

Committee

Pensions Committee

Officer Reporting

Babatunde Adekoya, Finance

Papers with this report

Full manager voting - Shared drive.  
LGIM Engagement Report Q2 2024 – Shared drive  
LAPFF Engagement Report Q2 2024 – Shared drive  
LAPFF Climate Policy – Shared drive  
LCIV Engagement June 2024 – 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 LCIV & 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 686 meetings.

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<b>Fund Managers Voting Breakdown Q2, 2024</b>						
<b>LCIV</b>		<b>Meetings</b>	<b>Resolutions</b>	<b>Votes With</b>	<b>Against</b>	<b>Abstention/Non-Voting</b>
	Jun-24					
LCIV - Ruffer		23	483	435	39	9
LCIV - Baillie Gifford		65	891	696	194	1
Eos		686	10,410	8,967	1,443	0
		<b>774</b>	<b>11,784</b>	<b>10,098</b>	<b>1,676</b>	<b>10</b>
	%			<b>85.69</b>	<b>14.22</b>	<b>0.08</b>
<b>LGIM</b>		<b>Meetings</b>	<b>Resolutions</b>	<b>Votes With</b>	<b>Against</b>	<b>Abstention</b>
	Jun-24	8,682	97,019	72,838	23,324	857
		<b>8,682</b>	<b>97,019</b>	<b>72,838</b>	<b>23,324</b>	<b>857</b>
	%			<b>75.08</b>	<b>24.04</b>	<b>0.88</b>

The volume of meetings attended, and resolutions voted on by all the fund managers shown above, encapsulates 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 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 86% of voting opportunities and about 14% against the resolutions proposed by company managements. Abstentions for LGIM and LCIV were 1% & 0.1% 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 with 351 companies on ESG issues and other objectives globally.

EOS engagement activities during the quarter under review focused on key areas such as:

- Animal testing
- Climate Transition Planning
- Voting Season Disputes

Please refer to the ESG documents on the members shared drive for detailed information about the EOS (LCIV) engagement activities.

## **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 - Nippon Steel

### Identify

Nippon Steel Corporation is the largest steel maker in Japan and one of the largest globally in terms of production. Traditional steelmaking processes are highly carbon intensive, and a shift to green steel will require a policy environment that supports a sufficient supply of low-carbon alternatives. Assessments undertaken by third-party data providers have demonstrated that Nippon Steel lags its peers on climate policy engagement disclosures, and in 2022 Influence Map named Nippon Steel as one of the most influential companies blocking climate policy action globally.

### Engage

LGIM have been engaging with Nippon Steel for many years and specifically through its Climate Impact Pledge since early 2022, the same year in which it added the 'red line' related to climate-related lobbying. The company failed to meet this criterion, so LGIM made it the focus of its engagement with them for 2023 and expanded their engagement to work collaboratively with other investors to increase its influence. Despite several meetings with the company, the disclosures provided so far have not met LGIM expectations.

### Escalate

Given the significant role that Nippon Steel Corporation has in influencing Japanese policy, as well as LGIM's intention to increase focus on demand-side engagement, it co-filed, together with the Australasian Centre for Corporate Responsibility ('ACCR'), a shareholder proposal asking the company to:

- "Disclose annually, climate-related and decarbonisation-related policy positions and lobbying activities globally, including its own direct lobbying and industry association memberships, and review these for alignment with the Company's goal of carbon neutrality by 2050 and explain the actions it will take if these activities are determined to be misaligned".

### Outcome

LGIM were pleased to see that the shareholder resolution achieved 27.98% support, sending a strong message to the company's board that investors expect greater transparency on climate-related policy engagement activity. This was also one of the highest levels of support recorded for a climate-related shareholder resolution in Japan. 2024 is pivotal for Japan as the country is scheduled to update its key climate and energy policies. The choices made in the very near future will determine the direction of its midterm decarbonisation strategy and the results underscore the scale of investor attention on politically influential companies like Nippon Steel. LGIM will continue engaging with the company and expect to see their board address investor expectations and enhance accountability and transparency in its efforts to influence these policies as they take shape.

## **Social – McDonalds**

### **Identify**

Antimicrobial resistance ('AMR') is the damaging effect of disease causing microorganisms (e.g. bacteria, viruses, fungi and parasites) increasing their resistance to antibiotics. AMR is one of our global systemic engagement themes. The World Health Organization (WHO) describes AMR as one of the top 10 global public health threats facing humanity today. The World Bank estimated in 2016 that AMR could result in a 3.8% loss in global GDP, an impact comparable to that of the 2008 financial crisis.

McDonald's is one of the largest beef purchasers and a major buyer of pork; LGIM believe that animal husbandry standards across their supply chain have the potential not only to mitigate AMR directly across large sections of the value chain, but also to have a 'knock-on' impact upon the food sector more broadly, on account of the company's scale and influence.

### **Engage**

There is a history of LGIM direct engagement activities with McDonald's and they have been putting pressure on the company since 2021 to adopt stricter policies on use of antibiotics across their supply chain.

LGIM co-filed a shareholder resolution at the company in 2023, under the umbrella of the Shareholder Commons, asking McDonald's to comply with World Health Organization (WHO) guidelines on the use of medically important antimicrobials in food-producing animals throughout its supply chain. The resolution sought adherence to the WHO guidelines throughout the full supply chain, including beef, chicken and pork. This resolution gained 18% support from shareholders.

Following a lack of action by McDonald's, It co-filed the same resolution in their 2024 AGM, together with an industry peer Amundi and The Shareholder Commons. However, the 2024 resolution was subject to a 'no-action' ruling by the SEC, a mechanism by which the company is allowed to unilaterally remove proposals from its proxy statement if they are judged to have already substantially implemented the resolution demand. LGIM were disappointed by both the step taken and the decision announced, as it believes that McDonald's should be adhering to the WHO Guidelines on use of antibiotics across all the meat that they produce, not just certain types of meat.

### **Escalate**

The Benedictine Sisters of Boerne, Texas, successfully filed their AMR-related resolution calling upon the company to adopt an enterprise-wide policy to phase out the use of medically important antibiotics for disease prevention purposes in its beef and pork supply chains. LGIM voted in favour of this resolution, which received 15% votes in favour.

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LGIM have broadened its collaborative engagement by joining FAIRR's collaborative investor engagement on Antibiotic Use in the Quick-Service Restaurant Sector in North America. This engagement stream covers fast-food restaurant companies, including McDonald's, Yum! Brands (owner of KFC and Pizza Hut), and Restaurant Brands International (owner of Burger King). By working with like-minded peers and stakeholders, the manager aim to broaden its engagement on the issue of antimicrobial resistance with companies that, it believes, could have a substantial effect in mitigating AMR by changing their supply chain practices. LGIM will continue to exercise its votes on AMR-related shareholder resolutions in line with its Health Policy; the significant vote on Restaurant Brands International highlighted in this report is an example.

## **Governance - Significant votes**

### **Disney: 2024 proxy fight**

One of the more high-profile activist situations this proxy season was the attempt by both Trian Partners and Blackwells Capital to gain board seats at Walt Disney Co.

#### **Identify**

This was the second time in as many years that Trian Partners, headed by Nelson Peltz, sought seats on the board of Disney. An additional element of interest in the battle that changed the dynamics was the new proxy voting rules of the universal proxy card. This meant that shareholders could vote for a mix of nominees, rather than having to decide between two or more opposing full slates, a management slate and the slates proposed by the dissidents. This also meant that Blackwells Capital, another activist investor in Disney stock, could campaign against Peltz, which had the potential to divide the opposition.

#### **Engage**

LGIM had discussions with Disney, as well as with both activist investors, in order that it could make an informed voting decision. They met with the new CFO of the company and explained its concerns that centred around poor CEO succession planning and an unclear strategy. LGIM also met with Nelson Peltz and the three nominees from Blackwells Capital, Jessica Schell, Craig Hatkoff, and Leah Solivan. It did not have the opportunity to meet Jay Rasulo, Trian Partners' second nominee.

#### **Outcome**

Following internal discussions, LGIM placed a vote in favour of the election of Nelson Peltz at the proxy contest on 03 April 2024, as it believed that the board would benefit from constructive challenge. Given the seniority and calibre of the current Disney board, the manager acknowledged that it would take an individual with a certain degree of gravitas to be able to deliver this challenge whilst still working constructively with the board. After consideration, it didn't believe that the Blackwells Capital nominees would be able to bring this challenge and as it had not met Jay Rasulo, LGIM were unable to opine specifically on his strengths or make a full assessment. It also acknowledged the potential for Disney to benefit from Trian Partners' resources with regards to strategy assessment and board succession planning.

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As in previous years, LGIM voted against the Chair of the Remuneration Committee due to various concerns with the company's compensation programme.

The results of the AGM indicated that only about 31% of shareholders voted to add Peltz to the Disney board. However, about 37% of shareholders voted to remove the Chair of the Remuneration Committee. There was also some stronger opposition to Michael Froman, Mark Parker and Derica Rice; the Blackwells Capital nominees were each supported by around 2% of shareholders voting.

LGIM have since engaged further with the company to provide additional feedback and will continue to engage to follow the progression of their board succession planning and strategic refresh.

### **LAPFF**

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

LAPFF issued its recommendations for UK Climate Policy as the country moves to the next phase of its response to energy transition. Given the extent and complexity of energy transition the policy does not cover every aspect of climate policy but instead aims to cover the most significant elements. The policy can be found on the members shared drive.

Details on the various LAPFF engagements can also be found on the members shared drive.

Although outside this reporting period members should note that the LAPFF business meeting was held on 10 July.

### **FINANCIAL IMPLICATIONS**

ESG initiatives included within the Pension Fund budget.

### **LEGAL IMPLICATIONS**

Legal implications are included in the report.