

Committee

Pensions Committee

Officer Reporting

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Papers with this report

Full manager voting - Shared drive.
LGIM Engagement Report Q4 2023 – Shared drive
LAPFF Engagement Report Q4 2023 – Shared drive
LCIV Engagement March 2024 – Shared drive
Draft LAPFF Workplan – 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 LAPFF activities**
3. **Ratify Pension Subgroup (PSG) Stewardship Code decision**
4. **Note LAPFF fees for 2024/25 (within Financial Implications)**
5. **Note LCIV video 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). The London CIV itself, through Federated Hermes EOS, also exercised voting rights at 97 meetings. LCIV voting was in consensus with LAPFF voting alerts for the period.

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Fund Managers Voting Breakdown Q4, 2023						
LCIV		Meetings	Resolutions	Votes With	Against	Abstention/Non-Voting
	Dec-23					
LCIV - Ruffer		4	48	46	0	2
LCIV - Baillie Gifford		5	78	59	14	5
Eos		97	900	749	151	0
		106	1,026	854	165	7
	%			83.24	16.08	0.68
LGIM		Meetings	Resolutions	Votes With	Against	Abstention
	Dec-23	2,162	12,913	9,381	3,323	209
		2,162	12,913	9,381	3,323	209
	%			72.65	25.73	1.62

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 26% of voting opportunities and supported resolutions on approximately 73% of occasions. The London CIV through Eos and two equities portfolio managers, Ruffer and Baillie Gifford combined to back various management resolutions on 83% of voting opportunities and about 16% against the resolutions proposed by company managements. Abstentions for LGIM and LCIV were 2% & 1% 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.

LCIV

During the quarter under review Federated Hermes (Eos) on behalf of the LCIV engaged various companies on issues such as ESG, Strategy, Risk and Communications, Globally.

Below are examples of engagement with two British companies:

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Tesco (UK)

Status: Progressing

Having first engaged Tesco on plastic waste in 2018, LCIV sought an update. The approach is to minimise everywhere and remove plastic where possible, with branded products easier to control. LCIV pushed the company on whether it would set public targets on this work, especially in light of its growing commercial dominance in the UK. The company argued that the regulatory landscape was uncertain, so setting targets did not feel commercially appropriate. While we sympathised with these challenges, we said that having no target could hinder action.

The manager asked whether the company was aligning its advocacy efforts with ambitious plastic regulation and policy. It pointed to its membership of the UK Plastic Pact for setting standards but indicated that advocacy was challenging given the diversification of the business. LCIV followed up with a request that plastic waste management be properly measured and reported. It welcomed its progress on securing Science Based Targets initiative (SBTi) validation of its forest, land use, and agriculture (FLAG) emissions targets. It was suggested that it could focus on the significant methane emissions in this agricultural supply chain and consider setting targets. Tesco said that it was looking at methane solutions to achieve its FLAG target, but had been disappointed by technology trials, so we asked for communication of this work specific to methane, given the significance and growing regulatory attention.

AstraZeneca (UK)

Status: Complete

In response to the manager's questions, AstraZeneca refuted any notion that the CEO, who has been in the post for 11 years, would leave soon, indicating that he sees himself staying with the company for another five years. It added that some succession planning has been undertaken, including identifying an internal pipeline of possible successors. LCIV asked to hear more about this in a meeting with the chair. Related to the CEO and his retention, the manager raised its concerns over excessive pay and flagged that we will explore this with the company in 2024. Finally, LCIV asked AstraZeneca for its views on antimicrobial resistance (AMR). The company reminded LCIV that it divested its antibiotics business completely in 2016 and has signed up to a UN roadmap on AMR. It acknowledged a suggestion that it attend the UN High-Level Meeting on AMR expected in the latter half of 2024, where industry voices will be key in catalysing policy.

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'

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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

Climate

Collaborations in Asia ex-Japan

Climate is one of LGIM core global stewardship themes, and a particular focus for their engagement with companies in the Asia ex-Japan region. Some 70% of energy in the Asia ex-Japan region is currently generated by fossil fuels, and Asian countries are repeatedly identified as the most vulnerable to climate risks,² with 70% of the global population susceptible to sea level rises located there.

LGIM have signed up to the China Climate Engagement Initiative ('CCEI'), which focuses on the China market and aims to facilitate the transition to a net-zero economy by bringing together large institutional investors into targeted, sophisticated dialogue with industries critical to climate change. Currently, the CCEI also focuses on four aspects: governance, goals and strategic priorities, transition pathway and disclosure in seeking to realise its aims. Specifically, CCEI has three working pillars, including company engagement, developing guidance to promote stewardship and engagements with companies in China, and research and capacity building.

Through the CCEI, LGIM is co-leading – together with a large Chinese asset manager – collaborative engagement with a global mining company headquartered in China. Being part of this engagement enables the manager, not only to contribute its own experiences and expectations, but also to learn from peers and from the company itself in exploring how to transition a high-emitting industry to net zero.

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LGIM believe understanding of local contexts when engaging with companies in Asia ex-Japan is pivotal to helping investee companies appreciate the potential benefits of change, and consequently being motivated to do so; our collaborations with like-minded peers and stakeholders will be an important pillar of our Asia-ex Japan engagement approach, which we have set out in our recent blog posts.

Social

Human rights and modern slavery

Human rights have been a key focus area for LGIM for several years. The manager has incorporated screening of companies' performance on human rights, labour, the environment and corruption as covered under UN Global Compact (UNGC)'s in specific LGIM funds since 2018; their proprietary Future World Protection List captures companies that are perennial violators of the UNGC. Furthermore, its Global Research and Engagement Groups (GREGs) have integrated various human rights-relevant topics when evaluating companies held in portfolios and have also established a framework for approaching human rights in the context of sovereigns in their investments. LGIM will continue to review and refine its human rights due diligence approach in evaluating related risks and identifying opportunities within portfolios. LGIM votes against the re-election of the chair or other directors of any company that is on its Future World Protection UNGC violator list for three consecutive years.

AMR: Case studies

FAIRR's Restaurant Antibiotics Engagement Collaboration

Identify and engage

LGIM have joined FAIRR's Restaurant Antibiotics Engagement stream, a collaborative initiative representing over US\$15 trillion in assets, 23 that aims to improve communications and disclosure between fast food restaurants and investors, focussing on the topic of antimicrobial resistance and how these companies are mitigating these risks in their supply chains. This campaign focuses on the 12 largest US fast food brands: Bloomin' Brands Inc, Brinker International, Darden Restaurants, Domino's Pizza Inc, McDonald's Corporation, Papa John's International, Restaurant Brands International, Starbucks, Texas Roadhouse, The Cheesecake Factory, The Wendy's Company, and Yum! Brands.

The campaign is focused on the following three milestones, asking companies to:

- (i) Demonstrate sufficient rigour and scope of existing antibiotic policies
- (ii) Develop antibiotic policies to cover all key proteins
- (iii) Provide evidence of implementation through target setting and auditing

Having signed letters to the 12 companies identified by the campaign, over the quarter, the manager undertook its first engagement call with Restaurant Brands International, a conglomerate owner of a number of fast-food companies, including Burger King and Popeye's Louisiana Kitchen.

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Escalate

The interesting discovery from this call was that the company wanted to follow up with FAIRR to get more information. FAIRR held a follow-up meeting with the company and more in-depth AMR stewardship areas were discussed. LGIM will continue its participation in this collaboration, which it views as an important workstream for gathering investors and the weight of assets they manage to raise the issue of AMR with companies well-placed to tackle it, through the scale and reach of their supply chains. Disclosure is a fundamental element of their engagement requests so that risks can be appropriately identified and priced by the market. As long-term investors, LGIM aim to achieve sustainable returns for its clients.

Governance

Mediobanca: recalling shares on a material vote

LGIM's policy on share lending

Where there are no legal or practical impediments, the manager aims to vote with every share they hold. There is currently no stock lending undertaken by LGIM in the UK market, so all shares are available for voting. For other markets, their stock-lending policies differ, with limits on the number of shares lent per fund and per stock. Nonetheless it always retains a number of shares in each voteable stock to be able to note their approval, or dissent, through a vote via the shareholder meeting. Moreover, LGIM retain the right of immediate recall of our shares, should we deem this necessary or expedient. In practice, LGIM do not typically recall lent stock for voting on routine company meetings. However, where there is an upcoming material vote – for example, a potential takeover situation at unfavourable terms – it will recall stock out on loan in order to apply the full voting power towards a positive outcome in the best interest of clients.

Identify: A material vote at Mediobanca

Mediobanca is a European investment banking boutique, specialising in financial advice, wealth management and consumer credit, offering its services through a number of subsidiaries. At its AGM, which took place on 28 October 2023, there was a tightly contested proxy fight for director appointments to the board. At Italian AGMs, investors must vote for one 'slate' of directors as presented by management and/or dissident shareholders.

This means that votes must be for one whole 'slate' of director appointments, choosing one out of the competing slates, rather than for individual directors. This is a feature particular to the Italian corporate governance system and tends to be supported by posting an alternative slate put forward by *Assogestioni* – the Italian asset manager association – to provide representation of independent investors.

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LAPFF

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

In January 2024 LAPFF issued their draft workplan for 2024 which sets out a range of current and anticipated company and policy engagement areas for the coming year. This gives members the ability to comment to ensure that members are content with LAPFF's areas of focus and that engagements align.

The plan covers various themes within:

- Responsible Investment
- Promoting good governance
- Positioning the forum, communication, and member services

LAPFF held its 2023 annual conference in Bournemouth, covering a range of topics with a particular focus on climate-related issues. On the first afternoon, delegates heard from Richard Eadie and Simon Davy on how water companies can better deliver environmental value. This was followed by a discussion panel on how LGPS funds are managing climate-related financial risks. The first day closed with a review of the 2023 shareholder resolutions and a glimpse of the ones to come in 2024.

The second day began with a discussion panel on the significance of proxy voting choices for investors in passive funds and the breakthrough introduction of passthrough voting. This allows asset owners to adopt their own LAPFF Conference voting policies in pooled funds. Delegates then heard from asset managers on how they respond to the recent headline phenomenon of an ESG backlash. This was followed by a deep dive from Sir Philip Augar on whether investors should be concerned about the listing rules review.

The afternoon had a strong climate related focus, opening with a discussion on how clean and equitable EV supply chains can be ensured, an emerging area of importance in the endeavour to decarbonise. This was accompanied by a session on how nature-related risks and the biodiversity crisis are managed and tackled. Another session outlined the role of alternatives in the race to achieving net zero by 2050. Also in the afternoon, delegates engaged in a poignant discussion on investors' role in ending modern-day slavery, highlighting the pressing need and methods to take action and make change.

The final morning of the conference opened with a session with economic commentator, Will Hutton, on the great pay divide between executives and employees, followed by a discussion on the Living Wage with a representative from the Living Wage Foundation. This was followed by a presentation from LGA adviser, Barry Quirk, on levelling up. The conference closed with an inspirational story by

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Dave Fishwick about his journey to creating the Bank of Dave to help local businesses and communities in the wake of the 2008 financial crisis.

Details on the various LAPFF engagements can be found on the members shared drive in the 'LAPFF Engagement Report Q4 2023'

London CIV

LCIV has provided a video update on their Responsible Investment team to give Committee an overview on how each element operates.

The updated LCIV voting tracker allows members to understand where LCIV and LAPFF are aligned and to highlight any differences which Committee may wish to explore.

Quarter	Date for Vote Alert Issued	AGM Date	Company	Target Resolution	LAPFF Recommendation	London CIV Vote	Deviated from LAPFF Recommendation
3rd	31/08/2023	14/09/2023	Ryanair	2. Approve Remuneration Report	OPPOSE	OPPOSE	N
3rd	31/08/2023	14/09/2023	Ryanair	3. Approve Remuneration Policy	OPPOSE	OPPOSE	N
3rd	07/09/2023	21/09/2023	FedEx	6. Report on Just Transition	FOR	FOR	N
4th	18/10/2023	01/11/2023	BHP	1. Consider Financial Statements and Reports	OPPOSE	OPPOSE	N
4th	18/10/2023	01/11/2023	BHP	4. Re-elect Gary Goldberg	OPPOSE	OPPOSE	N
4th	18/10/2023	01/11/2023	BHP	6. Re-elect Ken MacKenzie	OPPOSE	OPPOSE	N
4th	18/10/2023	01/11/2023	BHP	7. Re-elect Christine O'Reilly	OPPOSE	OPPOSE	N
4th	18/10/2023	01/11/2023	BHP	10. Adoption of Remuneration Report	OPPOSE	OPPOSE	N
4th	18/10/2023	01/11/2023	BHP	11. Approval of Equity Grants to CEO	OPPOSE	OPPOSE	N

UK Stewardship Code

On the 13th of December 2023 the Pension Committee agreed that would endeavour to maintain its signatory status of the UK Stewardship Code.

However, following that meeting, once the full cost and resource requirement was fully known, concerns were raised as to whether value for money was being achieved and also whether this initiative was in the best interest of members.

As such on the 29th of January 2024 the Pension Sub Group met to discuss whether ongoing signatory status of the UK Stewardship Code should be pursued.

Overall, the PSG unanimously agreed that it was not possible to justify the cost and resource allocation in terms of delivering their fiduciary duty to members and that the time and money could be spent more efficiently and deliver tangible results on other ESG initiatives. Furthermore, it was agreed that the Fund was adhering to the underlying requirements of the FRC Code in its day-to-day activities and did not need to be a signatory to achieve this.

The PSG also agreed that should the FRC reduce the reporting burden on LGPS funds and make the process two-yearly rather than annual, the Fund would consider applying for signatory status in the future.

At the meeting PSG agreed the Fund would not continue as a UK Stewardship Code signatory once the 23/24 listing had expired.

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The Corporate Director of Finance approved of the revised decision under delegated authority confirming It would be ratified at the next Pension Committee meeting to be held on 26th March 2024.

Separately, the FRC communicated with the Fund asking for comments on the process. This allowed officers to respond with concerns and requests to make the process less burdensome and more efficient.

FINANCIAL IMPLICATIONS

ESG initiatives included within the Pension Fund budget.

LAPFF membership fee of £11,870 for 2024/25 (£11,125 over 2023/24). This reflects an inflationary increase from 2023 and will cover anticipated cost increases whilst enabling delivery of the workplan envisaged for our members.

LEGAL IMPLICATIONS

Legal implications are included in the report.