

Committee

Pensions Committee

Officer Reporting

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Papers with this report

Full manager voting - Shared drive.
LGIM Engagement Report Q1 2024 – Shared drive
LAPFF Engagement Report Q1 2024 – 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**

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 102 meetings.

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Pensions Committee 05 June 2024

Fund Managers Voting Breakdown Q1, 2024						
LCIV		Meetings	Resolutions	Votes With	Against	Abstention/Non-Voting
	Mar-24					
LCIV - Ruffer		5	58	57	1	0
LCIV - Baillie Gifford		79	1,346	1,093	174	79
Eos		102	1,467	N/A	N/A	N/A
		186	2,871	1,150	175	79
	%			81.91	12.46	5.63
LGIM		Meetings	Resolutions	Votes With	Against	Abstention
	Mar-24	2,293	17,477	13,151	3,944	382
		2,293	17,477	13,151	3,944	382
	%			75.25	22.57	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 23% of voting opportunities and supported resolutions on approximately 75% of occasions. The London CIV through Eos and two equities portfolio managers, Ruffer and Baillie Gifford combined to back various management resolutions on 82% of voting opportunities and about 12% against the resolutions proposed by company managements. Abstentions for LGIM and LCIV were 2% & 6% 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.

Compass Group

Engagement theme: Conduct and culture

At the time of EOS initial engagement in 2015, the company's strategy was to expand its operations in regions with the potential for growth in the food service market. This included high-risk emerging markets, where the food service market remained self-operated. They began engagement seeking reassurances about the robustness of the compliance programme, and whether appropriate policies, processes and oversight was in place.

A meeting in 2017 with the chair of the corporate social responsibility (CSR) committee did not provide comfort that the board was effectively overseeing the company's management of bribery and corruption risk. Concerns mounted when, despite operations in over 50 countries, the number of calls to the company's whistleblowing helpline relating to corruption risk were so few that they were not reflected in its reporting. Compass said it would take on board suggestion to provide examples of case management in its reporting. From 2018 to 2020, there were numerous calls and meetings with Compass on the revision of its code of conduct, which the company supported. During a call ahead of the 2020 AGM, the company secretary confirmed that the review of the ethics and compliance programme was progressing well, and a new version of the code of conduct would be published in 2020.

Outcomes and next steps

In 2020, Compass confirmed that since the new CEO had taken the reins in 2018, the sustainability agenda had become a priority and a new role of group head of ethics and integrity had been created. In 2021, Compass relaunched its 'Speak Up, We're Listening' programme, along with a comprehensive training programme. Accessible internally and externally, and managed by the group's ethics and integrity function, the programme aimed to empower anyone to raise concerns or allegations of potential misconduct.

Feedback from biannual training and employee surveys showed the effectiveness of training, and that the level of awareness of issues and reporting processes had improved along with the willingness to report concerns, and the observance of integrity-driven decisions. EOS on behalf of LCIV, will continue to focus on how Compass keeps its code of conduct relevant and up to date.

General Electric

Engagement theme: Reduction of customers' greenhouse gas emissions

In 2017, EOS began engaging with General Electric (GE) on setting Scope 3 targets for its sold products to help reduce the greenhouse gas emissions of its customers. These Scope 3 emissions were considered to be more material for the company than those generated from its own operations. By setting Scope 3 targets for its products, it was hoped this would send a powerful message to its customers and the

Classification: Public

Pensions Committee 05 June 2024

sector. Many of the competitive advantages of GE's products come through maximising efficiency, and EOS believed that Scope 3 targets would provide greater direction to the company and its decarbonisation strategy.

In 2021, EOS engaged GE on its progress towards developing Scope 3 emissions targets related to product use. At the time, it was considering its response to a related shareholder proposal that management had supported, on how it would set a net-zero target that included Scope 3 emissions. EOS highlighted the importance of short- and medium-term greenhouse gas reduction targets that were aligned with the goals of the Paris Agreement and encouraged disclosures in line with the TCFD recommendations and the Climate Action 100+ benchmark. It also recommended that GE should put forward carbon intensity targets for its different business units.

Outcomes and next steps

In 2021, GE announced an ambition to be a net-zero company by 2050 including for its sold products. Building on its past actions, the company worked with external advisers and experts to refine its business unit focus on Scope 3 product emissions for power turbines and aircraft engines, which account for most of GE's greenhouse gas emissions across all reporting scopes. GE's 2021 sustainability report, released in June 2022, included a 2030 Scope 3 target for new gas turbine and steam turbine products sold, and a commitment to advance technologies to reduce the carbon intensity of its aviation products. EOS will continue to engage with GE on progress towards its climate ambitions.

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.

Classification: Public

Pensions Committee 05 June 2024

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

APA

APA is Australia's largest energy infrastructure business. Under LGIM's Climate Impact Pledge campaign, it has been engaging with the company directly since 2022; as one of the selected 'dial mover' companies, It believes it has the scale and influence across its industry and value chain for its actions to have positive reverberations beyond its direct corporate sphere. In LGIM engagements with them, which are guided by their qualitative assessment criteria as set out in its multi-utilities sector guide, in terms of 'red lines' the company was identified as lagging their expectations on climate-related lobbying activities.

LGIM expect companies to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5°C. This includes the disclosure of Scope 1, 2 and material Scope 3 GHG emissions and short, medium, and long-term GHG emissions reduction targets consistent with the 1.5°C goal. As a consequence, when APA Group brought its climate transition plan to a vote, the manager was unable to support it: although the plan presented Scope 1 and 2 goals for the medium and long term on a path to achieving net zero emissions by 2050, no Scope 3 targets were included. The company noted that these would be finalised no later than 2025.

LGIM initiated engagement with the company after this vote and met with them for the first time in early 2023 as part of our Climate Impact Pledge engagement, and they have continued to build the relationship, setting out our expectations as per their net zero guide, and working with the company to understand the hurdles it faces and the challenges to meeting these expectations.

Outcome

LGIM were very pleased that, in their meeting with them in early 2024, APA confirmed that they will include a Scope 3 goal in the 2025 refresh of their Climate Transition Plan, and they outlined their proposed Scope 3 reduction pathway. The company noted that feedback from the 20% of investors, including LGIM, who voted against their proposed Climate Transition Plan in 2022, had solidified their decision to commit to a Scope 3 target. This demonstrates the effect of the manager's engagement strategy, fully aligned with their voting policy, to encourage progress towards decarbonisation. LGIM look forward to continuing engagement with the company on their decarbonisation pathway and journey to net zero.

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Pensions Committee 05 June 2024

Social - Nutrition: Nestlé

Identify

As the largest food company in the world,¹³ Nestlé sets an example for the rest of the industry in terms of driving positive change and raising market standards. There is a clear link between poor diets and chronic health conditions such as obesity, heart disease and diabetes. These in turn may lead to increased healthcare costs and decreased productivity, both of which will have negative impacts on the economy and, ultimately, on our clients' assets.

Engage

In the fourth quarter of 2022 LGIM co-signed, with peers, letters to 12 food and beverage manufacturers, under the leadership of ShareAction's Healthy Markets Initiative. Nestlé was among the companies they wrote to. In the individually tailored letters, the manager encouraged the companies to do more in several areas. These included, for example, transparency around their nutrition strategy, demonstrating progress on their nutrition strategy, committing to disclosures around the proportion of the company's portfolio and sales associated with healthy food and drinks products (using government endorsed nutrient-profiling models), and setting targets to increase the proportion of these sales. It also praised companies for the positive steps taken so far.

Following the letter, together with the Healthy Markets Initiative, LGIM met with Nestlé several times. In late 2022, Nestlé announced that they would report on their global portfolio using the nutrient profiling system Health Star Rating (HSR) – LGIM were pleased to see this development and continued to meet with Nestlé as part of this collaboration during 2023 to discuss ongoing concerns, particularly regarding their plans not just to monitor but also actively to increase their sales of healthier products. In September 2023, Nestlé announced a new nutrition target which LGIM believed is not ambitious enough.

Escalate

Reflecting our shared concerns with ShareAction, LGIM agreed in early 2024 to co-file a shareholder resolution at Nestlé's AGM, calling on the company to:

- Set key performance indicators (KPIs) regarding the absolute and proportional sales figures for food and beverage products according to their healthfulness, as defined by a government-endorsed Nutrient Profiling Model
- Provide a timebound target to increase the proportion of sales derived from these healthier products

These requests are intended to address their main concerns and strengthen the link between Nestlé's targets and real-world impact by increasing the proportion of healthier food available in consumer markets.

The manager will monitor the company's response and actions and continue its engagement with them on this crucial issue.

Classification: Public

Pensions Committee 05 June 2024

Governance - Significant votes

Apple Inc.

Issue identified: In line with their published expectations, LGIM believe companies like Apple should be transparent in their uses of AI and their risk management processes.

Summary of the resolution: Resolution 7 – Report on Use of AI AGM date: 28 February 2024.

How LGIM voted: For resolution 7 (against management recommendation)

Rationale for the vote decision: LGIM met with the company to discuss these topics, and it did not commit to increasing transparency and disclosures around AI at this time. Apple is among several companies that have outsized influence on the integration of AI into our economy. The manager pre-declared out vote intention on their 2024 pre-declaration blog. The rationale for the vote decision was that a vote in favour of the proposal was warranted, as it believes investors would benefit from further disclosure and transparency on the company's use of and internal governance over artificial intelligence.

Outcome: 37.5% shareholders voted in favour of this proposal.

Why is this vote 'significant'?

This vote is significant as it relates directly to one of LGIM's six global stewardship themes: Digitisation. The manager published its expectations of companies regarding governance of AI on their blog last year.

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

Details on the various LAPFF engagements can be found on the members shared drive in the 'LAPFF Engagement Report Q1 2024'

Classification: Public

Pensions Committee 05 June 2024

FINANCIAL IMPLICATIONS

ESG initiatives included within the Pension Fund budget.

LEGAL IMPLICATIONS

Legal implications are included in the report.