

RESPONSIBLE INVESTMENTS UPDATE

ITEM 8

Committee	Pensions Committee
Officer Reporting	James Lake & Babatunde Adekoya, Finance
Papers with this report	Full manager voting - Shared drive. LGIM Climate Impact Pledge – Shared Drive. LAPFF Business Meeting – Shared Drive LAPFF Quarterly Engagement report – Shared Drive LCIV TCFD Report

HEADLINES

Environmental, Social, and Governance (ESG) refers to the three central factors in measuring the sustainability and societal impact of an investment in a company or business. These criteria help to better determine the future financial performance of companies (return and risk).

The purpose of this report is to provide information on how managers entrusted with investing the Pension Fund assets are implementing their ESG policies and demonstrate their commitment to ensuring it is a cogent part of their investment process.

In addition, the report details the progress on the UK Stewardship Code project, policy updates and other relevant information.

RECOMMENDATIONS

It is recommended that Pensions Committee:

1. Note the fund managers' ESG activities and compliance efforts
2. Note LAPFF activities

SUPPORTING INFORMATION

Voting and Engagement

Fund managers carry out proxy voting on the Pension Fund's behalf. Below is a breakdown of voting statistics by LGIM, and London CIV (Ruffer and Baillie Gifford). The London CIV itself, through Federated Hermes EOS, also exercised voting rights at 11 meetings.

Fund Managers Voting Breakdown Q3, 2023					
LCIV	Meetings	Resolutions	Votes With	Against	Abstention/Non-Voting
Sep-23					
LCIV - Ruffer	5	67	65	1	1
LCIV - Baillie Gifford	6	88	67	16	5
	11	155	132	17	6
%			85.16	10.97	3.87
LGIM	Meetings	Resolutions	Votes With	Against	Abstention
Jun-23	1,731	14,095	10,849	3,023	223
	1,731	14,095	10,849	3,023	223
%			76.97	21.45	1.58

The volume of meetings attended, and resolutions voted on by all the fund managers shown above encapsulate their commitment to ESG issues and demonstrates alignment of their stewardship activities with their own investment beliefs, policies, and guidelines. Through this approach, they seek to be active owners on behalf of their clients, by encouraging good governance and a high standard of corporate practices.

The voting breakdown above indicates LGIM have voted against proposed management resolutions on 21% of voting opportunities and supported resolutions on approximately 77% of occasions. The London CIV and two equities portfolio managers, Ruffer and Baillie Gifford combined to back various management resolutions on 85% of voting opportunities and about 11% against the resolutions proposed by company managements. Abstentions for LGIM and LCIV were 2% & 4% respectively.

Engagement

ESG factors play an increasingly important role in determining the performance of certain assets. Pension Fund asset managers, as part of their ESG commitments undertake various engagement activities in their holistic approach in making investment decisions. These activities aim to affect changes within invested companies where it is deemed necessary or to complement existing practices.

LCIV

During the quarter under review Federated Hermes on behalf of the LCIV engaged 141 companies on 471 issues on ESG and Strategy, Risk and Communications, Globally.

LGIM

Holding boards to account

To be successful, companies need to have people at the helm who are well equipped to create resilient long-term growth. By voting and engaging directly with companies, LGIM encourages management to control risks while seeking to benefit from emerging opportunities. The manager aims to safeguard and enhance clients' assets by engaging with companies and holding management to account for their decisions. Voting is an important tool in this process, and one which they use extensively.

Creating sustainable value

LGIM believe it is in the interest of all stakeholders for companies to build sustainable business models that are also beneficial to society. They work to ensure companies are well-positioned for sustainable growth, and to prevent market behaviour that destroys long-term value. Their investment process includes an assessment of how well companies incorporate relevant ESG factors into their everyday thinking. The manager engages directly and collaboratively with companies to highlight key challenges and opportunities, and support strategies that seek to deliver long-term success.

Promoting market resilience

As a long-term investor for its clients, it is essential that markets (and, by extension, the companies within them) are able to generate sustainable value. In doing so, LGIM believe companies should become more resilient amid change and therefore, seek to benefit the whole market. They use their influence and scale to ensure that issues affecting the value of clients' investments are recognised and appropriately managed. This includes working with key policymakers, such as governments and regulators, and collaborating with asset owners to bring about positive change across markets as a whole.

Environment

Nature - NA100 collaboration

LGIM is now a formal member of Nature Action 100 (NA100), a global investor initiative co-led by Ceres and the IIGCC (with support from Finance for Biodiversity and Planet Tracker). Focused on corporate engagement, NA100 aims to encourage greater corporate ambition and action on nature and biodiversity loss, by setting a common agenda and clear set of expectations for companies. 190 institutional investor participants – representing US\$23.6 trillion in assets under management or advice – have joined NA100 and will be participating in direct engagement with 100 companies through the initiative.

Joining NA100 is an important part of acting on the commitments LGIM has made regarding collaboration and knowledge-sharing under the Finance for Biodiversity Pledge, as set out in our biodiversity policy.

As corporate disclosure and assessments of companies' interactions with nature continue to evolve rapidly, LGIM would hope that NA100 membership will provide both resources and insights that will help them develop their expectations and understanding in this area. LGIM also note that NA100 is being framed broadly through a focus on sectors that are major drivers of nature loss through their impact upon natural habitats, overexploitation of resources, and soil, water and solid waste pollution.

Social

Income inequality

Identify and engage

LGIM believe that failure to address the issues of income inequality and poverty can pose a material risk to investee companies. LGIM focus is on in-work poverty. This includes workers within a company's direct operations and workers within their supply chains. Some of the risks to

a company in perpetuating poverty wages include lower morale and productivity, higher levels of absenteeism and presenteeism, higher rates of staff turnover which results in recruitment and training costs, increase in theft, reputation loss.

LGIM believe paying a living wage to workers present businesses with opportunities such as improved morale, productivity, higher retention rates, improved mental and physical health. Income inequality can also represent a major risk for companies: according to the US Bureau of Labor Statistics, the cost of absenteeism to businesses in the US in 2018 was US\$150 billion per year, and it has been estimated that employees who are demotivated, burned out, or unproductive due to other health reasons cost US\$1,500 billion per year.

Over the quarter, the manager broadened its corporate engagement on income inequality. It launched a first engagement campaign, which carries with it a voting sanction for those companies that fail to meet their minimum expectations. They targeted the food retail sector, as it believes these companies to be generally more resilient due to the community service they provide, and financially less impacted by the COVID-19 pandemic than other sectors. It is also a sector with a high proportion of its workforce earning low wages.

LGIM identified 15 supermarket retailers in developed economies as targets for this campaign. We have chosen these companies because of their size and influence. The companies are:

- North America: Costco, Kroger, Target and Walmart
- UK: Tesco, Sainsbury
- Europe: Ahold Delhaize, Carrefour, Casino, Metro
- Japan: Lawson, Seven & I, Aeon Co.
- Australia: Woolworths, Coles

Escalate

The manager has written to these companies setting out their expectations of them and the timeframe in which they expect these expectations to be met.

LGIM plan to engage directly with these companies over the coming year and assess their progress. If, by 2025, these companies have failed to provide the disclosures set out in our minimum expectations, the manager will:

- Vote against the re-election of the Chair or Chair/CEO or President
- Pre-declare their voting intentions

Governance

Stock exchange engagement campaign

Identify

Having begun engagement campaign on diversity in some emerging markets, one of the conclusions was the understanding that engagement between investors and companies needs to be aligned with international capital markets' expectations.

LGIM see a potential opportunity to engage with stock exchanges which have an important role in terms of driving improvements in market standards, from setting listing rules to strengthening disclosure requirements. We hope to leverage their position through engagement on a number of our global investment stewardship themes. Additionally, we aim to raise awareness with these

key stock exchanges of LGIM's work on these material themes, including diversity, governance, climate, nature, and transparency.

LGIM has taken the following factors into consideration when identifying markets for our stock exchange engagement campaign:

- Markets where progress is lagging – referencing UN stock exchange analysis and our transparency theme work outlining own transparency and corporate reporting requirements to reflect the dynamic regulatory environment and increased expectations of companies
- Markets that have not promoted global reporting framework alignment, or markets that need to do more work to improve the quality of disclosure
- Markets where LGIM holds investments on behalf of our clients, and where we have established relationships

The preliminary stock exchanges we are targeting for our campaign include:

- Singapore Stock Exchange (SGX)
- Stock Exchange of Thailand (SET)
- Stock Exchange of Hong Kong (HKEX)
- Tokyo Stock Exchange (TSE) in Japan, Korea Exchange (KRX)
- Bursa Malaysia, and
- São Paulo Stock Exchange

Engage and escalate

In terms of the themes, LGIM will focus on and specific engagement objectives, they have prioritised those where they believe stock exchanges have a fundamental role in driving the positive changes the manager seek. Within these, LGIM will select what they consider to be the most relevant topics and refine their market-specific objective.

LGIM will review the progress of the campaign and adjust as appropriate to reflect progress and the results of our engagement.

LAPFF

During the quarter LAPFF issued a number of voting alerts which have been shared with LGIM for their consideration. (LCIV receive directly)

The Local Authority Pension Fund Forum (LAPFF) recently published its latest quarterly engagement report covering July-September 2023. The report details all the forum's activities over the quarter under review.

Highlights include:

- LAPFF welcomes its new member, the ACCESS pool, bringing the membership to 87 LGPS funds and seven pooled companies.
- LAPFF engages with global insurers on approaches to decarbonisation and natural resources.
- The 'Say on Climate' initiative grows to encourage more companies to put a vote on climate transition plans.
- Mining and Human Rights engagements continue with Anglo American, BHP, Glencore, Rio Tinto, and Vale and with a new mining company, Grupo Mexico, as LAPFF was

approached by community members affected by a 2014 leak at one of the company's tailings ponds in Sonora, Mexico.

- LAPFF's chair, Cllr Doug McMurdo, meets the chairs of three water companies to ensure that reputational risks and regulatory scrutiny around environmental performance are addressed.
- LAPFF meets with Volkswagen and Volvo Group, both for the first time, on the issue of critical mineral sourcing.
- Doug McMurdo meets the chair of Shell to discuss its unsatisfactory Energy Transition Plan.
- LAPFF joins calls with Mizuho Financial Group, China Construction Bank (CCB), and Huaneng Power through Asia Research and Engagement's Energy Transition Platform.

The latest QER can be found alongside others on the LAPFF website here: [Quarterly Engagement Reports | Publications Categories | LAPFF \(lapfforum.org\)](#)

Cllr Mathers and Cllr Burles attended the Mid-Year Conference and Business Meeting on behalf of the Fund. These were held on the same day.

The quarterly engagement report is on the members shared drive and provides details on the initiatives undertaken by LAPFF.

London CIV

The updated LCIV voting tracker to allows members to understand where LCIV and LAPFF are aligned and to highlight any differences which Committee may wish to explore, is due to be updated for Q1 2024 reporting.

In September 2023 London CIV issued their latest Taskforce on Climate Related Financial Disclosure TCFD report. Headlines include:

- 66% of assets under management (AUM) covered in climate risk analysis.
- Net zero target of 2040 and operationally 2025.
- 3.14% of AUM allocated towards renewable energy infrastructure.
- 36.2% carbon intensity reduction in 2022 across direct + first-tier indirect emissions
- 43% relative climate performance of the LCIV consolidated pool against the MSCI World
- The fossil fuel exposure was reduced by 62% to reach 3.18% in 2022
- London CIV is currently aligned with a 2-3°C warming scenario. Emissions are approximately 5% higher than the emissions allowed for a 2°C carbon balance.

FINANCIAL IMPLICATIONS

ESG initiatives circa £95,000 for 22/23.

LEGAL IMPLICATIONS

Legal implications are included in the report.