

RESPONSIBLE INVESTMENTS UPDATE (PART I)

Committee	Pensions Committee
Officer Reporting	James Lake – Finance Directorate Babatunde Adekoya – Finance Directorate
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

It is recommended that Pensions Committee:

- 1. Note the fund managers' ESG activities and compliance efforts.**
- 2. Note Task Force on Climate Related Financial Disclosures update**

SUPPORTING INFORMATION

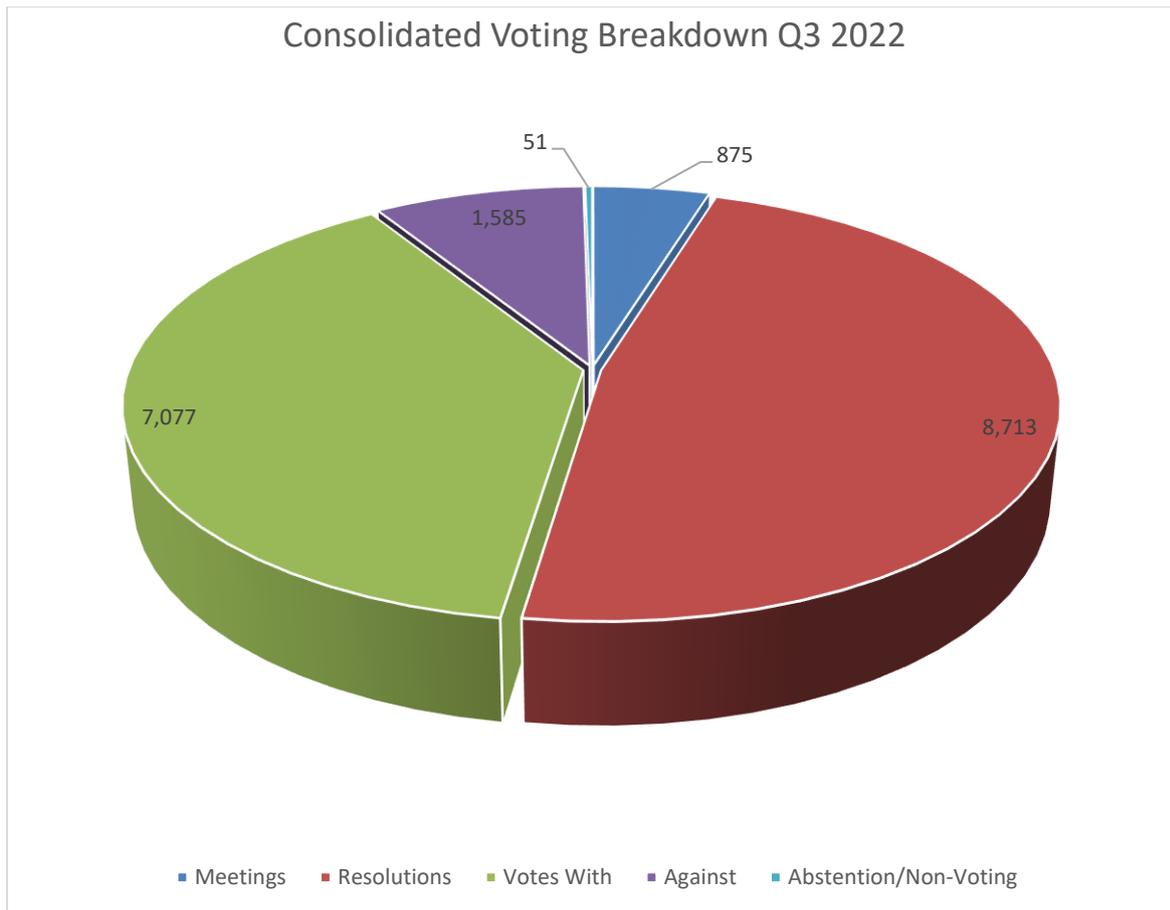
Voting and Engagement

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).

Fund Managers Voting Breakdown Q3, 2022						
LCIV	Meetings	Resolutions	Votes With	Against	Abstention/Non-Voting	
	Sep-22					
LCIV - Ruffer	3	55	52	3		0
LCIV - Baillie Gifford	8	118	91	24		3
	11	173	143	27		3
	%		82.66	15.61		1.73
LGIM	Meetings	Resolutions	Votes With	Against	Abstention	
	Sep-22					
	864	8,540	6,934	1,558		48
	864	8,540	6,934	1,558		48
	%		81.19	18.24		0.56

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 18% of voting opportunities and supported resolutions on about 81% of occasions. Both LCIV portfolios combined backed various management resolutions on 83% of voting opportunities and about 16% against the resolutions proposed by company managements. Abstentions for LGIM was 0.56% and 1.73% 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.

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

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In doing so, we seek to fulfil LGIM's purpose: to create a better future through responsible investing.

Environment

Carbon Disclosure Project - Science Based Targets campaign

In 2021, LGIM supported the Carbon Disclosure Project's (CDP) Science-Based Targets (SBTs) Campaign which saw 220 signatories, representing nearly US\$30 trillion in assets, asking 1,600 high-impact companies to set a 1.5°C-aligned science-based emissions reduction target.

Science-based targets provide a roadmap for reducing emissions at the pace and scale that science tells us is necessary to avoid the most catastrophic effects of climate change. This is why LGIM set out expectations of companies within their Climate Impact Pledge and why in 'Say on Climate' votes, they place such an emphasis on transition plans and targets being aligned with science.

By joining forces with collaborative organisations, LGIM aim to broaden their reach and strengthen their voice. Following the previous year's campaign, over 154 new companies, with emissions equal to that of Germany, joined the Science Based Targets Initiative (SBTi) – 8% of all those targeted by the campaign. In 2022 LGIM has again joined other financial institutions in backing the 2022 CDP campaign.

Social

Building healthy food systems

As part of the Investor Coalition on UK Food Policy, led by Rathbone-Greenbank and Guy's & St Thomas's Foundation, LGIM lent their support to a public statement on the importance of the UK government maintaining its strategy to tackle obesity. Amid speculation that the current strategy could be scaled back under the new leadership, the manager joined their peers in emphasising that combatting obesity is vital not only to social health, but also the economic health of the country. The total economic impact of obesity equalled £58 billion in 2022 and the cost of obesity-related disease now costs UK businesses £27 billion per year. The broader implications for healthcare services, workforce participation and productivity, and welfare payments are clear. LGIM therefore strongly recommends the UK government continues to lead globally by implementing its anti-obesity strategy.

LGIM collaborative efforts on policy engagement continue and are complemented by collaborative company engagements with the Access to Nutrition Initiative. Both public policy and the private sector have crucial roles to play in improving the health of individuals and of the broader economy.

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Emerging diversity in emerging markets

Identify

The LGIM Investment Stewardship team has long promoted diversity across its investee companies, but the focus has so far been placed largely on developed markets such as the UK, US, Europe and Japan. Diversity (for example, of gender or ethnicity) in emerging markets has not yet been widely explored or advocated in the asset management industry. LGIM are now expanding engagement to strategic and representative emerging markets: Brazil, India, China and, South Africa.

Governance

The ACGA: generating good governance

As mentioned in the 'Policy' section of this report, we are longstanding members of the Asia Corporate Governance Network (ACGA). Below, LGIM provide a recent case study of their engagement alongside the ACGA with Toyota.

Identify

As a member of the ACGA Japan Working Group, LGIM engages with Japanese companies, including Toyota Motor Corporation (TMC), to improve their corporate governance and sustainability practices.

At Toyota, LGIM have identified their key issues to be:

- I. capital allocation decisions (cross-shareholdings and insufficient investments in zero-emissions vehicles and related infrastructure)
- II. board independence, diversity, and effectiveness

Engage

LGIM originally started engagement with Toyota in September 2021, alongside fellow shareholders. The second meeting was held earlier this year to discuss climate change, board composition and capital allocation. We spoke with TMC's Chief Sustainability Officer.

Throughout these meetings, which were attended by Toyota's investor relations team and chief sustainability officer, LGIM expressed concerns around the company's cross shareholdings, the lack of supervisory function at the board level given the low level of independence, and the company's climate transition strategy and related public policy engagements.

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Escalate

In September 2022, LGIM spoke with one of the outside directors on the board and were able to have a candid conversation about how outside directors add value to the board and the quality of board discussions.

Given the company's size and influence at Japan's largest business federation and in industry associations, LGIM have always questioned the company's lobbying stance and its alignment with a 1.5°C world (this is also one of LGIM's red lines under sector guides for the auto sector in the Climate Impact Pledge). LGIM are delighted to see improved transparency from the company as they published their views on climate public policy in December 2021. Nonetheless, they view corporate transparency to be the first step and hope that this will enable LGIM to have more in-depth conversations on its views on climate and how the company plans to shift its strategy.

Given a recent controversy at one of Toyota's group companies (Hino), LGIM will continue to engage with the company on corporate governance issues and push for better practices both in terms of corporate governance and climate strategy.

Task Force on Climate Related Financial Disclosures (TCFD)

The fund has engaged London Collective Investment Vehicle (LCIV) to analyse and report on the Fund's TCFD metrics. Once complete LCIV will present their findings after which members can decide the next steps in support of TCFD. Results are due imminently.

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

Legal implications are included in the report.