

Non-Executive Report of the: PENSIONS BOARD 26 November 2018	
Report of: Neville Murton, Acting Corporate Director of Resources	Classification:
Voting and Engagement Update for Quarter Ending September 2018	

Originating Officer(s)	Bola Tobun, Investment and Treasury Manager
Wards affected	All

Introduction

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and the Committee and Board has previously agreed that the Fund should cast its votes at investor meetings in line with LAPFF voting recommendations. This report provides an update on voting activities on behalf of the Fund.

Recommendations:

Members of the Pensions Board are asked to note the contents of this report.

1. REASONS FOR THE DECISIONS

- 1.1 The exercise of voting rights and engagement with investee companies are a key part of the Fund's role as a long term steward of assets. Ensuring good corporate governance and the adoption of sustainable business models at the companies in which the Fund invests should over the longer term ensure that they are able to deliver superior returns to the Fund.

2. ALTERNATIVE OPTIONS

- 2.1 The Fund would remain a member of LAPFF but to ensure the Fund's Responsible Investment (RI) approach is enhanced the engagement approach can be improved by procuring an overlay service rather than relying on delegation to fund managers.

3. DETAILS OF REPORT

- 3.1 The subject of voting and engagement has been considered by the Pensions Committee on a number of occasions. The Fund wishes to ensure that it is able to effectively express its views on ESG issues through the exercise of the Fund's voting rights, as well as enhancing the Fund's approach to engagement with its investee companies more generally. However, the rapid changes currently taking place across the sector have raised a number of questions about how voting rights, and Responsible Investment (RI) approaches more generally, can best be delivered through the new pooled structures.
- 3.2 The Fund currently delegates the exercise of its voting rights to its external equity managers, who are asked to comply as far as possible with the Fund's voting policies. The move to a pooled structure over the medium term would significantly impact this arrangement as voting rights would need to be exercised at pool level rather than fund level. The Fund will therefore need to ensure that it works with other London funds as well as the pool itself to ensure that in the future it is able to effectively express its views through the exercise of voting rights.
- 3.3 The Fund also currently delegates broader engagement with investee companies around ESG issues to its external managers. The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), which currently comprises 71 local authority pension funds with combined assets of £175 billion. The Forum exists to promote the investment interests of local authority pension funds, and in particular to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest.
- 3.4 The voting alerts received from LAPFF and the outcome of votes, as well as how the fund's equity manager, Legal & General Investment Management (LGIM) and London CIV, is detailed below. Managers have been asked to provide voting information in light of LAPFF recommendations.

Company	Proposal Description	LAPFF Recommendation	Vote For / Oppose		AGM Vote outcome
			LGIM	LCIV	
Sports Direct	1. Receive the Annual Report	Oppose	For	N/A	
	2. Approve the Remuneration Report	For	For	N/A	
	3. Approve the Remuneration Policy	Abstain	For	N/A	
	4. Re-elect Keith Hellawell	Oppose	Oppose	N/A	
	5. Re-elect Mike Ashley	Oppose	Oppose	N/A	
	6. Re-elect Simon Bentley	Oppose	Oppose	N/A	
	16. Authorise share repurchase	Oppose	For	N/A	
Ryanair Holdings plc	1. Consider Financial Statements and Reports	Oppose	For	N/A	
	3a. Re-elect David Bonderman	Oppose	Oppose	N/A	

*Where N/A means information not available at the time of writing or the Fund Manager has not invested in the company.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1 This is a noting report and there are no direct financial implications as a result of the contents of this report.
- 4.2 The exercise of voting rights and engagement with investee companies are a key part of the Fund's role as a long term steward of assets. Ensuring good corporate governance and the adoption of sustainable business models at the companies in which the Fund invests should over the longer term ensure that they are able to deliver superior returns to the Fund. Poor corporate governance and unsustainable business practices can impact on share prices and increases the risk that the Fund may experience a loss of value in its investments in the future.

5. LEGAL COMMENTS

- 5.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 Regulation 7 requires Administering Authorities to publish and maintain an Investment Strategy Statement which includes, amongst other items, details of:
- The authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.
 - The authority's policy on the exercise of the rights (including voting rights) attaching to investments.

- 5.2 In addition, Government guidance on the preparation and maintenance of the Investment Strategy Statement states that Administering Authorities should explain their policy on stewardship with reference to the Stewardship Code, the seven principles of which apply on a 'comply or explain' basis.
- 5.3 There are no immediate legal implications arising from this report.
- 5.4 When making decisions regarding investment of pension funds, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty).

6. ONE TOWER HAMLETS CONSIDERATIONS

- 6.1 The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment management and performance will reduce the contribution and increase the funds available for other corporate priorities.
- 6.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

7. BEST VALUE (BV) IMPLICATIONS

- 7.1 The effective and efficient management of Fund assets are key to the achievement of the funding strategy objectives and this is considered to be a good decision which can result in greater cost savings to the fund.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 8.1 Poor corporate governance and unsustainable business practices can impact on share prices and increases the risk that the Fund may experience a loss of value in its investments in the future.
- 8.2 There is no Sustainable Action for A Greener Environment implication arising from this report.

9. RISK MANAGEMENT IMPLICATIONS

- 9.1 The rigorous robust management of LBTH Pension Fund results in better quicker and more effective decision making which can lead to better Fund performance and reduction in the contribution required from the Council towards the Fund.
- 9.2 Ensuring good corporate governance and the adoption of sustainable business models at the companies in which the Fund invests should over the longer term ensure that they are able to deliver superior returns to the Fund.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 10.1 There are no crime and disorder reduction implications arising from this report.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Appendix 1 – Quarterly LAPFF Voting and Engagement Update September 2018

Local Government Act, 1972 Section 100D (As amended)

List of “Background Papers” used in the preparation of this report

- NONE

Officer contact details for documents:

- Bola Tobun - Investment & Treasury Manager x4733
- Mulberry House, 5 Clove Crescent E14 2BG