

RESPONSIBLE INVESTMENTS UPDATE

Committee

Pensions Committee

Officer Reporting

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Papers with this report

Full manager voting - Shared drive.
LGIM Climate Impact Pledge – Shared Drive.
LAPFF Business Meeting – Shared Drive
LAPFF Quarterly Engagement report – Shared Drive
LCIV Voting Tracker – Shared Drive
Stewardship Code Outcome Letter

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

That the Pensions Committee:

- 1. Note the fund managers' ESG activities and compliance efforts;**
- 2. Note the successful outcome on 2023 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.

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Fund Managers Voting Breakdown Q2, 2023						
LCIV		Meetings	Resolutions	Votes With	Against	Abstention/Non-Voting
	Jun-23					
LCIV - Ruffer		49	960	816	100	44
LCIV - Baillie Gifford		65	1,045	787	129	129
London CIV Ltd		613	9,063	7,701	1,362	0
		727	11,068	9,304	1,591	173
	%			84.06	14.37	1.56
LGIM		Meetings	Resolutions	Votes With	Against	Abstention
	Jun-23	7,914	95,819	72,382	23,030	407
		7,914	95,819	72,382	23,030	407
	%			75.54	24.03	0.42

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 24% of voting opportunities and supported resolutions on about 76% of occasions. The London CIV and two equities portfolio managers, Ruffer and Baillie Gifford combined to back various management resolutions on 84% of voting opportunities and about 14% against the resolutions proposed by company managements. Abstentions for LGIM and LCIV were 0.4% & 1.5% respectively.

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

LGIM has issued its 2023 Climate Impact Pledge in which it states that climate change continues to be an issue that LGIM believe is critical for our clients' portfolios. LGIM have further expanded the Pledge's scope this year, supporting companies in scaling up their climate ambitions and engaging to drive positive change. LGIM have also held

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more companies accountable than ever before through voting and investment sanctions.

LGIM now assess over 5,000 companies across 20 'climate-critical' sectors and can apply exclusions to almost £158 billion of assets. This expansion is a significant step forward from the 1,000 companies across 15 'climate-critical' sectors they covered in 2020. LGIM have almost doubled (to 105) the number of companies with which they engage directly and consider 'dial-movers' in their sectors' net-zero endeavours.

LGIM's Climate Impact Pledge (CIP) now covers 43% of total corporate securities by value that LGIM invests in on behalf of our clients – up from below 10% in 2020 and covers 67% of the total emissions attributable to LGIM's holdings.

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

Water

As concerns have mounted over Thames Water, LGIM Fixed Income team has been keeping investors updated via our LGIM blog. In summary, while the company has been under pressure from rising costs and inflation, consumers have simultaneously been voicing concerns about leaks, pollution, and a lack of investment in infrastructure. At the time of writing, a number of scenarios are possible, and until a solution for the financial position for the company is agreed, the situation will, in the manager's view, remain unstable.

LGIM are members of the Ceres Valuing Water Finance Initiative, which aims to engage with companies to value and take action on water as a financial risk and drive large-scale change to better protect water systems. In addition to this collaborative initiative targeting companies, LGIM also believe that policy action is vital in achieving the systemic improvements we need to see in order to combat water-based threats such as pollution and antimicrobial resistance.

Social

Ethnic diversity

Identify and engage

LGIM, believe in cognitive diversity in business – the bringing together of people of different ages, experiences, genders, ethnicities, sexual orientations, and social and economic backgrounds – is a crucial step towards building a better economy and society. In continuing their ethnic diversity campaign, the manager voted against companies in the FTSE 100 and S&P 500 indices where the board does not include at least one person from an ethnic minority background. In 2023, so far, LGIM have voted against three companies for this reason: Caesars Entertainment, Dish Network Corporation and The UNITE Group Plc. The manager pre-declared these votes on its pre-declaration blog in order to be transparent about the application of their voting policy and increase public pressure on these companies to meet their minimum expectations.

Escalate

Ethnic diversity will be an ongoing campaign – as board membership refreshes, there may be fluctuations in companies meeting or falling behind the minimum expectations. LGIM have also widened its scope for ethnic diversity to include the FTSE 250 and Russell 1000 indices. The expectation for the companies in these additional indices is identical (one ethnically diverse board member) but, in line with the UK's Parker Review, LGIM allow these smaller companies more time to meet its expectations and will therefore expect compliance by 2024.

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Diversity disclosure in the US

As part of the Midwest Investors Diversity Initiative, LGIM is leading on engagement with three companies within the Russell 3000 that are not meeting expectations around diversity disclosure. The manager sent letters to three companies requesting to meet and discuss strengthening their policy regarding the consideration of women and people of colour as board candidates and adopting disclosure best practice regarding the demographic make-up of the companies' workforces.

Governance

Investor rights: dual-class shares campaign update

Identify

LGIM believe voting is an essential right for shareholders to promote market efficiency and to hold company boards accountable. The manager is a strong proponent of the 'one share, one vote' standard, based on the principle that control of a company should be commensurate with the economic interests of investors.

Engage and escalate

As part of their campaign initiated in 2022, LGIM announced that from 2023, it will be voting against the re-election of the board chair at US-incorporated companies with dual-class structures, where:

- The company does not have a plan to set a time limit on a dual-class structure
- Shareholders have not been given the opportunity to regularly vote on its continuation

Up to the end of May 2023, LGIM have voted against 95 companies under this campaign, demonstrating how widespread this issue has become. It has also been looking at whether there is any overlap with any other areas of governance issues: looking at the overlap between these votes and those against combined chair/CEO roles, it can see that there is commonality in about a third of cases. The manager hopes to return to this analysis later in the year for more insight into potential governance trends.

Public policy update

As a long-term investor, LGIM share a responsibility to ensure that global markets operate efficiently to protect the integrity of the market and address systemic risks, foster sustainable and resilient economic growth, and aim to protect the value of its clients' assets. Part of how LGIM acts on these responsibilities is by engaging in global policy dialogue, providing practical advice to policymakers and regulators on the key systemic issues.

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ENVIRONMENTAL

Nature: EU Nature Restoration Law

LGIM signed an open letter to European Policy leaders in support of the proposed EU Nature Restoration Law, urging them to:

- Urgently adopt regulations that promote nature protection, restoration and sustainable use of natural resources, with clear implementation roadmaps.
- Uphold, strengthen, and enforce existing environmental legislation to address the nature and climate crises together.

Alongside not just its financial peers, but also large organisations from across a range of sectors, from food and fashion to chemicals and construction, LGIM emphasised the vital role of robust regulatory systems in supporting businesses to take vital action to combat deforestation. Sadly, the law has not passed, although scope for negotiation among the European policymakers remains, and there is reason to be hopeful that, as part of the European 'Green Deal', further regulations supporting the nature should be forthcoming. Support from a range of industry executives is clearly strong, and through continued policy engagement and public pressure we join those voices to call for a robust regulatory framework to remove barriers to industry progress towards restoring and protecting the natural world.

SOCIAL

Nutrition: Good Food Finance

LGIM continue to believe that nutrition is fundamentally important to society as a whole and that it can use its voice as a large investor to put pressure on both food producers and governments to improve the nutritional quality of food available on our grocery store shelves. As highlighted in their Active Ownership report, The manager is a member of both the Access to Nutrition Initiative and the Share Action Healthy Markets Initiative.

A member of its Investment Stewardship team, through their membership of ATNI, participated in a panel discussion during the Good Food Finance Week on Delivering food systems transformation to meet nutrition and finance returns - challenges and opportunities for evidence-based investing. The Good Food Finance Network brings together leaders from a cross-set of industries and the public sector, with the aim of promoting investment and providing solutions for sustainable food systems. The debate was lively and, like all good discussions, could have extended far beyond the time allotted. Topics covered included nutrition and its role in transformation of food systems, the critical role of metrics, and how to engage investors and increase public sector accountability. The session was opened by the CEO and Founder for Food Systems for the Future (and former executive director of the UN World Food Programme and former US Ambassador to the UN Agencies for Food and Agriculture) and was closed by the WHO Director of the department of Nutrition for Health & Development.

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GOVERNANCE

Response to FCA consultation on proposed changes to the listing regime

LGIM has been working with the Investment Association and other groups (e.g., FTSE Committees) on the response to the FCA proposals. The manager also submitted its own response. In summary, it believes the changes in the FCA proposals have the potential to dilute shareholder rights, with a shift of responsibility and control from investors (except if you are a controlling shareholder) to management.

The three key issues in the proposed changes centre on the intended permissive approach to:

- Dual class share structures (DCSS)
- Significant transactions
- Related-party transactions
-

Overall, LGIM concerns relate to the combined effect of deregulation, loss of sponsor oversight, and the impact upon corporate accountability. The manager are longstanding advocates for equal voting rights and have been conducting a campaign on dual class shares at US companies.³ In these proposals, it also see potential for constraints on effective stewardship, and in its view, the alternative accountability mechanisms or suggested market responses may not be practical. LGIM feedback has reflected both its general and more specific concerns.

LAPFF

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

The LAPFF Business Meeting was held on the 12 July 2023 where the following items were tabled for discussion and agreement.

- Capital Markets – Threat to quality of UK listing regime
- FCA UKLA consultation draft
- Climate metrics and Executive pay
- Quarterly engagement report
- Proposed shareholder resolution on human rights to mining companies.

Cllr Mathers and Cllr Burles attended the Mid-Year Conference and Business Meeting on behalf of the Fund. These were held on the same day.

The quarterly engagement report is on the members shared drive and provides details on the initiatives undertaken by LAPFF..

Attached to this report (via the shared drive) is LCIV's voting tracker to allow members to understand where LCIV and LAPFF are aligned and to highlight any differences which Committee may wish to explore.

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 and submitted to the Financial Reporting Council (FRC) ahead of the 31 May 2023 deadline.

On the 24 August the FRC confirmed that the London Borough of Hillingdon Fund continues to meet the expected standard of reporting and will remain a signatory to the UK Stewardship Code ('the Code'). The FRC will update the list of signatories and reports on their website on 30 August 2023.

The FRC reviewed the report and assessed it against the Code in a way that is proportionate to our organisation's size and type. This assessment was then reviewed to ensure it was fair and appropriate. A sample of reports reflecting a range of applicants was also reviewed by our panel of independent advisors to ensure consistency.

The FRC has reviewed the Fund's new Stewardship Report and although it continues to meet the standard required to remain a signatory, there are several areas which were not addressed. Should the Fund wish to continue as a signatory its status may be at risk if it does not address the feedback in future reporting.

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

Legal implications are included in the report.