

## RESPONSIBLE INVESTMENTS UPDATE

Committee	Pensions Committee
Officer Reporting	James Lake, Finance Babatunde Adekoya, Finance
Papers with this report	Full manager ESG reporting on members shared drive. LCIV Responsible Investment Documents Comparison of LBH/LCIV Responsible Investment Beliefs

### 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

**It is recommended that the Pensions Committee:**

- 1. Note confirmation that Hillingdon has received signatory status of the UK Stewardship Code;**
- 2. Note the intention to begin TCFD reporting;**
- 3. Note the fund managers' ESG activities and compliance efforts; and**
- 4. Note comparison of LBH/LCIV Responsible Investment Beliefs**

### 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 30<sup>th</sup> of April deadline.

An update from the FRC was received on 2nd September 2022 confirming the Fund was successful in its application and has met the expected standard of reporting and will be listed as a signatory to the UK Stewardship Code ('the Code').

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This is an excellent result and puts the Fund at the forefront of ESG within London being only one of two boroughs to have achieved signatory status.

Now the report has been approved by the FRC, it will be a public document. The signatory must also make it available on their website within one month of being notified by the FRC. This has been actioned.

Comments by the FRC did note some improvements and these will be discussed at the next Committee meeting.

### Task Force on Climate-Related Financial Disclosures (TCFD)

A meeting was held with the Pension Sub-Group (PSG) and London Collective Investment Vehicle (LCIV) to discuss several topics. One element discussed was the TCFD reporting service being provided by LCIV.

In part 2 of the agenda, details will be provided regarding the service, scheduling of reporting, commercial framework, and strategy implications. In addition, Committee will be formally asked to approve the recommendation to commence TCFD reporting in line with a best endeavours approach until formal LGPS regulations are issued. This will follow on from the recent consolation release.

### 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 Q2, 2022						
LCIV		Meetings	Resolutions	Votes With	Against	Abstention/Non-Voting
	Jun-22					
LCIV - Ruffer		64	1,158	1,053	87	18
LCIV - Baillie Gifford		63	919	740	123	56
		<b>127</b>	<b>2,077</b>	<b>1,793</b>	<b>210</b>	<b>74</b>
	%			<b>86.33</b>	<b>10.11</b>	<b>3.56</b>
LGIM		Meetings	Resolutions	Votes With	Against	Abstention
	Mar-22	2,980	44,535	35,215	8,885	435
		<b>2,980</b>	<b>44,535</b>	<b>35,215</b>	<b>8,885</b>	<b>435</b>
	%			<b>79.07</b>	<b>19.95</b>	<b>0.98</b>

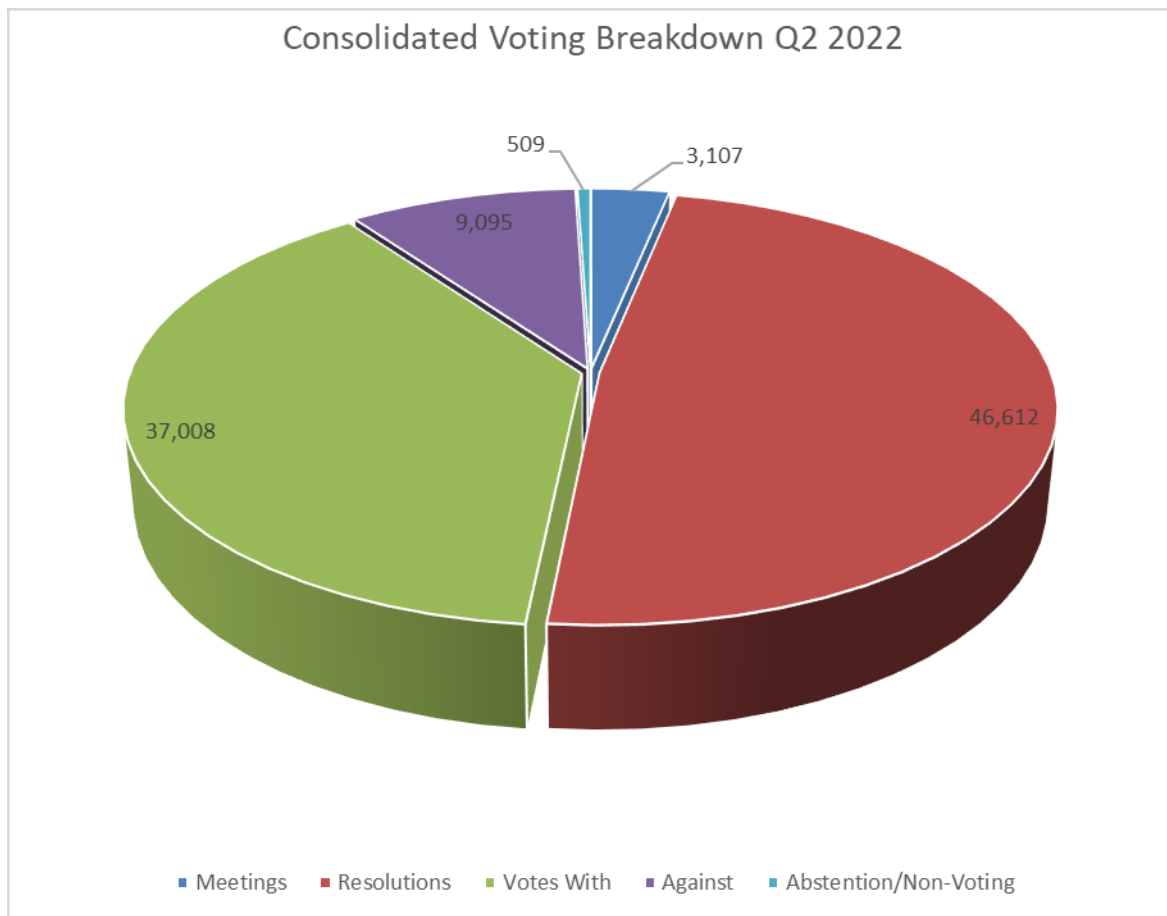
The volume of meetings attended, and resolutions voted on by all the fund managers shown above encapsulate their commitment to ESG issues and demonstrates alignment of their stewardship activities with their own investment beliefs, policies, and

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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 20% of voting opportunities and supported resolutions on about 79% of occasions. Both LCIV portfolios combined, backed various management resolutions on 86.3% of voting opportunities and about 10.11% against the resolutions proposed by company managements. Abstentions for LGIM was 0.98% and 3.56% for LCIV.



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.

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## **London CIV**

Attached is the London CIV's 'Delivering Sustainable Growth' report which shows their approach to the four themes set out in the TCFD framework; governance, strategy, risk management and metrics.

Key facts include:

- 18 of 20 funds managed by LCIV are signatories to TCFD
- LCIV has a net zero target of 2040 and operationally 2025
- 5.7% of LCIV's AUM are allocated to renewable energy infrastructure
- 4.5% carbon intensity reduction in 2021
- fossil fuel exposure reduced by 26% in 2021
- LCIV currently aligned to 2-3 degree warming scenario
- LCIV passive funds 33% less carbon intensive than LGM & Blackrock

Also attached is the updated 2022 LCIV Responsible Investment Policy. This policy sets out how their investment beliefs direct their investment practices in alignment with London CIV's purpose and vision, specifically to collaborate with client funds and help them achieve their pooling requirements and deliver value for Londoners through long-term and sustainable investment strategies.

The key theme at the 2022 LCIV conference was responsible investment and formed a key part of each session, regardless of the underlying subject matter.

Overall, LCIV continually aim to demonstrate their commitment to responsible investment and all elements of the ESG agenda.

## **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, we seek to fulfil LGIM's purpose: to create a better future through responsible investing.

## **Environment**

### **Climate Impact Pledge**

In June 2022, LGIM published our annual Climate Impact Pledge update, sharing their successes and indicating where they will be putting more pressure on companies to raise their standards. Some key facts and figures include:

- Having sanctioned 130 companies in 2021 for failing to meet their minimum standards, this number decreased in 2022 to 80 companies.
- LGIM are keeping 12 companies on their divestment list and adding two new companies.
- They have removed one company from the divestment list for demonstrating actions and improvements and have reinstated it in select funds.

## **Social**

### **AMR: increasing scrutiny**

LGIM are continuing to put pressure on companies to act on anti-microbial resistance (AMR). It's been a growing area of focus for them on account of its significant potential to impact the global economy via a number of sectors.

During the Q2 2022 voting season, this topic was directly addressed by a shareholder proposal at Abbott Laboratories, requesting a report on the public health costs of antimicrobial resistance, demonstrating that this issue is gathering support from a broader audience. For the second year running at McDonald's, LGIM supported a shareholder resolution calling for a report on 'Public Health Costs of Antibiotic Use and Impact on Diversified Shareholders', emphasising to the company the importance of this topic and the need for action. Earlier in the year, they also supported a similar resolution at Hormel Foods Corporation.

## **Governance**

### **Income inequality: the living wage**

LGIM aim to create a better future through responsible investing. Ensuring companies take account of the 'employee voice' and that they are treating employees fairly in terms of pay and diversity and inclusion is an important aspect of their stewardship activities. As the cost of living ratchets up in the wake of the pandemic and amid soaring inflation in many parts of the world, their work on income inequality and LGIM expectations of companies regarding the living wage have acquired a new level of urgency.

Certain industries have an inherent propensity to use lower skilled, lower wage employees, the travel and tourism and retail sectors being two of the most prominent. The manager believes that, particularly at this time of rising living costs, it's vital that

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all employees, including (and perhaps especially) those in lower skilled jobs, should be paid a living wage.

### **Aiming for change**

LGIM believe the successful companies of the future will be those that recognise the importance of all employees – not just those who are directly employed, but also contractors and those within their supply chains. They encourage companies to work together to make the living wage the new normal for lower skilled employees. The manager appreciate that this will represent an increase in costs for companies and reduction in margins, but believe this should be a short-term issue and that over the longer term, paying the living wage to all employees should be beneficial for companies, employees, and the economy. This is the environment that LGIM's responsible investment policies are aiming for, and are working hard to create.

### **Hillingdon Fund & LCIV Responsible Investment comparison**

Committee requested that Hillingdon's approach to responsible Investing was compared to that of LCIV. On beginning the exercise, it became clear it was very difficult to compare policies on such a subjective subject. A best endeavour attempt is attached with underlined common themes and (marginal) differences in italics.

The only two areas in italics are:

- For Hillingdon, the inclusion of ESG factors in investment strategy is when there is a clear financial rationale to do so. Whereas LCIV design products that can ALSO deliver positive climate and social impact. The climate and social issues will vary by products, so this emphasises the importance of the Fund understanding the drivers when products are developed, something we have talked about regularly. An ideal example at the moment is the housing product.
- Hillingdon mentions divestment on a pragmatic basis if investment manager engagement is unsuccessful. This is not explicitly mentioned by LCIV. It is believed this is a major issue because the LCIV text is more focused on stock level decisions.

More generally though, Hillingdon text is drafted from the perspective of an asset owner and LCIV from that of an asset manager, so the different approaches make it harder to compare.

### **FINANCIAL IMPLICATIONS**

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

### **LEGAL IMPLICATIONS**

Legal implications are included in the report.

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