

Committee

Pensions Committee

Officer Reporting

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Papers with this report

Full manager voting - Shared drive.
LGIM Engagement Report Q4 2024 – Shared drive
LAPFF Engagement Report Q4 2024 – Shared drive
LCIV Engagement December 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 93 meetings.

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Fund Managers Voting Breakdown Q4, 2024						
LCIV		Meetings	Resolutions	Votes With	Against	Abstention/non-voting
	Dec-24					
LCIV - Ruffer		3	29	28	0	1
LCIV - Baillie Gifford		12	146	117	21	8
Eos		93	813	327	486	0
		108	988	472	507	9
	%			47.77	51.32	0.91
LGIM		Meetings	Resolutions	Votes With	Against	Abstention
	Dec-24					
		2,175	12,576	9,390	2,693	493
		2,175	12,576	9,390	2,693	493
	%			74.67	21.41	3.92

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 21.41% 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 48% of voting opportunities and about 51% against the resolutions proposed by company managements. Abstentions for LGIM and LCIV were 3.92% and 0.91% 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 195 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.

Global Investment Stewardship themes

LGIM Investment Stewardship activity is structured around six core themes:

- Climate: Keeping 1.5°C alive
- Nature: Supporting a world that lives in harmony with nature, recognising the economic value of natural capital
- People: Improving human capital across the corporate value chain
- Health: Safeguarding global health to limit negative consequences for the global economy
- Governance: Strengthening accountability to deliver stakeholder value
- Digitisation: Establishing minimum standards for how companies manage digitisation-related risks

The manager believes these themes are financially material to their clients' portfolios, often pose systemic risks and opportunities, and cover areas where LGIM as an asset manager can influence change.

Engagement Focus

Environment

Volvo Car AB

LGIM selected Volvo Car for engagement as it views the company as a technology leader within the European automotive landscape. It commenced an engagement with a view to understanding the nuances of the regulatory backdrop and how it influences product strategy decisions. The manager would also like to understand the ability of Volvo and other companies in the automotive sector to provide more detailed disclosure on plug-in hybrid emissions, which would approve transparency around the technology, which is a critical tool in the objective of cutting vehicle emissions in Europe.

Next steps

This engagement is at the early stages so the next steps will be to discuss with the company their responses to the questions submitted to date. The objectives from this engagement are:

- To ensure LGIM understand the current regulatory framework in a manner consistent with how it is viewed by the industry.
- To understand the limitations around disclosure of plug-in hybrid electric vehicle ('PHEV') emissions data currently held by Volvo and other original equipment manufacturers ('OEMs').

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- Depending on the other responses, to discuss a framework for more proactive disclosure of real-world PHEV emissions to provide greater transparency to stakeholders.

Society

Westpac Banking Corp

Issue Identified

The specific issue here was gender diversity at board level. LGIM believe a diverse mix of skills, experience and perspectives is essential for a company and its board to function and perform optimally. LGIM has long been an advocate of the importance of diversity on corporate boards, within both executive leadership teams and management teams, as well as across the wider workforce. The manager considers this issue is sector agnostic, in that it is financially material across all sectors.

Voting

Summary of the resolution: Resolution 5b – Elect Margaret Seale as Director AGM, 13 December 2024.

How LGIM voted

For Resolution 5b (in line with management recommendation).

Rationale for the vote decision

LGIM diversity policy sets out its expectations regarding gender and ethnic diversity, and where it will apply vote sanctions against companies.

A vote in favour was applied, despite the proportion of women on the Board having fallen below one-third of board members as at the 2024 AGM. However, support was warranted, given the Company exceeded its goal of 40% female directors by the 2024 year-end, with some recent board changes at the AGM throwing it out of kilter.

Why is this vote 'significant'?

This vote is significant because it relates directly to one of the sub-themes (diversity), within LGIM Investment Stewardship 'People' theme. It is also an example of where, after a manual review, LGIM overrode its policy vote decision due to the reasons outlined in the rationale above.

Governance

Qantas Airways

Identify: LGIM engagement with Qantas dates to 2020, since which time the Australian airline has faced several controversies over its treatment of both customers and staff during the COVID-19 pandemic (for both of which the company has been ordered, through legal action, to provide redress).

These controversies highlighted governance issues that have been a staple ingredient of engagement with the company (alongside climate change). On governance, the specific issues addressed in 2024 were:

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- Over-boarding (time commitment of directors)
- Succession
- Remuneration

Engage and escalate

LGIM met with Qantas four times during 2024, including discussions with the new Chair. Since the controversies mentioned above, both the Board Chair and the Chair of the Remuneration Committee have been replaced and the board has undergone a degree of refreshment, bringing average tenure down to three years. Discussions with the company helped LGIM to gain a closer understanding of stability of the board, the timeframes over which over-boarding of the chair can reasonably be corrected, and the steps taken by the remuneration committee to hold relevant directors and executives accountable for their actions.

Next steps

The significant changes to the board and the new steps being taken at Qantas are encouraging. While there are several areas that LGIM will continue to monitor, it takes a positive view of the changes the company has made. In addition to its focus on governance, the manager will also continue engagements on climate change with the company, under its Climate Impact Pledge, and monitor progress.

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.