

RESPONSIBLE INVESTMENTS UPDATE

ITEM 7

Committee	Pensions Committee
Officer Reporting	Babatunde Adekoya, Finance
Papers with this report	Full manager voting - Shared drive. LGIM Engagement Report Q1 2025 – Shared drive LAPFF Engagement Report Q1 2025 – Shared drive

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 LCIV & 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, Wellington and Baillie Gifford).

Fund Managers Voting Breakdown Q1, 2025						
LCIV	Meetings	Resolutions	Votes With	Against	Abstention/non-voting	
Mar-25						
LCIV - Ruffer	5	58	50	7	1	
LCIV - Baillie Gifford	11	161	129	24	8	
LCIV - Wellington	3	36	27	5	4	
	19	255	206	36	13	
	%		80.78	14.12	5.10	
LGIM						
LGIM	Meetings	Resolutions	Votes With	Against	Abstention	
Mar-25						
	2,077	15,067	11,007	3,560	500	
	2,077	15,067	11,007	3,560	500	
	%		73.05	23.63	3.32	

The volume of meetings attended, and resolutions voted on by all the fund managers shown above, encapsulates 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 23.63% of voting opportunities and supported resolutions on approximately 73% of occasions. The London CIV, through two equities portfolio managers, Wellington and Baillie Gifford, absolute return manager, Ruffer combined to back various management resolutions on 80.78% of voting opportunities and about 14.12% against the resolutions proposed by company managements. Abstentions for LGIM and LCIV were 3.32% and 5.10% 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.

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) can 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.

Global Investment Stewardship themes

LGIM Investment Stewardship activity is structured around six core themes:

- Climate: Keeping 1.5°C alive
- Nature: Supporting a world that lives in harmony with nature, recognising the economic value of natural capital
- People: Improving human capital across the corporate value chain
- Health: Safeguarding global health to limit negative consequences for the global economy
- Governance: Strengthening accountability to deliver stakeholder value
- Digitisation: Establishing minimum standards for how companies manage digitisation-related risks

The manager believes these themes are financially material to their clients' portfolios, often pose systemic risks and opportunities, and cover areas where LGIM as an asset manager can influence change.

Engagement Focus

Environment

Rio Tinto

Identify

The mining and diversified metals sector produces minerals that are essential to the energy transition. As such, LGIM believe that long-term, responsible investors, such as Legal & General, can support these companies as they decarbonise and realise the associated financial opportunities.

In August 2024, LGIM published an updated assessment framework for mining companies' climate transition plans, which sets out its expectations for the sector and has formed the framework for its ongoing engagements with mining companies.

Engage

LGIM have been engaging in detailed and constructive discussions with Rio Tinto since voting against their previous Climate Action Plan in 2022. At the time, while recognising that the company had strengthened its operational emissions reduction targets by 2030, together with making a commitment for substantial capital allocation linked to the company's decarbonisation efforts, LGIM were concerned by the absence of quantifiable targets for Scope 3 emissions, and the lack of commitment to an annual vote which would allow shareholders to monitor progress in a timely manner.

Outcome

Following what LGIM view as substantive progress by Rio Tinto in this area, primarily through enhanced disclosure of its plans to decarbonise its value chains, as well as the clear and quantified actions set out to meet its emission reduction targets, the manager believes the company's enhanced strategy closely aligns with their framework, and should support its decarbonisation journey and the creation of long-term value as the climate transition unfolds. LGIM therefore voted in support of the company's Climate Action Plan (Resolution 19) and pre-declared their voting intention.

Society

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Diversity: ethnic diversity at board level – looking ahead to the AGM season

Identify

LGIM believe a diverse mix of skills, experience and perspectives is essential for a company and its board to function and perform optimally, as set out in its diversity policy. Driving diversity at companies is a strategy that LGIM believe is financially material, directly linked to value creation, and is a tangible action that investors can encourage.

Engage

LGIM launched its engagement campaign on ethnic diversity in 2020, initially reaching out to the largest 100 companies in the UK and the largest 500 companies in the US to discuss ethnic diversity at board level. The request was simple: that they should have ethnically diverse representation at board level by 2021. LGIM have now been voting against the re-election of the Chair or the Chair of the nomination committee at companies in these indices (the FTSE100 and the S&P500) that do not meet these expectations since 2022.

LGIM announced in 2023 that they would be extending its campaign to require a board member from an ethnic minority background beyond the FTSE 100 and S&P 500 to the FTSE 250 and Russell 1000 companies.

Escalation and next steps

In the fourth quarter of 2024, LGIM wrote to 24 FTSE 250 and 27 Russell 1000 companies to indicate that, based on research from data available through information providers, they had identified them as not meeting the expectations set out above, and therefore as being potentially subject to a vote against the Chair's re-election at their upcoming AGM.

LGIM had a great response from the FTSE 250 companies that it wrote to, some providing it with an explanation that allowed the manager to provide the company with more time to meet its expectations. As a result of the responses, LGIM are currently set to vote against 13 FTSE 250 companies in 2025. LGIM did not receive responses from the 27 Russell 1000 companies; it recognises that they are operating against a different political backdrop to the UK.

LAPFF

During the quarter LAPFF engaged 23 companies on issues covering all aspects of ESG during the quarter under review.

Below are three examples of their engagement activities in Q1 2025.

Environmental

Persimmon

LAPFF engaged with Persimmon to assess its transition plan, focusing on Scope 3 emissions, just transition planning, and value chain decarbonisation. Persimmon is

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finalising its net-zero transition plan, set for inclusion in the 2025 annual report, and preparing long-term targets aligned with a 90% emissions reduction by 2045. Just transition considerations, including supply chain opportunities and local employment, are being integrated. Persimmon has been disclosing Scope 3 emissions since 2022, with reductions reported in 2023. The company is engaged with Future Homes Hub to improve carbon reporting and acknowledges the challenge of decarbonising materials like cement, though specific supplier commitments remain unclear. Persimmon is awaiting finalised Future Homes Standard legislation and confirmed it is not lobbying for lower standards. Its innovation centre, featuring a prototype net-zero home, will be open for stakeholder visits in summer 2025. Key areas for further engagement include finalising and improving the transparency of its transition plan, refining Scope 3 reporting, making clearer supply chain commitments, and preparing for regulatory changes. Continued engagement will be crucial to ensuring a credible and ambitious climate strategy.

Social

Burberry and Kering

LAPFF met with Burberry and Kering on CSRD (Corporate Sustainability Reporting Directive) and CSDDD (Corporate Sustainability Due Diligence Directive) issues for the second time. The meeting with Burberry covered the company's double materiality assessment, due diligence processes, and supply chain transparency efforts in the context of evolving regulatory requirements such as CSRD and CSDDD. Burberry provided updates on its worker engagement initiatives, ethical trading compliance measures, and partnerships with NGOs and the International Organization for Migration (IOM) to support oversight. Despite regulatory uncertainty with the EU Omnibus Plan, Burberry appeared committed to progressing compliance efforts, refining governance structures, and taking what it described as "no regrets actions" to enhance data robustness and due diligence.

In a meeting with Kering, LAPFF discussed the company's first CSRD compliant annual report. Kering outlined its first CSRD disclosures, identifying 79 material areas and highlighting robust supplier auditing, with 4,500 audits conducted, 52% of which were unannounced and the termination of 89 supplier relationships. LAPFF found that the depth of reporting had not improved greatly since it met the company in 2024, although there appeared to be work in progress on transparency and targets that may be reflected in the company's 2026 reporting. LAPFF encouraged clearer examples of remediation and deeper insight into sub-tier supply chains and whistleblowing effectiveness.

Governance

London Stock Exchange Group

LAPFF has been concerned about the weakening of standards relating to new entrants to the London listed companies' market, which has included, Aston Martin Lagonda, NMC Health, Finablr and Quindell, the former of which has lost more than 90% of its value since listing, the other three being 100% losses.

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A meeting with the Senior Executive Director of the LSEG, Cressida Hogg was held in January. An outcome has been that a meeting is being arranged with the CMIT (Capital Markets Industry Taskforce) Chair and members of the CMIT. One positive outcome from correspondence with the CMIT chair is that there is a shared understanding regarding the fundamental challenge facing the London Stock Exchange. Some work has already been done on that by the LAPFF Executive Working Group.

FINANCIAL IMPLICATIONS

ESG initiatives included within the Pension Fund budget.

LEGAL IMPLICATIONS

Legal implications are included in the report.