



Responsible Investment **Policy**

2019

Introduction

The assets of the Greater Manchester Pension Fund (GMPF) now stand at over £23bn. 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 with 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.

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. 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. Our initial focus will be on listed equity, but we also see infrastructure as an asset class where progress can be made quickly given our leading role in this area. The policy applies to both internally and externally managed assets.

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

2. Major ESG themes

Over time 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 long-term performance of investments and shareholder value. We integrate climate change considerations in the 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.

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 on the resilience of their business strategies for 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.
- We have also included the Task Force on Climate-Related Financial Disclosures reporting in our annual report.
- GMPF also 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.

Employment standards and human capital management

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.

We consider effective management of people is a source of both value creation and competitive advantage. We 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.

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.

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 Review¹, 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.

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

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.

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 do not typically divest from businesses unless ESG factors are likely to have a financially material negative impact. Instead we seek to use our influence as investors 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, GMPF is 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 can also recall stock that has been lent in order to be able to vote.

We are long-standing and active participants within the Local Authority Pension Fund Forum (LAPFF). Most engagement activity is undertaken through the Forum and representatives of GMPF 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.

Shareholder resolutions

GMPF 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.

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
- The Carbon Disclosure Project
- The Transition Pathway Initiative
- Investing in a Just Transition
- The 2018 Global Investor Statement to Governments on Climate Change
- Climate Action 100+
- Workforce Disclosure Initiative
- Pensions For Purpose

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.

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 the 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 an annual 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 the GMPF's process for taking beneficiaries' views into account.

We meet quarterly to discuss the implementation of the RI policy, and as 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)

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