

RESPONSIBLE INVESTMENTS UPDATE

Committee	Pensions Committee
Officer Reporting	James Lake, Finance Babatunde Adekoya, Finance
Papers with this report	Full manager voting - Shared drive. LGIM Active Ownership Report – Shared Drive LGIM ESG Score update – Shared Drive LAPFF Business Meeting – 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 Stewardship Code submission to FRC; and,**
- 3. Note LAPFF activities**

SUPPORTING INFORMATION

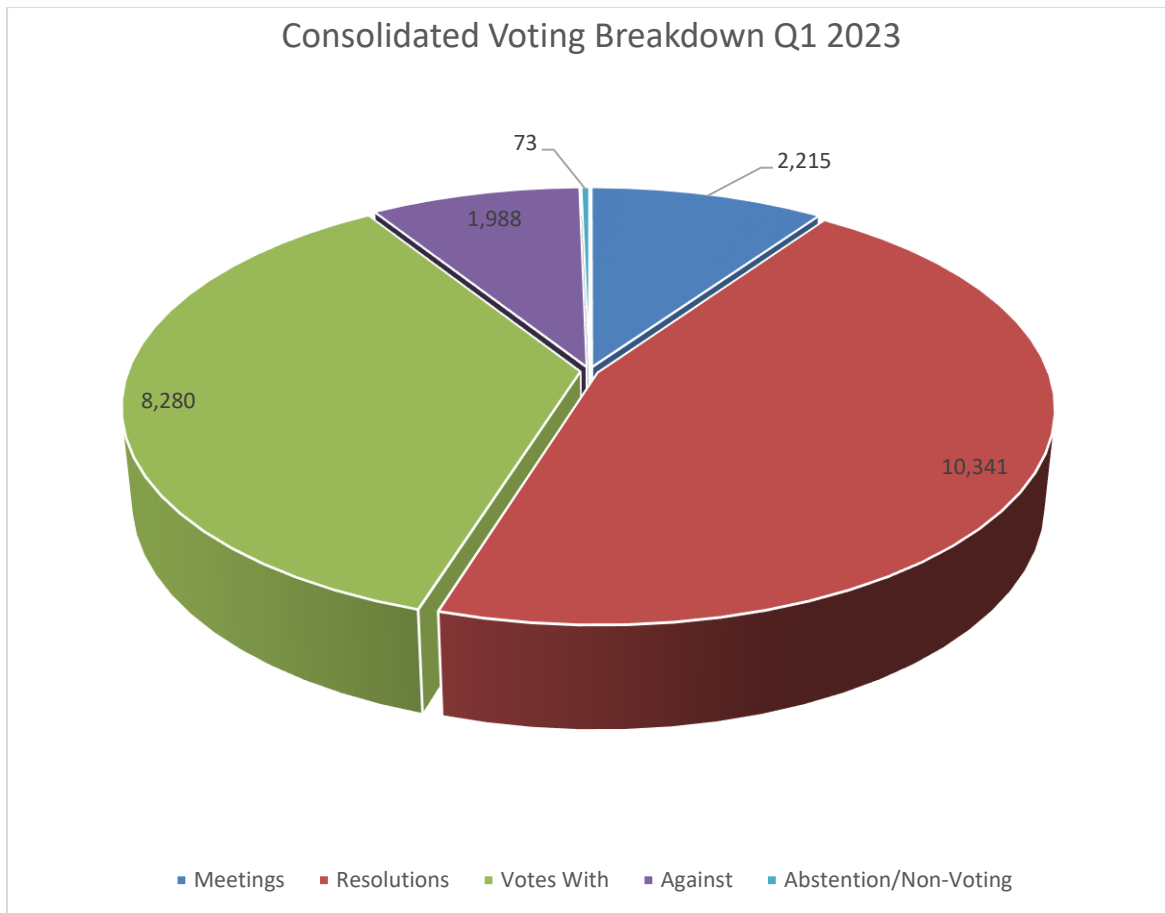
Voting and Engagement

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

Fund Managers Voting Breakdown Q1, 2023						
LCIV		Meetings	Resolutions	Votes With	Against	Abstention/Non-Voting
	Mar-23					
LCIV - Ruffer		3	67	65	1	1
LCIV - Baillie Gifford		5	69	53	11	5
London CIV Ltd		100	1,601	1,395	206	0
		108	1,737	1,513	218	6
	%			87.10	12.55	0.35
LGIM		Meetings	Resolutions	Votes With	Against	Abstention
	Mar-23	2,107	8,604	6,767	1,770	67
		2,107	8,604	6,767	1,770	67
	%			78.65	20.57	0.78

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 20% 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 87% of voting opportunities and about 13% against the resolutions proposed by company managements. Abstentions for LGIM and LCIV were 1% respectively.



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

Global Research & Engagement Groups focus: Water pollution in the UK Background: UK water companies have attracted plenty of press attention and criticism in recent months. There has been an increased focus on their environmental performance, which the UK Environment Agency described in its report covering 2021 as "the worst we have seen for years". Lobbying groups such as Surfers Against Sewage have also had an impact with high-profile campaigns tracking and highlighting pollution incidents. It is noting that some water companies are more indebted than the sector regulator Ofwat assumes when it sets prices, despite a heavy future investment need.

What LGIM did:

During the quarter, LGIM arranged an engagement call with Macquarie Asset Management, Southern Water's majority shareholder, to share its views on the topic. This builds on LGIM's engagement over recent months, including with management at other companies in the sector such as Thames Water and with the regulator, Ofwat. In the first quarter of 2023, LGIM also signed up to the Ceres investor-led 'Valuing Water Finance Initiative', aimed at engaging water users and polluters to address water risks and protect this precious and essential natural resource.

Social

Paid sick leave in the US:

Identify human capital issues have been a point of focus for LGIM for quite some time. LGIM understand human capital issues represent risk to a company's operations, whether it be through heightened attrition or decreased productivity. In 2022, LGIM held a series of engagements and signed investor letters directed at companies that lacked paid sick leave and could benefit from providing it. In the latter half of that year, they zeroed in on the railway industry given the unique situation that the industry was facing.

Engage and Escalate

Since the government-mediated deal excluded sick leave, LGIM took charge by writing a letter to the four largest railway carriers in the US – Norfolk Southern, Union Pacific, BNSF, and CSX. They aggregated approximately 146 to 148 other investors per letter, with around US\$1 trillion in additional assets under management, to come on board

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as signatories. In the letter it was specified the importance of paid sick leave in the face of post-pandemic labour dynamics as well the types of disclosures investors would find helpful, such as the types of benefits available, the usage of such benefits, employee eligibility criteria, and others. LGIM had correspondence with CSX and Norfolk Southern via email and have maintained an ongoing dialogue.

Eventually, one by one, the companies contacted re-ignited negotiations with their workforces. Those negotiations led to deals being struck by three out of the four railways – CSX, Union Pacific, and Norfolk Southern – leading to thousands of railway workers obtaining paid sick leave as a benefit. The manager intends to continue engaging with the holdout railway carrier, BNSF, to understand how worker conditions can be improved so that future strikes and service disruptions are less likely.

Governance

Kansai Electric Power - governance and climate:

Kansai Electric Power is one of the largest electric utilities companies in Japan. LGIM identified several governance areas for improvement and the company appears to lag some of our minimum expectations on board composition. LGIM believe that through its improvement, it could have a positive influence more broadly upon its sector in Japan.

Following a bribery scandal in 2020 involving former directors, the company underwent significant changes to improve governance. These changes have been positive, but we still observe some areas where LGIM think improvements could be made, relative to their minimum expectations.

Specifically, these include:

1. Director independence and the presence of executives on committee which LGIM think should be fully independent (e.g., the Remuneration Committee)
2. Cross-shareholdings
3. Limits to tenure of senior advisors to the board ('Komon')

LGIM is pleased to note that the company meets their expectations for gender diversity in Japan of 15% female representation on the board, which they also expect to increase over time.

Regarding climate change and expectations under the Climate Impact Pledge, the manager noted its lack of interim emissions targets and lack of time-bound commitment to exit coal-fired power generation as an area for discussion.

In the meeting with Kansai Electric Power, they were able to discuss these areas in detail to better understand its approaches to governance and climate, and to talk in-depth about related areas such as responsibility for executing the net zero transition plan.

LGIM Active Ownership Update

LGIM is responsible for managing the Fund's index tracking equity portfolios. The Members shared drive shows their Active Ownership 2022 report which shows their activities as a fund manager in delivering ESG initiatives. Key highlights include:

- £332.2b managed in responsible investment strategies
- Voted on 171,000 resolutions worldwide

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- LGIM launched 19 new responsible investment strategies
- Engaged with 902 companies on investment stewardship with 1224 engagements.

LGIM state their objective is effect positive change in the companies and assets in which they invest, and for society as a whole.

LGIM's global policy dialogue is aimed at helping to create an appropriate regulatory backdrop by removing policy and structural barriers to reform on ESG issues.

Nature was a core area of focus in their policy work during 2022, covering agriculture, water, biodiversity, and deforestation.

Under their Climate Impact Pledge (CIP), 80 companies were subject to potential voting sanctions for not meeting their minimum standards.

In October 2022, LGIM expanded the CIP from covering c.1,000 companies in 15 sectors to now cover 5,000+ companies across 20 climate-critical sectors.

In September 2022, LGIM published their deforestation policy and launched an engagement campaign, writing to 300 companies from a set of deforestation-critical sectors explaining their expectations and potential consequences if these were not met.

The 2022 AGM season was the first in which LGIM voted against specific companies due to a lack of board-level ethnic diversity.

LGIM voted against 69 companies in the FTSE 100 and S&P 500 for having all-male executive committees.

In 2022, LGIM expanded their diversity engagement to Brazil, India, China and South Africa.

LGIM used their votes to push for progress on antimicrobial resistance by supporting three shareholder proposals on this issue.

In 2022, LGIM gave companies an ultimatum to disclose their living wage strategy by 2025.

LGIM placed just over 100 votes on social and people-related matters, including labour rights, inequality and discrimination.

In 2022, LGIM reinforced their commitment to 'one share, one vote'.

LGIM took a holistic approach to ESG themes, understanding that there is a governance angle to a company's management of many ESG-related issues.

LGIM provided clear expectations to the market and review of company pay structures against transparent policy red lines.

During 2022, LGIM continued to focus on stakeholder experience and the fair treatment of employees in a high-inflation environment.

2022, LGIM won the following industry awards for their efforts in responsible investing:

- The 'ESG' award at the City AM Awards
- The 'ESG Identity' award at the SRI Awards
- The 'Most innovative sustainable ETF launch' award at the Investment Week Sustainable Investment Awards
- 'ESG/SRI Provider of the Year' at the Irish Pensions Awards
- 'Best Asia-Pacific ESG Equity ETF' at the Mondo ETF Awards
- 'Investment House of the Year' at the Risk.net's Risk Awards

LGIM ESG Scoring Update

The LGIM ESG Score is being evolved through the addition of four new ESG metrics. The inclusion of the four new metrics will be split between the E and G score pillars; these additions take the number of metrics within the ESG Score to 34.

E Score Pillar:

- Deforestation Programme
- Water Management Programme
- Value Chain Emissions Intensity (Scope 3 Emissions)

G Score Pillar

- Climate Lobbying (to be named 'Lobbying Activities')

Restructuring of the E Score pillar to better reflect LGIM's environmental engagement themes and allow for further future developments within the sub pillar as data availability improves.

There will be an update to the stock and sector constraints within the index methodology used within the Future World index strategies linked to the LGIM ESG Score to allow for more efficient implementation of ESG objectives such as decarbonisation pathways. The link allows access to LGIM website to ascertain a company ESG score. <https://esgcores.lgim.com/en/uk/institutional/>

LAPFF

During the quarter LAPFF issued a number of voting alerts which have been shared with LGIM for their consideration.

The LAPFF Business Meeting was held on the 19 April 2023 where the following items were tabled for discussion and agreement.

- Update on LDIs and the pension crisis
- Energy companies and the cost-of-living crisis
- Member workplan
- New Draft LAPFF Workplan 2023/2024
- Draft Quarterly Engagement Report
- Grupo Mexico – Proposed Engagement

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- Workforce Disclosure Initiative (WDI) Review

The remaining items were held in private.

Cllr Mathers attended the meeting and noted for the benefit of the Committee:

Hillingdon was introduced as one of the newest members and congratulated on achieving the Stewardship Code.

The meeting was predominantly presentations of the last quarter's engagement with corporations on a number of themes including EV transition, water stewardship, sustainable farming and mining standards.

During the meeting there was significant discussion on LAPFF's membership of the Workforce Disclosure initiative, a database of workplace standards which in the past was supported by government. It was noted that it was best for LAPFF to remain a member as there is currently no alternative initiative and to start this piece of again would be very costly this is under continuous review.

Cllr Mathers noted that LAPFF has a place on the LGPS SAB.

As part of the meeting the work plan and budget were approved.

Stewardship Code

Following various meetings held by the Committee and noted in previous reports and subsequent requests for information the 2023 Stewardship Code report was prepared and reviewed by Committee in May 2023.

The final report was submitted to the Financial Reporting Council ahead of the 31 May 2023 deadline. The outcome will be announced in approximately four months.

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

Legal implications are included in the report.