Paris Agreement goals. According to the Transition Pathway Initiative's research, three companies are aligned with emissions reductions pledged by governments as part of the Paris Agreement via Nationally Determined Contributions. One company is aligned with the more ambitious climate scenario of 2°C. Going forward Robeco will first and foremost be focusing on achieving this net zero emissions objective with our target companies.
- Robeco have been engaging with a number of companies to reduce global waste. Particular examples of progress include the use of management KPI's related to the achievement of sustainability targets which in enhances the alignment between management incentives and the sustainability performance. Focus companies have also begun to use international certifications to demonstrate their compliance with best practice in this area and some companies are now using renewable energy technologies to reduce their waste footprints, which clearly also has a beneficial impact on carbon emissions.
- Robeco have been using satellite data to engage with companies around the threat from deforestation which arises from the unsustainable harvesting of Palm Oil. The ability to actually show the impact of their actions to companies and to hold companies to account for their commitments using easily available data allows Robeco to engage with companies in a much more focussed way around the elements of their supply chains which might be seen to pose specific risks.
- LAPFF undertook a specific piece of work with insurers and banks to understand how effectively they take into account climate risk in their underwriting activities. From review of the companies' positions on climate, it was clear that, almost uniformly, climate as an insurance consideration had received significantly less attention in disclosures than climate and investment considerations. This omission

is worrying in that insurers, through both underwriting and investing, have a large role in defining business risk for companies. Therefore, if they are not considering climate risk sufficiently or adequately, and are not creating appropriate risk incentives for companies on climate or other matters, this oversight or lack of consideration could impact both on financial returns and on environmental and social outcomes. This work is ongoing but initial meetings are being held with four companies of 11 initially approached.

- LAPFF have begun a process of engagement with social media companies including Facebook and Twitter around their responsibilities in relation to suspicious content. This was specifically driven by the events surrounding the Christchurch shootings in New Zealand but the continuing issues around “disinformation” associated with Covid-19 also highlight the relevance of this as an engagement topic. This work is an attempt to make further progress after widespread engagement by investors in the immediate aftermath of Christchurch appears to have stalled. This work is ongoing.

- 5.18 In addition to these activities the Chair and the Director met the Sheffield Branch of Unison during March to discuss issues concerned with climate change and divestment.

Collaborations

LAPFF

- 5.22 The most recent LAPFF business meeting took place virtually during April and considered proposals for further work in relation to the valuation of fossil fuel reserves in company accounts as well as the management of water risk. An update was also provided following engagement with the major tobacco companies. Details are contained in a briefing note for members which is in the on line reading room.
- 5.24 Details of the work being undertaken by other collaborations supported either by the Authority or Border to Coast is available in the quarterly reports to which links are provided as background papers. Details of two specific developments are provided below.

Workforce Disclosure Initiative

- 5.25 During the quarter the Workforce Disclosure Initiative published its latest impact report which is available at the link shown under background papers. In the latest year 30% more companies responded to requests for disclosure than previously, with those who had previously engaged with the initiative providing an increasing amount of data. The key findings set out in detail in the report were:
- Companies provide data on their workforce governance structures, but share limited information on the internal accountability mechanisms
 - Companies are reluctant to provide data on staff turnover
 - The concept of a Living Wage is not universally understood by companies
 - Companies are willing to submit more data against workforce metrics for permanent employees than for their contingent workforce
 - Companies do not appear to be collecting detailed data relating to social dialogue mechanisms, undermining their ability to monitor labour relations
 - Companies generally have in place policy-level commitments on responsible sourcing and supply chain workers’ rights but are less able to provide data on how these commitments are implemented.

- 5.26 These findings indicate that the concerns which have been pursued through engagement activity delivered by both LAPFF and Robeco concerning insecure work, pay equity and labour relations issues are areas where continuing focus is justified.

Investor Mining and Tailings Safety Initiative

- 5.27 As of 31st March 2020, 45 of the top 50 mining companies have made public disclosures in response to the letter sent in April 2019. All 23 ICMM (the international trade association) members have responded and over 84% of the industry by market capitalisation have disclosed. A collaboration of investors supporting the initiative is engaging with non-responders to encourage disclosure and Border to Coast are part of this group. A further Global Tailings Summit was held in London, on the anniversary of the Brumadinho disaster in Brazil. Communities affected spoke to the event. The Global Tailings Portal, a central independent global database, was also publicly launched. A joint statement was made by LAPFF supported by the PRI which announced the commitment of a high-level delegation to visit Brazil later in 2020, although the timing of this will clearly be affected by the Covid-19 pandemic restrictions.

6 Implications

- 6.1 The proposals outlined in this report have the following implications:

Financial	There are no specific financial implications arising from this report. Provision exists within the relevant budgets to support the Authority’s involvement in collaborative initiatives and its share of the costs of work undertaken by Border to Coast.
Human Resources	None
ICT	None
Legal	Participation in these activities is within the statutory powers of the Authority and is positively encouraged by the LGPS Investment Regulations.
Procurement	None

George Graham

Director

Background Papers	
Document	Place of Inspection
Local Authority Pension Fund Forum Quarterly Engagement Report	www.lapfforum.org
Border to Coast Voting Reports	https://www.bordertocoast.org.uk/?d1m_download_category=voting-activity
Border to Coast Quarterly Engagement Report	https://www.bordertocoast.org.uk/?d1m_download_category=engagement
Robeco Quarterly Engagement Report	https://www.bordertocoast.org.uk/?d1m_download_category=engagement
Workforce Disclosure Initiative Engagement Report	https://shareaction.org/wdi/wdi-2019-findings/