

RESPONSIBLE INVESTMENTS UPDATE

Committee

Pensions Committee

Officer Reporting

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Papers with this report

Full manager ESG reporting (on Members 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 and other relevant updates.

RECOMMENDATIONS

That the Pensions Committee:

- 1. Note submission of the UK Stewardship Code Report; and**
- 2. Note the fund managers' ESG activities and compliance efforts.**

SUPPORTING INFORMATION

Stewardship Code Update

The Stewardship Code project has progressed in accordance with the project timeline and the final report was submitted to the FCA ahead of the 30th April deadline.

The submission will now be read in full and assessed against the principles and reporting expectations of the Code in a way that is proportionate to the organisation's size and type. This assessment is then reviewed and discussed among FRC staff to ensure it is fair and appropriate. A sample of reports reflecting a range of applicants are reviewed by the FRC's panel of independent advisors to ensure consistency.

Both successful and unsuccessful applicants are provided a summary of where their reporting met expectations and where improvement is required when re-applying to the Code.

Unsuccessful applicants may address the feedback and re-apply in a future reporting window. This would be October 2022 for Hillingdon.

Once the applicant has been accepted as a Code signatory and the report is approved by the FRC, the report will be a public document. The signatory must also make it available on their website within one month of being notified by the FRC.

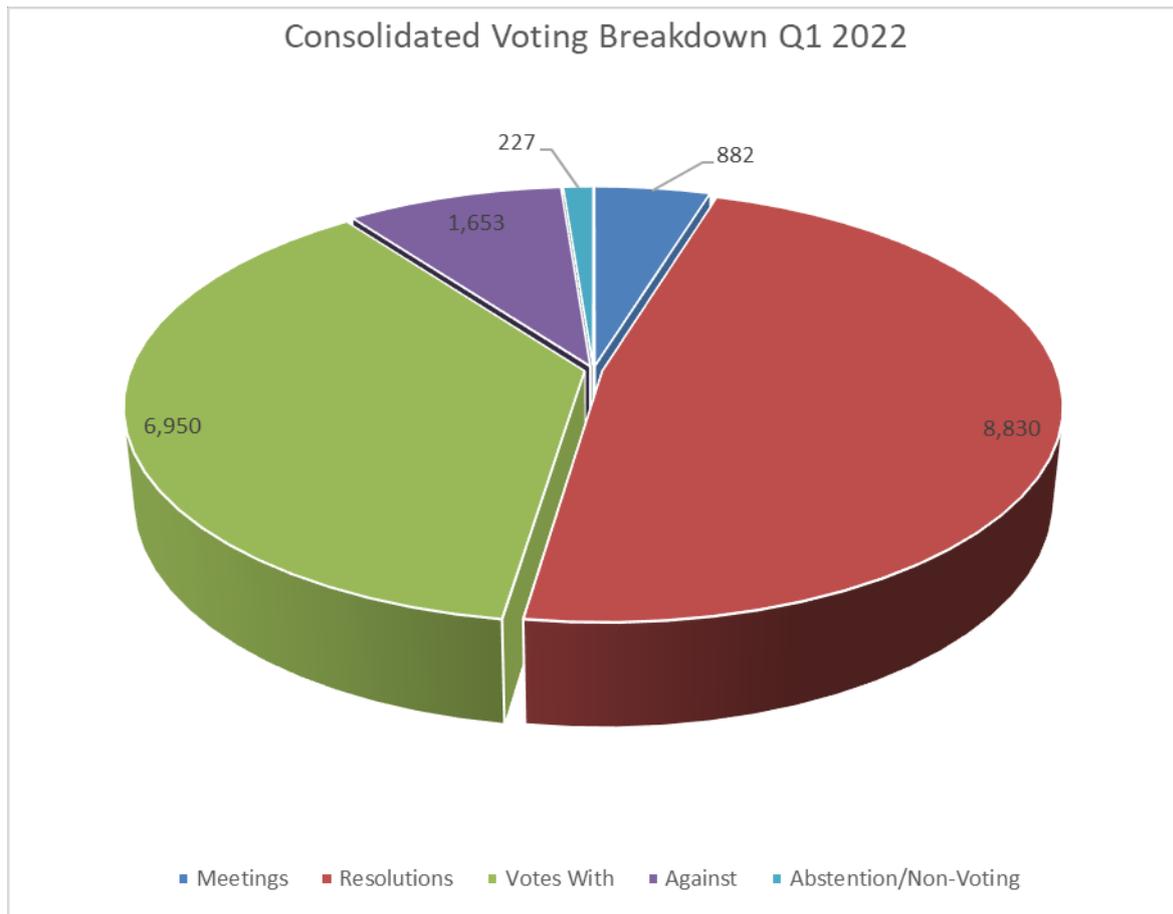
Voting and Engagement

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).

Fund Managers Voting Breakdown Q1, 2022						
LCIV	Meetings	Resolutions	Votes With	Against	Abstention/Non-Voting	
	Mar-22					
LCIV - Ruffer	8	174	158	16	0	
LCIV - Baillie Gifford	3	26	23	3	0	
	11	200	181	19	0	
	%		90.50	9.50	0.00	
LGIM	Meetings	Resolutions	Votes With	Against	Abstention	
	Mar-22					
	871	8,630	6,769	1,634	227	
	871	8,630	6,769	1,634	227	
	%		78.44	18.93	2.63	

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 19% of voting opportunities and supported resolutions on about 79% of occasions. Both LCIV portfolios combined, backed various management resolutions on 90.5% of voting opportunities and about 9.5% against the resolutions proposed by company managements. Abstentions for LGIM was 3%, whilst LCIV voted on all proposals.



The chart above provides a consolidated overview of voting pattern by all fund managers shown in the table above.

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.

London CIV

London CIV has published their Responsible and Stewardship Outcomes Report for 2021 (attached) which sets out their journey since being formed in 2015; progress made to-date; future goals, and other governance and transparency disclosures.

Their updated statement of investment beliefs sets out how they work in collaboration with clients to improve investment returns and manage risk. It articulates how they set out to achieve their commitment to be responsible investors and good stewards. The LCIV vision statement is to be the 'best in class asset pool' delivering value for Londoners through long-term sustainable investment strategies.

Key facts in the report show:

- £14.6b active investments and £44b assets held by client funds
- 77% assets under management covered by ESG risk analysis
- LCIV to be net zero by 2040 and operationally by 2050
- 36% of infrastructure investments committed to renewable energy
- 55% of LCIV listed corporate equity and fixed income have lower carbon intensity than benchmark
- LCIV funds 173% lower fossil fuel exposure than the benchmark
- EOS engaged with 440 companies on 1,855 ESG topics in 2021
- 10,403 votes cast on management and shareholder proposals in 2021
- 696 engagement meetings held by underlying managers
- All underlying managers are committed to cost transparency
- All underlying managers are PRI signatories
- 18 out of 20 managers are TCFD signatories

The report not only demonstrates but also gives confidence, that London CIV is acting as a responsible pool and investment manager by setting out a path of progress and development, examples of engagement to influence improvements and a commitment to future improvements.

To ensure London CIV continue their path of improvement and reflect Hillingdon's responsible investment position, the Pension Fund will collaborate with them through engagement, challenge, and support as necessary and appropriate.

LGIM

The latest available reporting from LGIM is located in the members shared drive and demonstrates the activities undertaken by LGIM to fulfil their mission statement of using their influence to ensure:

- Companies integrate environmental, social and governance (ESG) factors into their culture and everyday thinking
- Markets and regulators create an environment in which good management of ESG factors is valued and supported

In doing so, LGIM seek to create a better future through responsible investing.

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 encourage management to control risks while seeking to benefit from emerging opportunities. They aim 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 is used 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 can deliver long-term success.

Promoting market resilience

As a long-term investor for clients, it is essential that markets are able to generate sustainable value. In doing so, LGIM believe companies should become more resilient to change and therefore seek to benefit the whole market. They use their influence and scale to ensure that issues impacting 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.

LGIM Future World Fund

There is an evolution of the Solactive L&G ESG Index series, which are used as part of LGIM's ESG custom indexation business.

There are three key changes to the index strategies:

- Enhancement of the LGIM Future World Protection List
- Inclusion of a 30th metric within the existing LGIM ESG Score
- Introduction of a decarbonisation pathway within the global equity index series – aligning the funds to be net zero by 2050

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

Legal implications are included in the report.