

Committee

Pensions Committee

Officer Reporting

Babatunde Adekoya, Finance

Papers with this report

Full manager voting - Shared drive.
LGIM Engagement Report Q3 2024 – Shared drive
LAPFF Engagement Report Q3 2024 – Shared drive
LCIV Engagement September 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 66 meetings.

Fund Managers Voting Breakdown Q3, 2024						
LCIV		Meetings	Resolutions	Votes With	Against	Abstention/Non-Voting
	Sep-24					
LCIV - Ruffer		4	72	60	8	4
LCIV - Baillie Gifford		6	109	86	18	5
Eos		66	868	386	482	0
		76	1,049	532	508	9
	%			50.71	48.43	0.86
LGIM		Meetings	Resolutions	Votes With	Against	Abstention
	Sep-24	2,171	15,346	11,633	3,632	81
		2,171	15,346	11,633	3,632	81
	%			75.80	23.67	0.53

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 76% of occasions. The London CIV through EOS and two equities portfolio managers, Ruffer and Baillie Gifford combined to back various management resolutions on 51% of voting opportunities and about 48% against the resolutions proposed by company managements. Abstentions for LGIM and LCIV were 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 307 companies on ESG issues and other objectives globally.

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

- Human Capital
- Board Effectiveness
- Climate Change

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.

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Environment - Hindalco Industries Ltd

Sector: Metals and mining

Issue identified: The aluminium sector has a significant role to play in the global transition to net zero and is one of 20 'climate critical' sectors captured within LGIM Climate Impact Pledge. Hindalco Industries has been selected for direct, qualitative engagement within this programme.

Summary of the resolution

Resolution 5 – Re-elect Kumar Mangalam Birla as director. AGM, 22-08-2024

How LGIM voted: Against resolution 5 (against management recommendation)

Rationale for the vote decision

LGIM vote is applied in line with their Climate Impact Pledge engagement escalation, whereby they vote against the (re-election of the chair of the Board at companies lagging their minimum expectations on climate change. This is the second consecutive year LGIM are applying vote sanctions against the company on this basis. Disclosure of a forward-looking, coherent and quantified transition plan is still absent from the report, therefore falling short of LGIM expectations. LGIM also noted Hindalco has pushed back its short-term scope 1 and 2 emission intensity reduction target from 2025 to 2027. Despite three engagement meetings and multiple email exchanges, the manager is still unclear on a) its plans to develop existing disclosure into a coherent transition plan, b) the process, accountability structures and resources in place to develop it over 2024 and c) timings of a planned disclosure.

Why is this vote 'significant'?

LGIM believe that climate change is a financially material risk; their Climate Impact Pledge engagement programme is focused on encouraging companies across 20 'climate critical sectors' to transition to net zero.

Society

People: Human rights campaign

As set out in LGIM human rights policy, it believes that human rights is financially material for investors, and that managing the business elements of human rights within operations is essential for companies to minimise the risks to their business of human rights violations (including, for example, failing to obtain and maintain the company's social license to operate, reputational damage, trade barriers, supply chain disruptions, consumer or group boycotts, exposure to legal liability).

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Identify

The aim of LGIM human rights letter campaign is to communicate its expectations, and to seek companies' own views and more information about their approach to these risks, by asking them to complete a survey. While this is a letter campaign, the manager is keen for it to be a two-way exchange, so that it can better inform its next steps. The campaign is focussed on the high-risk sectors outlined in their human rights policy, namely: utilities, energy, mining and minerals, apparel and textiles, technology and automotives. The range of around 400 companies captured is:

- Global: over 40 countries across both developed and emerging markets (the top five countries being the US, China, Canada, India and Japan)
- Mid-large cap, by geography and sector

Engage

A letter was drafted for each sector, addressed to the chair of the company, sharing why LGIM believe human rights are fundamentally important within that sector, along with their human rights expectations (as set out in our human rights policy). Additionally, they have asked companies to provide information and feedback about their human rights practices through a questionnaire. Having begun the campaign in the beginning of the third quarter of 2024, they have sent the letters in stages, completing by the end of the quarter.

Next steps

Based on the collected results in the questionnaires, LGIM plan to conduct further one-on-one, direct engagements. It will also plan to publish its findings and observations. Further, based on the feedback, the manager will look into further updating its human rights policy with detailed expectations on a number of salient human rights topics that have been identified that are material to LGIM.

LAPFF

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

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

FINANCIAL IMPLICATIONS

ESG initiatives included within the Pension Fund budget.

LEGAL IMPLICATIONS

Legal implications are included in the report.

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