RESPONSIBLE INVESTMENTS UPDATE

Committee	Pensions Committee
Officer Reporting	James Lake & Babatunde Adekoya, Finance
Papers with this report	Full manager ESG reporting on members shared drive. TCFD Summary reporting 2019 & 2022 (Climate Dashboard) Updated Responsible Investment Policy (Tracked changes version) Conflicts of Interest Policy

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 Task Force on Climate Related Financial Disclosures reporting**
3. **Note Stewardship Code progress and delegate authority to Officers to complete and make final submission of the Stewardship Code Report**
4. **Approve the updated Responsible Investment Policy**
5. **Confirm Conflicts of Interest Policy remains fit for purpose**
6. **Committee note that the annual ESG Impact Assessment and Implementation Statement are to be discussed in part 2.**

SUPPORTING INFORMATION

Voting and Engagement

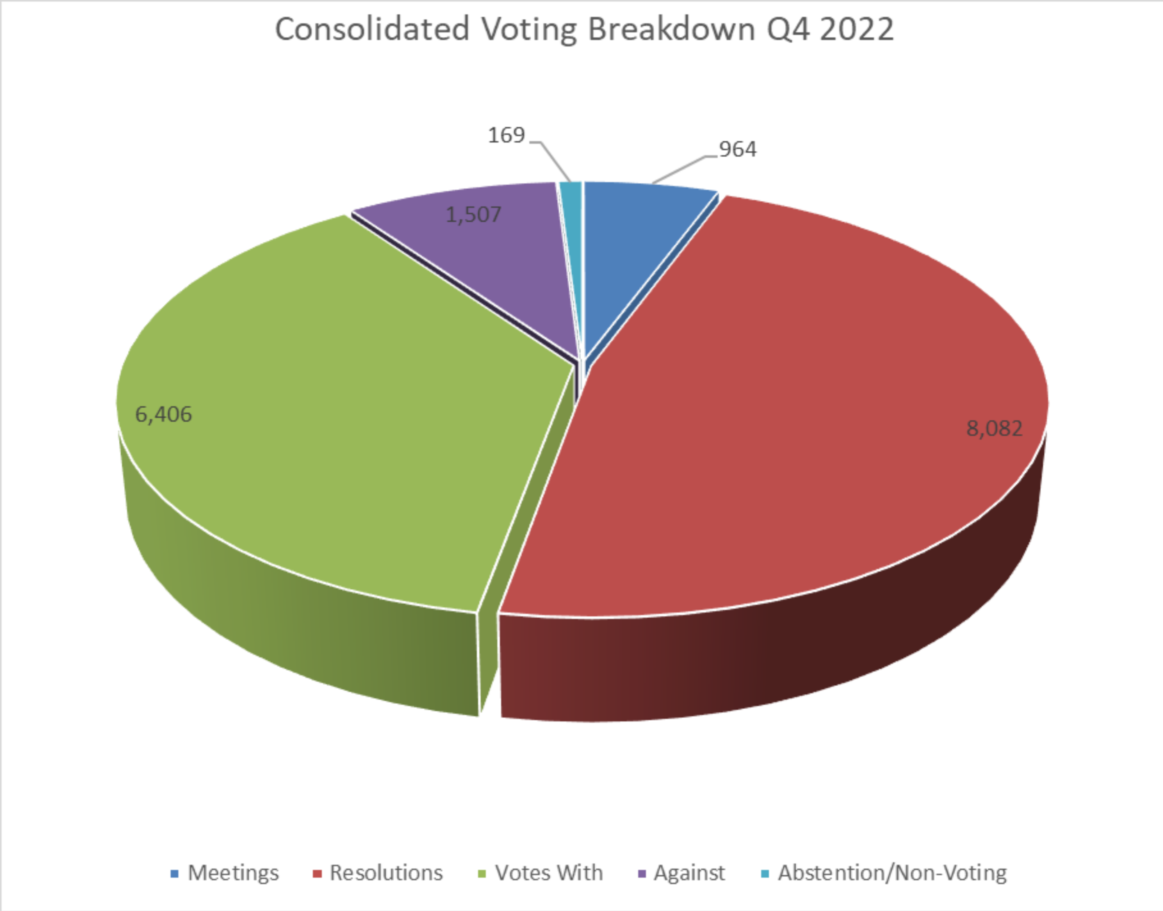
Fund managers carry out proxy voting on the Pension Fund's behalf. Below is a breakdown of voting statistics by LGIM, and London CIV (Ruffer and Baillie Gifford).

The London CIV itself, through Federated Hermes EOS, also exercised voting rights at 93 meetings.

Fund Managers Voting Breakdown Q4, 2022					
LCIV	**Meetings**	**Resolutions**	**Votes With**	**Against**	**Abstention/Non-Voting**
Dec-22					
LCIV - Ruffer	5	43	35	3	5
LCIV - Baillie Gifford	8	68	47	14	7
London CIV Ltd	93	806	656	150	0
	106	**917**	**738**	**167**	**12**
%			**80.48**	**18.21**	**1.31**
LGIM	**Meetings**	**Resolutions**	**Votes With**	**Against**	**Abstention**
Dec-22	858	7,165	5,668	1,340	157
	858	**7,165**	**5,668**	**1,340**	**157**
%			**79.11**	**18.70**	**2.19**

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. The London CIV and two equities portfolio managers, Ruffer and Baillie Gifford combined to back various management resolutions on 80% of voting opportunities and about 18% against the resolutions proposed by company managements. Abstentions for LGIM was 2.19% and 1.31% 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

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

Expanding the Climate Impact Pledge: the next phase of engagement

At LGIM, climate change and supporting a drive to net zero remain a priority. As such, they have further expanded dedicated climate engagement programme, the Climate Impact Pledge, by strengthening their climate expectations and red lines for investee companies, with the goal of accelerating progress towards net zero greenhouse gas (GHG) emissions globally.

They have expanded the scope of our climate engagement programme in three main ways:

- They have increased the number of sectors to 20 from 6 at inception in 2016.
- Their data-driven assessment now covers more of LGIM's portfolio emissions, raising the number of companies covered from 1,000 to 5,000+
- LGIM have increased the number of companies subject to direct engagement from 60 to over 100 companies

Social

Expansion of LGIM's ethnic diversity campaign

Diversity, in all its forms, has long been a key priority for LGIM. The enduring belief behind these efforts is that diversity contributes to better decision-making and therefore better boards, which should, in our view, create better-run, more sustainable companies. Several studies, including the most recent study on employee diversity data, have confirmed that diversity is financially material enough to warrant pressure from investors and other stakeholders.

Nutrition: Broadening engagement through collaboration
Through its impact on a range of sectors, from food retail to healthcare and pharmaceuticals, and on individuals and workforces, the topic of nutrition has the potential to affect a broad range of companies in which LGIM invests around the world, on behalf of their clients.

Building on previous engagements in this area, in the fourth quarter of 2022 LGIM co-signed, with their peers, letters to 12 food and beverage manufacturers, under the leadership of Share Action's Healthy Markets Initiative. In the individual tailored letters, LGIM encouraged the companies to do more in several areas.

Governance

Update: Bringing ESG into remuneration
While LGIM still believe that a substantial majority of incentive pay should be linked to delivering financial performance, ESG risks can clearly be financially material to a company's medium to long-term value. LGIM mantra here is: 'what gets measured gets done': if an action has a direct impact on a director's take-home pay, the attention on it will increase exponentially. It's therefore wise to set tangible ESG objectives against executive remuneration.

However, not all ESG metrics are equally suitable across all companies: the balance of importance and relevance will differ from sector to sector. Currently, when it comes to ESG metrics in executive pay, much, but not all focus is on climate. However, certain other ESG issues are also topical and will require addressing across different industries.

LGIM's expectations
ESG metrics may already form part of a company's strategy and be included in its published 'key performance indicators' ('KPIs'). If this is the case, there is no need to reinvent the wheel. However, certain ESG issues are more pressing and will require direct action. LGIM believe companies exposed to high levels of ESG risks should include relevant and clearly measurable targets within their directors' pay, and have set out the following expectations:

Health and safety: In high-risk sectors, where the health and safety of employees is paramount (and potentially threatened), LGIM expect a health and safety modifier (by way of malus) to ensure that directors are held accountable for loss of life within the workplace

Oil and gas**:** Remuneration at oil and gas companies should prioritise financial value over fossil fuel production. Measures that directly encourage volume growth (such as reserve replacement ratios or production targets) risk incentivising over-investment
Financial measures (such as total shareholder return or balance sheet strength) or other strategic metrics are preferred – volume growth targets may result in a negative vote from LGIM.

Task Force on Climate Related Financial Disclosures (TCFD)

On 19 January 2023, Pension Committee were presented with TCFD reporting on the Fund to understand not only what impact changes made to the portfolio had during the intervening 3 years but also understand the current position to inform the development of the revised Investment Strategy.

Key indicators are shown below reveal that between 2019 and 2022 there has been a considerable reduction in the carbon metrics measured. The attached climate dashboard provides a summary of the results. Specific detailed reports were provided during the presentation sessions.

Metric	2019	2022
Carbon Intensity 1st Tier Indirect	190.9 tCO2e/mGBP	98.7 tCO2e/mGBP
Carbon Intensity Scope 1,2 & 3	859.6 tCO2e/mGBP	527.7 tCO2e/mGBP
Fossil Fuel Exposure	16%	7%
Implicit Temperature	<2 Degrees	<3 Degrees

Stewardship Code
The Pensions Committee held meetings on 9th February and 28th February 2023 to discuss updated values and beliefs of the Fund in order to refresh the ESG focus and help inform the next steps in updating the Investment Strategy, Responsible Investment Policy and Conflicts of Interest Policy. Furthermore, it would set the ESG goals and objectives of the Fund and provide a backdrop to facilitate the 2023 Stewardship Code report to the Financial Reposting Council.

Responsible Investment Policy
The reviewed Responsible Investment Policy is prepared considering the changes in the Committee's ESG beliefs. As discussed at the sessions noted above, it was not believed there were significant changes to the beliefs or objectives for the Fund and so in turn the changes to the Responsible Investment Policy suggested are not major. There are minor wording changes to the ESG beliefs themselves to reflect the recent discussions. The remaining policy has been reviewed to ensure there are no conflicts. However as mentioned, there was no significant change in the beliefs the remainder of the policy remains appropriate, with very few minor updates beyond the beliefs section.

Conflicts of Interest Policy
The Conflicts of Interest Policy was updated in September 2021 and there are no suggested changes for 2023 review other than minor updates. It should be noted this is not an ESG or investment document however it reflects best practice in relation to the UK Stewardship Code and explicitly includes identifying, monitoring, reporting and managing conflicts relating to stewardship.

In the future there may be further requirements or recommendations to take this further under the Good Governance Project and the Combined Code of Conduct. When relevant these will be addressed accordingly.

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

Legal implications are included in the report.