

The background of the slide features a large, faint, light blue outline of the City of Vancouver coat of arms. The crest includes a crown with four maple leaves, a shield divided into four quadrants (top-left: saltire, top-right: stag's head, bottom-left: sailing ship, bottom-right: eagle), and a banner at the bottom with the motto 'A NE FOR A'.

Agenda Item 7

Engagement and Voting Activity

Falkirk Council

Subject: Engagement and Voting Activity

Meeting: Joint Meeting of Pensions Committee and Pension Board

Date: 13 January 2020

Submitted by: Director of Corporate and Housing Services

1. Purpose of Report

- 1.1 This report updates the Committee and Board on recent Fund engagement and voting activity.

2. Recommendation

- 2.1 **The Pensions Committee and Board are invited to note the contents of this report.**

3. Responsible Investment

- 3.1 Responsible investment is an approach to managing assets that sees investors take account of environmental, social and governance (ESG) issues in making investment decisions. This is in the belief that long-term sustainable returns are dependent on stable and well-governed social, environmental and economic systems. Taking account of ESG risks, is also consistent with the Fund's fiduciary duty to act in the best interests of its stakeholders.
- 3.2 The Fund discharges its obligations as a responsible investor:
- by voting its shares;
 - by working with its investment managers to monitor the activities of investee companies;
 - by being a member of lobbying organisations such as the Local Authority Pension Funds Forum (LAPFF) and the Institutional Investors Group on Climate Change (IIGCC); and
 - by working with other like minded entities in support of corporate governance initiatives (e.g. on climate change)
- 3.3 The Fund's proxy voting agents are PIRC Ltd, who are also the research and engagement partners of LAPFF.

4. Local Authority Pension Funds Forum Activity (LAPFF)

4.1 During the quarter to September 2019, LAPFF activity included engagements with:

- defence companies in relation to their role in supplying weapons to Middle Eastern countries
- Glencore on allegations of corruption in the Democratic Republic of Congo
- ENI, Petrobras and Total on allegations of corruption generally
- The Southern Company (a US utility company) on linking executive pay with climate factors (company has set a 2050 target of low-to-no carbon emissions)
- Arcelor Mittal (world's largest steel maker) on how it proposes to meet its 2050 carbon neutrality target and how the use of hydrogen in its industrial processes could help meet the target
- Ford and General Motors on their approach to climate change given the relaxation in US Federal emissions rules

4.2 LAPFF has signed up to be a partner in the 'Powering Past Coal Alliance'. This is part of the UK Government's new Green Finance Strategy and in line with LAPFF policy that there should be no new investment in coal.

4.3 Following on from meeting Centrica's new Chair, Charles Berry in May, LAPFF have been briefed that Centrica plans to exit its fracking operations in Lancashire and that an increasingly important part of their strategy will be to focus on making customers more efficient in their use of energy (customer emissions currently represent 90% of total company emissions).

4.4 LAPFF also recommended voting against the entire Board of Sports Direct and against part of the Board of Ryanair. In the case of Sports Direct, this was on the basis of their acquisitions policy and issues surrounding their Annual Report and Audit. In the case of Ryanair, the concerns revolved around ongoing staff relations.

4.5 The LAPFF engagement report for Quarter 3 has been uploaded to the Sharefile portal. Copies of most recent Fund manager investment and engagement reports have also been uploaded.

5. Institutional Investors Group on Climate Change

5.1 The IIGCC is a forum for collaboration on climate change for European investors, bringing investors together to use their influence to engage with policymakers and companies to accelerate the shift to a low carbon economy.

5.2 As a member of the Group, the Fund was a co-signatory to a letter to EU leaders calling on them to support a net-zero emissions target for the EU by 2050 and to align all relevant EU legislation to the temperature reduction goals set out in the

Paris Agreement. A copy of the letter is attached at Appendix 1 of the report (n.b. the Falkirk Fund is 28th in the list of signatories).

- 5.3 The IIGCC has also co-ordinated an open letter to World Governments urging decisive action to achieve the goals of the Paris Agreement. A copy of this letter is attached at Appendix 2.

6. Climate Action 100+

- 6.1 Climate Action 100+ is an investor initiative to encourage the world's largest corporate greenhouse gas emitters to act on climate change. The companies targeted are the top 100 emitters plus a further 61 who are deemed to have the potential to drive a transition to cleaner energy or who are significantly exposed to climate risk.
- 6.2 Signatories to Climate Action 100+ (of which Falkirk is one) are urging boards and senior management of companies to:
- Implement a strong governance framework which clearly articulates the board's accountability and oversight of climate change risks and opportunities;
 - Take action to reduce emissions across the value chain, consistent with the Paris Agreement
 - Provide enhanced disclosure in line with the Task Force on Climate related Financial Disclosures (TCFD) to enable investors to assess companies' business plans against a range of climate scenarios.
- 6.3 In terms of process, Climate Action 100+ appoints a lead investor to engage with each one of the target companies and requests that that investor feedbacks on progress. Tools at the disposal of investors will include supporting shareholder resolutions, voting against the company's Annual Report and against Directors. A copy of the 2019 Investor report has been uploaded to the Sharefile portal.
- 6.4 That further work is required by the 161 companies is borne out by the following statistics:
- Only 9% have emissions targets that are in line with the goal of the Paris Agreement to keep the rise in global temperature to below 2°C
 - Only 8% of companies have policies in place to ensure their lobbying activity is aligned with necessary action on climate change
 - Only 40% undertake and disclose climate scenario analysis, and
 - Only 30% formally support recommendations of the Task force on climate-related Financial Disclosures.

On the positive side:

- 70% of companies have set long-term emissions reduction targets
- 77% have defined board level responsibility for climate change

7. Other Engagement

- 7.1 The Fund has co-filed a special resolution to be laid at the forthcoming Barclays plc AGM.
- 7.2 This asks Barclays to set and disclose targets to phase out the provision of financial services to the energy sector and to electric and gas utility companies misaligned with the goals of the Paris agreement.
- 7.3 The objective is to prevent Barclays from continuing to finance carbon-intensive fossil fuels, such as tar sands and Arctic oil and gas, as well as companies highly dependent on coal. According to ShareAction, a recent study identified Barclays as the largest European financier of fossil fuels.
- 7.4 Encouraging financial institutions, such as banks and insurance companies to cut off the supply of capital and cover to carbon intensive companies is considered a more effective means of changing corporate behaviour – along with engagement - than divestment.

8. Voting

- 8.1 Details of how Fund votes have been cast across various categories during the last available quarter (Quarter 3 of 2019) are attached at appendix 3.

9. Implications

Financial

- 9.1 The Fund believes that its long term financial interests are best served by monitoring and reporting on the activities and actions of its investee companies.

Resources

- 9.2 No additional resources are required as a result of this report. A separate report tabled on the agenda seeks permission to tender for a Fund engagement specialist.

Legal

- 9.3 No legal issues are raised by this report.

Risk

- 9.4 Failure to properly discharge its stewardship responsibilities could damage the Fund's long term returns and result in it incurring reputational damage.

Equalities

- 9.5 Gender balance and the need to develop ethnic diversity at Board level are themes being supported by the Fund's engagement partner - the Local Authority Pension Funds Forum.

Sustainability/Environmental Impact

- 9.6 The report explains how the Fund is supporting initiatives to reduce carbon emissions and deliver long term sustainable returns.

10. Conclusion

- 10.1 The report provides an overview of the Fund's recent engagement and voting activities.

Director of Corporate & Housing Services

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Date: 13 December 2019

Appendices

Appendix 1 – IIGCC Letter to EU Leaders dated 4 December 2019

Appendix 2 – IIGCC Open letter to World Governments

Appendix 3 – Falkirk Council Pension Fund – Quarter 3 – Voting Record (extract)

List of Background Papers:

None

4th December 2019

Open letter to EU leaders

On the eve of the December European Council we write to you as members of the Institutional Investors Group on Climate Change (IIGCC), a body of over 190 European institutional investors overseeing more than €28 trillion in assets globally.

The upcoming Council marks a turning point in the EU, as a new Commission mandate begins and leaders reflect on the bloc's future. Within your discussions, it is vital that sufficient importance is attached to the topic of climate change.

Collectively we direct trillions of euros with a view to ensuring sound financial returns for our beneficiaries. We recognise the significant financial risks posed by climate change as well as the enormous economic opportunities provided by low-carbon and climate-resilient technologies, markets and business models.

The ongoing public debate in both Brussels and national capitals on the climate emergency highlights the urgent need to act. It is no secret that investors favour long-term certainty and we therefore strongly support a net-zero emissions target for the EU, to be achieved by 2050 at the latest, and the alignment of all relevant EU legislation to the temperature reduction goals set out in the Paris Agreement.

The necessity and benefits of the adoption of such a target are clear. For example, EU analysis has shown that a net-zero emissions target can be expected to deliver an estimated 2% increase in GDP across member states by 2050, in addition to the creation of 2.1 million new jobs. The transition towards net-zero emissions will also provide an important opportunity to further strengthen the transformation of Europe's economy, showcasing member states as global leaders in low and zero emission technologies and services while also supporting benefits such as innovation, improved resilience to extreme weather events and increased energy security.

We are cognisant of the fact that such ambition will be challenging to attain. The changes to economies across the EU will be significant, but the benefits outlined above unmistakably outweigh the impacts of insufficient action. The science – and the market fundamentals – are clear: the costs of inaction will be catastrophic. The solution is in well-designed policies that allow private finance to flow, supporting public efforts and exploiting huge investment opportunities.

The EU has to date played a strong global leadership role in tackling climate change. Following the UN Secretary General's Climate Action Summit in September, and as we approach key milestones in the international climate negotiations, it is clear that the stakes could not be higher. Without greater action, the world is on track to see long-term temperature rises of around 4°C, with \$23 trillion of associated global economic losses over the next 80 years. This permanent economic damage would be three or four times the scale of the impacts of the 2008 global financial crisis. Conversely, greater action on climate change could deliver \$26 trillion in global economic benefit to 2030.

As investors, we are already stepping up our commitments to sustainable and responsible investment, as well as putting pressure on high-emitting companies to reduce their emissions. Our experience

demonstrates that we can deliver a more sustainable world while also maintaining strong financial returns. We look to you to enable the scaling up and acceleration of this action with the right policy frameworks.

Much rests on the ambition, credibility and success of the EU approach. The signals you send at the December Council and beyond will be essential. Investors stand ready to work with you to deliver a prosperous and net-zero emissions economy.

Signed by,

1. Jamal Abida Norling, CEO, Öhman Fonder
2. Rodney Barton, Director of the Fund, West Yorkshire Pension Fund
3. Stephen Beer, Chief Investment Officer, Central Finance Board of the Methodist Church and Epworth Investment Management
4. James Bevan, CIO, CCLA Investment Management
5. Ole Buhl, Head of ESG and Senior Vice President, ATP
6. Carl Cederschiöld, Head of Handelsbanken Asset Management
7. John David, Head of Rathbone Greenbank Investments
8. Chresten Dengsøe, CEO, Lægernes Pension - pensionskassen for læger
9. Dewi Dylander, Deputy Executive Director, ESG, PKA
10. Niklas Ekvall, CEO, AP4 – Fourth Swedish National Pension Fund
11. Rachel Elwell, CEO, Border to Coast Pensions Partnership
12. Katherine Garrett-Cox, CEO, Gulf International Bank
13. Eva Halvarsson, CEO, AP2, Second Swedish National Pension Fund
14. Sean Hawkshaw, CEO, KBI Global Investors
15. Dr. Steffen Hörter, Global Head of ESG, Allianz Global Investors
16. Satu Huber, CEO, Elo Mutual Pension Insurance Company
17. Hooman Kaveh, Global Chief Investment Officer – Delegated Investment Solutions, Mercer
18. Charles Kirwan-Taylor, Executive Chairman, Atlas Infrastructure
19. Søren Kolbye Sørensen, CEO, P+ (DIP/JOEP)
20. Claudia Kruse, Managing Director Global Responsible Investment and Governance, APG

21. Roelfien Kuijpers, Head of Responsible Investing and Head of Global Client Group, Ireland, Scandinavia and UK, DWS Group GmbH
22. George Latham, Managing Partner, WHEB Asset Management
23. Eloy Lindeijer, Chief Investment Management, PGGM
24. Faryda Lindeman, Senior Responsible Investment Specialist, NN Investment Partners
25. Christian Lindstrøm Lage, CEO, PFA Asset Management
26. Michael Marshall, Director of Responsible Investment & Engagement, LGPS Central Limited
27. Craig Martin, Chief Pensions Officer, Environment Agency Pension Fund
28. Councillor Adanna McCue, Pension Committee, Falkirk Council Pension Fund
29. Celia McKeon, Chief Executive, Joseph Rowntree Charitable Trust
30. Narina Mnatsakanian, Director Impact & Responsible Investment, Kempen
31. Jens Munch Holst, CEO, MP Pension
32. Saker Nusseibeh, CEO, Hermes Investment Management
33. Gordon Power, Chief Investment Officer, Earth Capital
34. Javiera Ragnartz, CEO, SEB Investment Management
35. Chris Rule, CEO, Local Pensions Partnership
36. Sacha Sadan, Director of Corporate Governance, Legal and General Investment Management
37. Martijn Scholten, CIO, MN
38. Ian Simm, Founder & Chief Executive, Impax Asset Management
39. Keith Skeoch, CEO, Aberdeen Standard Investments
40. Nicola Todd, Deputy Secretary, Northern Ireland Local Government Officers' Superannuation Committee
41. Sophie van Oosterom, EMEA CIO and CEO, CBRE Global Investors
42. Martin Vogt, Managing Director, MPC Renewable Energies
43. Councillor Brenda Warrington, Chair of the Greater Manchester Pension Fund Management Panel
44. Alex Wynaendts, Chief Executive Officer, AEGON NV



Open letter to Governments of the world,

Last year a record number of investors signed the 2018 *Global Investor Statement to Governments on Climate Change*¹ in which investors declare their strong support for the Paris Agreement and the implementation of its goals. The statement is now signed by 477 investors representing over US \$34 trillion in assets – just under half the world’s assets under management².

In 2018, we – the CEOs of the seven partner organizations of The Investor Agenda – strongly welcomed the **Intergovernmental Panel on Climate Change’s (IPCC) Special Report on 1.5°C** which emphasised the urgency required to successfully tackle climate change and the need for average **annual sustainable energy investments of up to US \$830 billion** to transition to a zero-carbon and climate resilient global economy. We especially underline the IPCC report's finding that to achieve no or limited overshoot of 1.5°C, global net emissions need to decline by 45% by 2030 and reach net zero emissions around 2050. In parallel, we note that even in limiting warming to 1.5°C, the IPCC report still finds that climate-related risks and impacts will increase, requiring adaptation and resilience measures.

This year, in response to this accelerating climate threat and to lend our strong support to the aims of the upcoming UN Secretary General’s Climate Action Summit in September, we are **restating to world governments the urgency of decisive action to achieve the goals of the Paris Agreement** and highlighting three outstanding policies from the 2018 statement which we urge you to enact by 2020, a key milestone in the global negotiations to implement the Paris Agreement, in order to unlock private sector capital in addressing this challenge.

In particular, we ask world governments to strengthen their Nationally Determined Contributions (NDCs) to be in line with the objectives of the Paris Agreement by 2020.

Current NDCs would lead to an unacceptably high temperature increase, potentially in the range of 2.9 to 3.4°C relative to pre-industrial levels. Enhancement is essential to close the current ambition gap and send a strong, positive signal to investors.

Part of this enhancement should entail a clearly defined role for private finance. This includes clear timelines for the phase-out of fossil fuel subsidies and thermal coal power, and for the introduction of appropriate carbon pricing by 2020, as well as implementation of the Task Force for Climate-related Financial Disclosure (TCFD) recommendations by 2020.

Raising ambition has a direct read-across to raising finance: those countries who adopt strong, ambitious NDCs will send the signals necessary to attract the trillions of capital necessary to support the low-carbon and climate resilient transition.

We also underscore our support for a Just Transition for workers and communities, as called for in the Paris Agreement. Investors have a key role to play, in partnership with government, to direct their stewardship of their assets, their allocation of capital and their voice in public policy to back a transition that leads to inclusive, sustainable development.

¹ <https://www.theguardian.com/environment/2018/dec/10/largest-ever-group-of-global-investors-call-for-more-action-to-meet-paris-targets>

² http://www.agefi.fr/sites/agefi.fr/files/fichiers/2016/07/bcg-doubling-down-on-data-july-2016_tcm80-2113701.pdf



The *Global Investor Statement to Governments on Climate Change* remains open for signature, and updates will be published at the United Nations Secretary General's Climate Change Summit in September as well as at COP25 in December.

This statement was drafted through a collaboration among our seven organisations – AIGCC, CDP, Ceres, IGCC, IIGCC, PRI and UNEP-FI – that are the founding partners of The Investor Agenda. The statement is published at www.theinvestoragenda.org.

We would welcome further engagement with your staff to discuss the policy asks presented in the attached statement. We believe institutional investors, given their universal ownership, long-term horizon and ability to engage with corporations globally, represent a unique political ally on decarbonisation and the implementation of the Paris Agreement. We therefore remain at your disposal for further partnership and support.

Kind regards,

On behalf of the seven partner organisations,

Rebecca Mikula-Wright
Director, Asia Investor Group on Climate Change

Stephanie Pfeifer
CEO, Institutional Investors Group on Climate Change

Paul Simpson
CEO, CDP

Fiona Reynolds
CEO, Principles for Responsible Investment

Mindy S. Lubber
CEO and President, Ceres

Eric Usher
Head, UNEP Finance Initiative

Emma Herd
CEO, Investor Group on Climate Change



Falkirk Council Pension Fund

PROXY VOTING REVIEW

PERIOD 1st July 2019 to 30th September 2019

1 Resolution Analysis

- Number of resolutions voted: 195 (note that it MAY include non-voting items).
- Number of resolutions supported by client: 160
- Number of resolutions opposed by client: 28
- Number of resolutions abstained by client: 6
- Number of resolutions Non-voting: 0
- Number of resolutions Withheld by client: 0
- Number of resolutions Not Supported by client: 0

1.1 Number of meetings voted by geographical location

Location	Number of Meetings Voted
UK & BRITISH OVERSEAS	7
EUROPE & GLOBAL EU	2
ASIA	1
TOTAL	10

1.2 Number of Resolutions by Vote Categories

Vote Categories	Number of Resolutions
For	160
Abstain	6
Oppose	28
Non-Voting	0
Not Supported	0
Withhold	0
US Frequency Vote on Pay	1
Withdrawn	0
TOTAL	195

1.3 List of meetings not voted and reasons why

Company	Meeting Date	Type	Comment
HDFC BANK LTD	12-07-2019	AGM	No ballot received
EXPERIAN PLC	24-07-2019	AGM	No ballot received

1.4 Number of Votes by Region

	For	Abstain	Oppose	Non-Voting	Not Supported	Withhold	Withdrawn	US Frequency Vote on Pay	Total
UK & BRITISH OVERSEAS	125	3	19	0	0	0	0	0	147
EUROPE & GLOBAL EU	27	0	6	0	0	0	0	1	34
ASIA	8	3	3	0	0	0	0	0	14
TOTAL	160	6	28	0	0	0	0	1	195

1.5 Votes Made in the Portfolio Per Resolution Category

	Portfolio						
	For	Abstain	Oppose	Non-Voting	Not Supported	Withheld	Withdrawn
All Employee Schemes	1	0	0	0	0	0	0
Annual Reports	9	4	6	0	0	0	0
Articles of Association	3	0	0	0	0	0	0
Auditors	18	1	1	0	0	0	0
Corporate Actions	0	0	0	0	0	0	0
Corporate Donations	6	0	1	0	0	0	0
Debt & Loans	0	0	1	0	0	0	0
Directors	89	1	2	0	0	0	0
Dividend	8	0	0	0	0	0	0
Executive Pay Schemes	1	0	0	0	0	0	0
Miscellaneous	7	0	2	0	0	0	0
NED Fees	0	0	0	0	0	0	0
Non-Voting	0	0	0	0	0	0	0
Say on Pay	0	0	1	0	0	0	0
Share Capital Restructuring	1	0	0	0	0	0	0
Share Issue/Re-purchase	17	0	14	0	0	0	0
Shareholder Resolution	0	0	0	0	0	0	0

1.11 List of all meetings voted

Company	Meeting Date	Type	Resolutions	For	Abstain	Oppose
SAINSBURY (J) PLC	04-07-2019	AGM	21	17	0	4
MARKS & SPENCER GROUP PLC	09-07-2019	AGM	21	18	0	3
BT GROUP PLC	10-07-2019	AGM	21	19	0	2
HDFC BANK LTD	12-07-2019	AGM	14	8	3	3
ROYAL MAIL PLC	18-07-2019	AGM	19	16	1	2
VODAFONE GROUP PLC	23-07-2019	AGM	23	19	2	2
QINETIQ GROUP PLC	24-07-2019	AGM	21	18	0	3
EXPERIAN PLC	24-07-2019	AGM	17	14	0	3
LINDE PLC	26-07-2019	AGM	17	13	0	3
DIAGEO PLC	19-09-2019	AGM	21	18	0	3