



# *Responsible investment policy*

2021



# Introduction

The combined assets of GMPF now stand at over £27bn. These assets are invested to fund the retirements of hundreds of thousands of beneficiaries who live both within Greater Manchester and beyond. GMPF will always act in accordance the interests of those beneficiaries and we want our Responsible Investment activities to make a positive contribution to our region.

Environmental, social and governance (ESG) issues are important to GMPF for a number of reasons. ESG factors can be financially material and, as such, should be part of the assessment and monitoring of investments in all asset classes. Achieving sustainable, long-term financial returns underpins the ability to pay pensions. A focus on ESG issues helps reduce risks to GMPF and its beneficiaries. These risks might be financial, such as the underperformance or failure of an investee company, or reputational, resulting from poor corporate behaviour.

In addition, our beneficiaries live in a society that is affected by the behaviour of investee companies. Therefore, we expect high standards from those businesses. Consistent with GMPF's fiduciary duty to our beneficiaries we will ensure that the businesses in which we invest are both financially and environmentally sustainable, have high standards of governance and are responsible employers. As far as possible GMPF will seek to invest in a way that is financially and socially beneficial for Greater Manchester.

# 1. About the Greater Manchester Pension Fund Responsible Investment policy

This policy set outs GMPF's approach to Responsible Investment activities. It provides an overview of themes that will form part of those activities in addition to information on how this policy is implemented and our commitments to reporting and accountability.

Our approach to responsible investment has been informed by a number of important initiatives. GMPF fully supports the aims and objectives of the Stewardship Code and we are signatories of the Code. We are also signatories of the Principles for Responsible Investment (PRI) and as such we aspire to harmonise [the six responsible investment principles](#) with how we implement our investment beliefs.

We have also considered guidance from the Law Commission, Department of Work and Pensions and Ministry of Housing, Communities and Local Government in developing this policy.

We consider our approach to Responsible Investment to be rooted in financial materiality and risk management. It will also be informed by our understanding of our beneficiaries' views, and by reference to international standards such as the UN Sustainable Development Goals, the UN guiding principles on business and human rights and IIGCC's Net Zero Investment Framework. Therefore, we have expectations of investee businesses that encompass more than financial considerations alone.

GMPF will seek to apply the RI policy to all asset classes over time. The policy applies to both internally and externally managed assets.

By tilting RI activity toward portfolio companies generating value out of the North of England, GMPF will be in a position to maximise the positive impact good corporate practice can have on the communities and beneficiaries residing in the region. Our industrial heritage underpins our activity on many of the issues facing the North in the 21st Century. A transition to a net-zero economy that does not come at the expense of the region's workforce is a priority, and GMPF will continue to leverage its assets under management to this end.



GMPF has appointed PIRC as its Responsible Investment adviser, to assist in the development and implementation of the RI policy.

## 2. ESG themes

Over time the GMPF will publish policy positions on specific ESG issues in order to provide greater clarity about our expectations to both investee businesses and other stakeholders. Below we set out ESG themes that will be important areas of focus for our Responsible Investment activities, and our core positions in each area.

### Climate change

GMPF considers climate change risk as financially material to the long-term performance of investments. We integrate climate change considerations into our overall investment strategy, with the aim of minimising adverse financial impacts and maximising opportunities for long-term economic returns in all asset classes.

GMPF's long-term goal is for 100% of assets to be compatible with the net zero-emissions ambition by c.2050 in line with the Paris agreement. This decarbonisation goal will be regularly evaluated in line with our objective of maintaining long-term financial performance. As part of the Northern LGPS's Net Zero Asset Owner commitment, GMPF is working with its pooling partners in developing interim decarbonisation objectives and targets.

In implementing our approach, GMPF:

- takes financially material climate change considerations into account as an integral part of its investment strategy and asset allocation;
- reviews a variety of research and analytical materials to encourage the use of scenario analysis to provide estimations of relative performances of asset classes and sectors under different scenarios which will be used where possible in asset allocation decisions;
- monitors and provides feedback to external investment managers in relation to incorporation of climate risk in the investment process;
- engages with companies in order to align their business practices and policies with a low carbon economy;

- liaises with company boards in improving the governance, management and disclosure on climate risk;
- takes company approaches to climate risk and responsiveness to engagement into account in proxy voting;
- supports the filing of relevant climate related shareholder resolutions;
- interacts with policy makers and regulators on investment implications of climate change;
- collaborates with other investors and participates in investor initiatives to leverage outcomes of company and policy engagement;
- and will report on policy objectives and activities regularly.

GMPF will also align reporting with the recommendations of the Task Force on Climate-Related Financial Disclosures within its annual reports.

GMPF actively supports the objectives of a Just Transition to a low-carbon economy, and will actively engage with the social aspects of responding to climate change. We consider this fits well with our objective of seeking to ensure a regional dimension to our RI activities.

## **Environmental issues**

GMPF considers multiple other environmental factors as financially material to long-term performance of investments. These include but not limited to; deforestation, water scarcity, loss of biodiversity, sustainable agriculture, pollution and plastics. Whilst recognising significant overlap between these issues, and the correlation with climate change, GMPF considers each independently as part of its stewardship activities.

### **Deforestation, loss of biodiversity and sustainable agriculture**

The conversion from arboreal and tree-clad areas to land used for agriculture and pasture are primary drivers of deforestation globally. Key commodities such as soy and beef in south America and palm oil in southeast Asia continue to drive deforestation and with it the loss of biodiversity. Land cleared in this way also significantly reduces the capacity to store carbon and can contribute, in a material way, to climate change. The IPCC Special Report on Climate Change and Land (2019) identifies that 23% of GHG emissions globally stem from the use of land, with commodity-driven tropical deforestation alone accounting for 5% of total emissions.

GMPF recognises the transition risks connected with companies failing to address supply chainwide deforestation, including changes in regulation, consumer trends and damage to brand



equity as the shift to a low carbon economy takes pace. GMPF also recognises the potential physical risks to companies that fail to eliminate deforestation from the supply chain. These include crop and livestock productivity, and ultimately, profitability.

Sustainable Development Goal 15 focuses on protecting, restoring and promoting sustainable use of ecosystems, managing forests in a sustainable way, and reversing land degradation and biodiversity loss. Through its stewardship activity, GMPF is committed to supporting the SDGs, including goal 15, and will work towards the removal of unsustainable deforestation from the companies in which it invests.

GMPF actively encourages investee companies to adopt effective deforestation policies and practices. GMPF expects portfolio companies to be able to maintain robust procurement processes that enable good visibility and traceability of the relevant supply chains. Companies should also set science-based GHG reduction targets which include segregated disclosure of emissions arising from land use change across the value chain. These targets should comply with the requirements of industry standards and align with the recommendations of the Taskforce on Climate-Related Financial Disclosure. GMPF also expects companies to be able to demonstrate expertise on land use change issues at the board level.

## **Water Stewardship**

The supply and availability of fresh water underpins virtually every transaction on earth, financial or otherwise. As the global demand for fresh and dependable sources of water increases, driven largely by population growth, preserving the supply of reliable freshwater becomes ever more challenging.

There are significant physical and transitional risks facing companies in future scenarios of high water stress. The World Economic Forum has consistently identified water crises as one of the top risks to economic prosperity. For water-dependent sectors, including agribusiness and mining, water stress, pollution and flooding significantly undermine continuity and productivity. With water currently priced significantly below its innate value, and potential requirements to internalise the associated costs, the risks facing companies failing to be proactive on water stewardship are material.

GMPF actively encourages investee companies to adopt effective water stewardship practices. GMPF expects portfolio companies to be able to demonstrate expertise on water issues at the board level, mitigate water risks through the adoption of effective internal water-management processes and disclose water-related business risks and impacts via disclosure platforms such as



CDP Water, GRI, and SASB. For investee companies that are highly dependent or derive significant value from natural water sources, regular mapping of the operational impact on ground and surface-water resources should be undertaken. GMPF also encourages companies to align the businesses' values with internationally recognised water standards and norms such as Sustainable Development Goal 6, 'clean water and sanitation for all'.





## People

GMPF puts significant emphasis on respect for human and labour rights within its RI policy and stewardship activity. Ensuring that investee companies treat employees and other stakeholders with fairness and respect and adhere to and go beyond legal requirements is one of the most positive impacts we can have as investors.

We are also mindful of our history and our membership. The assets of GMPF represent the combined savings of generations of public sector workers, without whom the pension fund would not exist. Therefore, we have a responsibility to act in the best interests of those workers, and we actively promote decent work.

### **Employment standards and human capital management**

We consider effective management of people is a source of both value creation and competitive advantage. We actively support initiatives to improve corporate reporting and investor understanding in relation to employment practices and human capital management.

We expect all businesses in which GMPF invests to treat their workforce with respect and to employ and reward them fairly. Companies should offer secure, direct employment where possible, and should not interfere with the right of their workforce to seek representation through a trade union. We will consider whether the actions of investee businesses are in accordance with ILO Core Conventions both in relation to their directly employed workforce and in their supply chain.

We expect companies to work with employees and their representatives to adopt stringent occupational health and safety preventative measures and reporting processes. Disclosures should include frequency, severity and lost-time due to injuries, as well as fatalities and reporting should encompass both directly and indirectly employed members of the workforce.

GMPF looks favourably on opportunities to invest in ways that aid the creation of good jobs, and have other social benefits, particularly within Greater Manchester. We will also consider the potential impact of our investments on public service provision and public sector employment practices.

### **Human Rights**

Societal expectations of companies with regard to human rights are increasing, as are legal



and regulatory obligations. As investors we consider that we have a responsibility to actively contribute to improving company practices, and that this is an area where we can have a positive impact.

Embedded within GMPF's approach to investment lies its responsibility to respect human rights as outlined in the UN Guiding Principles on Business and Human Rights (UNGPs). These principles underpin expectations GMPF applies to all investee companies. Our assessment of company practice in relation to human rights is also informed by sources such as the Corporate Human Rights Benchmark and OECD Watch.

Stewardship activity around human rights is pursued both through our membership of the Local Authority Pension Fund Forum (LAPFF) and our own direct engagement. We also seek to participate in collaborative investor initiatives relating to human rights.

Specifically, GMPF expects portfolio companies to have effective due diligence, grievance and access to remedy policies and processes in place. We encourage companies to increase the granularity of their reporting in these areas. Our objective in encouraging greater corporate transparency is for this to drive real-world improvements in practice.

## **Public Health**

We are mindful of the socio-economic divide in relation to health outcomes in the UK and around the world. Therefore we also seek to support initiatives for improving nutrition, ensuring healthy lives and promoting well-being in line with SDGs 2 and 3. As Greater Manchester looks to drive economic development building out of the pandemic, a focus on developing and maintaining a healthy population is essential.

There is a clear link between public health and nutrition. The food and drink companies in which we invest bear the risks associated with failing to adequately address these concerns within their business activities. GMPF recognises that in order to protect value, companies involved in the development, production and sale of food and drink should work to mitigate risks posed by government regulation and the modelled shifts in consumer demand for healthier food. We will engage with portfolio companies on the issues of health and nutrition as we consider that this has the potential to achieve both financially and socially beneficial outcomes.

## **Corporate governance and financial reporting**

GMPF considers good corporate governance practices continue to provide protection to shareholders and to our beneficiaries. A full list of positions that GMPF takes is provided in

the shareholder voting guidelines that we have adopted.

Division of responsibilities and board independence are fundamental principles of good governance. We seek separation of chair and chief executive positions and independent representation on boards in all markets. We fully support board diversity in its widest sense. Diversity is desirable not only in its own right, but also because there is evidence that diverse boards make better decisions. In addition to supporting the 30% Club and recommendations of the Parker and Hampton-Alexander Reviews<sup>1</sup>, we actively encourage employee representation at board level. We also consider that diversity and equal pay is important throughout organisations, not simply at board level.

In relation to remuneration it is our view that executives must be appropriately rewarded for their contribution to the success of the businesses that they steward. Where performance-related reward is used this should be focused on long-term performance and take account of ESG factors. The reputational risk of overly generous pay including the comparison to average employee pay should be taken into consideration in remuneration packages. We also consider that excessive executive reward contributes to wealth and income inequality.

Beneficiaries' interests are well served by ensuring the highest standards in financial reporting and related issues. We take a robust position on audit quality and auditor independence as we view this as the first line of defence for shareholder interests. We encourage auditors not to undertake non-audit work for the same company and support mandatory rotation of the audit firm. We also advocate reform of accounting standards.

## Tax

We consider certain corporate tax arrangements, whilst potentially beneficial to shareholders in the short term, can be a source of regulatory, financial and reputational risk to companies and their investors. Aggressive corporate tax avoidance may have a negative effect on public finances and by extension on public service provision. Therefore, we seek to monitor the behaviour of investee companies in respect of tax planning and challenge where necessary.

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<sup>1</sup> <https://www.gov.uk/government/publications/ethnic-diversity-of-uk-boards-the-parker-review>

## 3. Application of the policy

### Investment decisions

GMPF employs a mixture of in-house and external asset managers. Where management is undertaken in-house, ESG factors will be considered as part of the assessment process both before and after investment decisions are made. This integration applies to both equity and other asset classes.

We seek to use our influence as investors actively to address issues of concern. We recognise that our ability to act as effective stewards, and our responsibility to do so, is greater where our holdings are greater or more concentrated. Therefore, we monitor sizeable investments closely and engage where necessary. In addition, we are involved in impact investing. Whilst this is not synonymous with 'Responsible Investment' this is an area where the policy may have significant practical application.

Where external managers are appointed, we envisage analysis of their competence in relation to Responsible Investment to form part of the appointment process. Expectations in relation to incorporation of ESG factors are part of the manager agreement, and managers are monitored in relation to performance on these factors. Appointed managers are also expected to report back to GMPF on their activities.

### Voting and engagement

Voting and engagement is a cornerstone of our RI activities. We take the legal right to vote seriously and exercise it in a way consistent with our publicly disclosed objectives and policy positions. How we vote is one way of providing investee companies with an indication of our views as shareholders, as well as to the wider market.

Therefore, in line with our commitment to transparency and democratic accountability, we ensure that our voting aligns with our engagement. For example, if we have informed a company we do not support a certain director, or consider the remuneration policy is inappropriate, we will not vote in favour.



GMPF retains the maximum possible authority to direct voting, rather than delegating authority to asset managers. We have dedicated voting guidelines that inform how our votes are cast. This combination of retained authority and a clear framework ensures both a consistent approach is taken across equity holdings and provides clarity to the businesses in which we invest about our expectations.

We are long-standing and active participants within LAPFF. Most engagement activity is undertaken through the Forum and representatives of GMPF frequently take part in company engagements.

GMPF, as a member of the Northern LGPS also undertakes its own engagement, either on specific companies or sectors, and we envisage that this will increase particularly in relation to major and unique investments, such as in infrastructure assets.

Where boards of investee businesses are resistant to dialogue or change, GMPF will escalate issues by, for example, voting against the re-election of the Chair of the board. Ultimately, in such cases, GMPF will consider adjusting its investments as appropriate to the risks, in accordance with its Responsible Investment policy and its fiduciary responsibilities.

### **Shareholder resolutions**

GMPF also considers shareholder resolutions a useful tool to proactively raise issues of concern either where boards of investee businesses are resistant to dialogue or change, or to amplify the shareholder voice where engagement with boards has been positive. We have co-filed resolutions at different companies in recent years on issues ranging from climate change to employment practices.

GMPF will consider filing or co-filing resolutions in cases where engagement has not resulted in the achievement of change or as part of systemic engagement on issues such as climate change, employment standards and corporate political spending.

### **Collaboration and partnerships**

GMPF often has a significant ownership of particular businesses or other assets and therefore can be an influential voice. There are also many instances where it is advantageous to work in collaboration with other investors and investor initiatives. In addition to participating in existing investor groups, GMPF seeks to initiate collaboration where it believes it can play a useful role.

As well as being a LAPFF member, we participate in, or are a member or signatory of, the



following initiatives:

- The Stewardship Code
- The Principles for Responsible Investment
- The Institutional Investor Group on Climate Change
- Paris Aligned Investment Initiative: Net Zero Asset Owner Commitment
- The Carbon Disclosure Project
- The Transition Pathway Initiative
- the 2021 Global Investor Statement to Governments on Climate Change
- Climate Action 100+
- Say on Climate
- Pensions For Purpose
- The Workforce Disclosure Initiative
- The Human Capital Management Coalition
- Make My Money Matter

Other collaborations will be reviewed in due course, following consideration of our interests in participation.

### **Securities litigation**

Given the focus on cost reduction, GMPF will be an active participant in securities litigation. Where there has been corporate wrongdoing that has resulted in a financial loss to GMPF as shareholders, we seek to recoup these losses where practical.

### **Securities Lending**

Instances in which GMPF has securities on loan, rights are retained to recall shares to exercise voting rights. We monitor lending activity and maintain guidance on the recall of shares.

### **Public policy advocacy**

We recognise that regulatory intervention is sometimes necessary to address issues such as corporate disclosure requirements and shareholder rights. Where appropriate GMPF will participate in public policy consultations and engagement. This may be through LAPFF and other collaborative investor initiatives or by GMPF or the Northern LGPS on its own.

### **Costs and charges**

We recognise the growing interest in costs and charges incurred as part of local authorities'



investment activities. GMPF supports the Transparency Code and expects all external managers to become signatories. We consider reducing unnecessary costs is part of our fiduciary duty and is one of the core objectives of GMPF. We will closely monitor all investment costs to ensure that greatest possible benefits from our investment activities are returned to members.

## 4. Reporting and accountability

The importance of accountability to beneficiaries is a central element of our approach. Therefore, GMPF will make its voting record, and those of asset managers that have delegated voting authority, publicly available. In the case of GMPF's own voting decisions, we will pre-disclose votes on all companies. GMPF, as a member of the Northern LGPS, will also produce a regular stewardship report on its broader activity.

In addition, we intend to hold a regular stewardship event to provide an update on activities and for there to be open discussion of current or emerging ESG themes. This will form part of GMPF's process for taking beneficiaries' views into account.

We meet quarterly to discuss the implementation of the RI policy, and as a member of Northern LGPS will undertake an annual review of activities. The RI policy will be reviewed and updated as required.

For further information on the GMPF Responsible Investment policy please contact: [tom.harrington@gmpf.org.uk](mailto:tom.harrington@gmpf.org.uk)



