

Minutes of Responsible Investment Working Party held on 21 February 2024

Attendees:

Name	Initials	Organisation
Councillor Julie McManus (Chair)	CP	WBC
Councillor Ruth Molyneux	RM	WBC
Councillor Brian Kenny	BK	WBC
Councillor Pat Cleary	PC	WBC
Councillor Brenda Hall	BH	WBC
Councillor Ann Ainsworth	AA	WBC
Councillor Andrew Gardner	AG	WBC
Councillor Chris Carubia	CC	WBC
Councillor Pat Moloney	PM	Pension Board
Ian Williams	IW	Pension Board
Donna Ridland	DR	Pension Board
Roger Bannister	RB	Unison Member Rep
Jill Davys	JD	Redington
Edina Molnar	EM	Redington
Ellen Welford	EW	Redington
Paul Lee	PL	Redington
Paul Watson	PWa	Independent Advisor
Rohan Worrall	RW	Independent Advisor
Peter Wallach	PW	MPF
Adil Manzoor	AM	MPF
Owen Thorne	OT	MPF
Alex Abela-Stevenson	AA	MPF
Emma Littler	EL	MPF
Greg Campbell	GC	MPF
Elizabeth Breen	EB	MPF
Ciaran Sharp	CS	MPF
Daniel Proudfoot	DP	MPF
Susannah Friar	SF	MPF
Donna Smith	DS	MPF
Yu-Jhu Lin	YL	MPF
Allister Goulding	AG	MPF
Dragos Serbanica	DS	MPF
Roksana Klapkowska	RK	MPF

1. Apologies

Councillor Cherry Povall	CP	WBC
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2. Draft Responsible Investment Policy – Jill Davys (JD)

- Based on the feedback from the November meeting, the Committee is comfortable with the overall approach to Responsible Investment outlined by the Fund.
- The wording in Belief 4 relating to exclusions and divestment has been updated to set up the approach to stewardship and engagement.
- Key themes to focus on are Climate Change, Biodiversity, Human Rights (including modern slavery), and Corporate Governance (including Diversity and Inclusion policies and approaches to taxation).
- MPF to continue its collaborative work with the Northern Pool and industry bodies (such as LAPFF) and work with investment managers to ensure they deliver on our approach to stewardship and engage with the underlying companies.
- MPF must be prepared to respond to any regulatory requirements and provide full transparency on its RI activities.
- Redington will support the Fund through the stewardship work and assist in setting up MPF's reporting framework to ensure the availability of the information to scheme members and employers.

Questions and Answers:

Q1: PWA noted the beliefs set out are inward-looking and asked whether there should be some external point clarifying how the Fund articulates its beliefs to the external parties.

A1: JD agreed on the point related to communication and interactions with other key stakeholders to promote our investment beliefs would be a good addition. PW agreed and proposed adding some wording to Belief 4 around the elements suggested.

Q2: PWA voiced concern a potential conflict between the key RI policy themes could arise at some point.

A2: JD agreed such a risk exists but should be resolved through stewardship. OT confirmed that any conflicts of interest are a facet of the Stewardship Code. In the Stewardship Policy Statement, MPF can illustrate how the themes tie back to the commonly understood definitions from legal frameworks, helping navigate any potential conflicts of interest.

PL added the themes should serve as a way of focusing on the activities of managers and service providers that are most important to the Fund and help shape MPF's reporting concerning the Stewardship Code.

Q3: RW suggested using a RAG framework to monitor managers and particular stocks that might be of concern to the Fund to ensure they are progressing on the engagement points.

A3: PW replied this can be considered, highlighting that engagement is difficult to measure but MPF can aspire to do that. PC tied this suggestion back to the change of wording in Belief 4 and emphasized the importance of a clear measure of engagement for the Fund's beliefs to be meaningful.

3. Net Zero Target Setting - Edina Molnar (ED)

- Redington ran through the 3 targets previously recommended to Members that will contribute to real-world decarbonisation.
- Target 1: Decarbonisation
Redington's recommendation is to measure Scope 1 and 2 of emissions for the time being and introduce Scope 3 once the data is reliable and of high quality. Redington also recommends using 2019 as the baseline year as it was the last pre-pandemic year, and it also allows the Fund to account for its past decarbonisation.
- Target 2: Paris Alignment
Redington proposed adding Paris alignment targets as considering emissions in isolation is backward-looking and heavily reliant on the calculation methodologies used. Paris Alignment Target is more forward-looking and would help the Fund judge how companies in the portfolio align with the goal. Using carbon budgets, MPF can see what temperature budget specific assets fall into and focus on the companies within the portfolio that are not aligning with the 1.5C target.
- Target 3: Climate Solutions
Recommendation to invest in companies providing climate solutions and help with the transition.
- Redington to present the Climate Dashboard at the next IMWP meeting that facilitates monitoring of our climate objectives progress.

Q&A

Q1: RW asked about the risk of not reaching the 50% decarbonisation target due to some carbon-intensive industries (such as mining) significantly increasing in value relative to the index.

A1: EM explained that due to the methodology used, when valuations go up and carbon emissions stay at the same level, there would be a decrease in metrics. For this reason, Redington proposes other targets as well.

Q2: PWa noted that "or earlier" has been omitted in the Net Zero target setting and asked when the Scope 3 emissions measurement is expected to become more reliable.

A2: EM agreed that the Net Zero Target is "2050 or earlier" in line with the Northern LGPS commitment. Regarding Scope 3 Emissions, the quality of data is improving,

and there is growing regulatory pressure on reporting them, so the data should become more reliable in the next couple of years.

Q3: PC noted that as the temperatures are rising more rapidly, assets that were aligning in the past may not align in the current environment and enquired how that feeds into how well the companies are performing in meeting the Paris Agreement Targets.

A3: EM explained that this representation of the portfolio based on the carbon budget methodology is not perfect but is currently the best representation of the real world, and the methodology will be improving going forward. In case of increasing emissions despite the alignment, continue the methodologies used to measure the alignment would be questioned.

Q4: RW asked whether there are any other steps the Fund should undertake post-divestment from a company.

A4: EM clarified that the priority is engagement rather than disinvestment and that the secondary function of goal setting is to signal that the Fund is looking for assets to help it reach its Net-Zero Targets.

4. Stewardship and Engagement – Paul Lee (PL)

- For a real-world impact, there are 3 sustainable levers of action: exclusion, engagement, and investment.
- Explained the difference between monitoring and engagement. Monitoring is ensuring that companies deliver on what they promise. Engagement is driving change.
- Voting is the most visible aspect of stewardship, but not the only one (others are public policy and best practice). Moreover, voting applies only to equity investors, and engagement should be present across all asset classes.
- Emphasised the importance of oversight of managers' stewardship and engagement as Managers are reporting widely different engagement activities.
- The Financial Market Law Committee published a paper on fiduciary duties that is very relatable to our policy.
- MPF should focus its engagement efforts on what is the most material to the Fund and narrow down the range of issues to engage about, its scope of influence, and sensitivities around particular issues.
- It might be helpful to set up timeframes when starting the engagement and stay aware of the actions and perspectives of fellow investors to sense what outcomes MPF can expect to achieve.
- Active conversations around divestment and the defence industry. Regarding the defence industry, the Fund should consider the products produced and the zone of operation.

- Redington set out some thought processes they encourage MPF to use in relation to defence companies, the scope for progressing engagement, and some drivers for potential divestment or exclusion.

Q&A

Q1: RW noted that in the case of passive funds, divestment is not an option.

A1: PL agreed that divestment is not available in such cases but added that most passive managers have an active engagement programme, and Redington is in dialogue with those managers.

Q2: PWa noted that MPF has in-house assets managers and asked whether it changes what has been said on engagement.

A2: PL explained there are different ways to deliver stewardship, and if MPF is trying to deliver it on its own as an organisation, it's always possible. If MPF collaborates with others through groupings or engagement vehicles such as LAPFF, it loses a bit of its bespoke nature but brings in a greater opportunity for change.

Q3: PC suggested it would be useful to have a more in-depth discussion on the defence industry and divestment issues to determine how the fund is exposed, go through the outlined methodology, and discuss how members feel about it. The fund needs to be able to respond to public concerns.

A3: JM agreed with PC.

PW concluded the meeting, highlighting that MPF is undertaking multiple investment workstreams but is committed to delivering on ESG issues.

Date of next meeting 15 May 2024