



## **PENSIONS COMMITTEE**

**14 DECEMBER 2022**

<b>REPORT TITLE:</b>	<b>MERSEYSIDE PENSION FUND'S RESPONSIBLE INVESTMENT POLICY AND HUMAN RIGHTS</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF PENSIONS</b>

### **REPORT SUMMARY**

In February 2022 a report was brought to this Committee in respect of the Pension Fund's investment in companies that are alleged to be facilitating the construction and continued existence of Israeli settlements in the Occupied Territories of Palestine (OPT). At the February Committee, it was agreed that the matter should be the subject of a further report. This report sets out developments since the original report and proposes some additional actions.

### **RECOMMENDATION/S**

The Pensions Committee be recommended to support the activities and actions detailed in the report.

## **SUPPORTING INFORMATION**

### **1.0 REASON/S FOR RECOMMENDATION/S**

- 1.1 The recommendations allow the Committee to assess the activities already instigated by the Fund and whether any additional actions may be appropriate.

### **2.0 OTHER OPTIONS CONSIDERED**

- 2.1 The Director of Pensions considered whether it would be reasonable for the Pension Fund to cease to invest in the companies owned on the United Nations (UN) database. That option was rejected for the reasons set out in the February report.
- 2.2 Engage a third party to investigate and advise in relation to this matter. This option was rejected in view of the fact that the Fund, along with other LGPS funds, already has Advisers in place and the likely cost and complexity of the issues make it challenging to achieve any certainty of actionable outcomes.

### **3.0 BACKGROUND INFORMATION**

- 3.1 At Pensions Committee in November 2021, a Member question was asked regarding the application of the Responsible Investment (|RI) policies agreed by Merseyside Pension Fund (MPF) and Northern LGPS (NLGPS) to the Fund's investments in companies trading in the Occupied Palestinian Territories (OPT) and it was agreed that a report on the matter would be brought to the next meeting of Pensions Committee.
- 3.2 A report was prepared for Pensions Committee in February 2022 which proposed a number of actions. The report elicited an unprecedented level of correspondence from members of the pension fund, council tax payers and other stakeholders with a significant number opposing any action. Despite a lengthy discussion of the matter, no consensus was reached by Committee.
- 3.3 Since the report was prepared for the February Pensions Committee meeting, there have been several developments.
- 3.3.1 The National LGPS Scheme Advisory Board (SAB) and the Local Authority Pension Fund Forum (LAPFF) held a call with Michael Lynk (the UN Special Rapporteur) on 11<sup>th</sup> January to discuss his [letter to funds](#). The discussion was described by the SAB productive and it was agreed to follow up with another call in a month or so. It was made clear that LGPS funds' primary objective in investment is to ensure pensions are paid but that they do take human rights issues seriously in their decisions and through LAPFF are actively engaging with many of the companies listed on the database. In that respect Mr Lynk was requested to provide further information on the database in particular the process for removing companies from it.

Following the call, no further response or information was forthcoming from Michael Lynk. More recently, we understand that the role of UN Special Rapporteur is now held by Ms Francesca Albanese.

- 3.3.2 In March 2022, an amendment to the Public Service Pensions and Judicial Offices Bill was accepted in the Lords allowing the Secretary of State to issue statutory guidance to public service pension funds with regard to investment in line with UK foreign and defence policy. A consultation has been promised but, to date, has not been issued.
- 3.3.3 In May 2022, the government's legislative programme was laid out in the Queen's speech. The programme included a Boycotts, Divestment and Sanctions Bill in relation to public bodies.
- 3.3.4 At the Fund's Investment Monitoring Working Party on 9 June 2022, Members were briefed on the UN's Principles of Responsible Investment (UNPRI) Advance initiative on human rights stewardship, which is aimed to maximise investors' collective contribution to respect for human rights issues. This would be in addition to the Fund's partnership with LAPFF to engage with companies to address social and human rights issues. The first phase of the programme is now published and Members were supportive of the proposal for MPF to take an active part by becoming a signatory to the framework.
- 3.3.5 Progress, albeit slow, is being seen from LAPFF's engagement programme. In its 2022 Q2 report, LAPFF reported that it had "reached out to several companies this quarter, continuing to push for them to undertake human rights impact assessments with regards to the Occupied Palestinian Territories (OPT) and for those that do to publish them". It reported that "LAPFF first met with Booking Holdings in 2021 with a follow up meeting held this quarter. LAPFF spoke with the company about publishing a human rights statement which it has now subsequently done. It would appear that the company recognises it has a way to go in developing its human rights strategy across all conflict zones but is continuing to apply due diligence on its operations. LAPFF continued to emphasise its position, insisting that companies undertake independent, third-party human rights impact assessments. General Mills reached out in May to announce that it had sold its stake in a joint venture in East Jerusalem, leaving it with no further business operations in Israel". LAPFF's position remains that companies undertaking human rights impact assessments is the best way for investors to understand the risks associated with their investments in the region.
- 3.4 Members are reminded that the Northern LGPS RI policy is that "embedded within the pool'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 the Pool 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 LAPFF (the Local Authority Pension Fund Forum) and our own direct engagement. We also seek to participate in collaborative investor initiatives relating to human rights".

Consistent with the Pool's RI policy, Stewardship activity around human rights is pursued in a number of situations and jurisdictions – including conflict-afflicted areas and occupied territories. Mainly, these engagements are documented in the quarterly LAPFF and PIRC publications. Engagement is intended to achieve greater disclosure and raise corporate standards and awareness of normative standards. It

is often protracted and tangible results are sometimes slow to emerge. The policy indicates that the ultimate sanction following engagement and escalation may be divestment. That would be a last resort where the risk to the fund was deemed to be sufficiently significant to justify that course of action.

- 3.5 MPF has recently appointed new strategic advisors, Redington, with a view to reviewing investment strategy, climate risk and to work on enhancing the Fund's Stewardship and Responsible Investment activities. As set out in a separate report to this Committee, as part of their brief, Redington will be refreshing MPF's investment beliefs and objectives which will involve a survey of stakeholders including Committee and Board members. The exercise with Redington could be used to take forward further work on codifying beliefs/views/preferences into a materiality framework that could be used to further inform our investment policy. Typically, this would use established tools, such as the Sustainability Accounting Standards Board (SASB) materiality map, as part of a top-down, risk-based Environmental, Social and Governance (ESG) analysis of the Fund's investment universe.

The Redington survey might also be tasked with exploring degrees of comfort with an expanded solution set for stewardship. This could include policy options such as screening and targeted divestment, as well as looking at the need for additional resources. Certainly, it may be feasible to arrive at something that helps strike a balance between assessing and managing ESG risks, and pursuing sustainability outcomes that are aligned with investment objectives over the long-term.

#### **4.0 FINANCIAL IMPLICATIONS**

- 4.1 The Fund is devoting considerable resource to its Responsible Investment activities. The matters detailed in this report have provision in the Fund's budget. The additional work proposed with Redington may bring additional cost.

#### **5.0 LEGAL IMPLICATIONS**

- 5.1 These are set out in the report of 23 February 2022 which is attached as an appendix to this report.

#### **6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS**

- 6.1 The Fund seeks to optimise the effectiveness of its investment and RI activities through pooling and by working collaboratively with other organisations such as LAPFF. The additional work outlined in this report will necessarily divert resources from other investment activities.

#### **7.0 RELEVANT RISKS**

- 7.1 These are set out in the report of 23 February 2022 which is attached as an appendix to this report.

## **8.0 ENGAGEMENT/CONSULTATION**

8.1 As set out in the report and appendix.

## **9.0 EQUALITY IMPLICATIONS**

- 9.1 Wirral Council has a legal requirement to make sure its policies, and the way it carries out its work, do not discriminate against anyone. An Equality Impact Assessment is a tool to help council services identify steps they can take to ensure equality for anyone who might be affected by a particular policy, decision or activity.
- 9.2 Section 149 of the Equality Act 2010 provides that a public authority must in the exercise of its functions have due regard to the need to eliminate unlawful discrimination and to the need to foster good relations between persons who share a relevant protected characteristic such as ethnic origins and those who do not share it.
- 9.3 It is therefore important that the Committee weighs in the balance the possible impact any action may have on good relations between the Jewish and non-Jewish communities in the UK. The use of emotive language should be avoided.

## **10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS**

10.1 Not relevant to this report.

## **11.0 COMMUNITY WEALTH IMPLICATIONS**

11.1 Not relevant to this report.

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## **APPENDICES**

Appendix 1 Report to Pensions Committee 23 February 2022

## **BACKGROUND PAPERS**

UN Principles for Responsible Investment – Programme on Human Rights

Northern LGPS Responsible Investment Policy

LAPFF Quarterly Engagement Reports

**SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
<b>Pensions Committee</b>	<b>23 February 2022</b>

