

Non-Executive Report of the: <b>PENSIONS COMMITTEE</b> <b>24 September 2019</b>	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Neville Murton, Corporate Director, Resources	<b>Classification:</b>
<b>Quarterly Voting and Engagement Update for June 2019</b>	

<b>Originating Officer(s)</b>	Miriam Adams, Pensions & Investments Manager
<b>Wards affected</b>	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 cast by its investment managers as well as LAPFF recommendations.

## Recommendations:

Members of the Pensions Committee 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 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 continues to impact this arrangement as voting rights are exercised at pool level rather than fund level. The Fund 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 through the LCIV.

3.2 The Fund also 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 86 local authority pension funds including the Environment Agency Pension Fund. 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.

3.3 London CIV - Voting activity and company engagement for Baillie Gifford Diversified Growth Fund over the quarter.

Voting activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	49	Companies	18	Companies	6
Resolutions	511	Resolutions	36	Resolutions	12

Baillie Gifford engaged with BBGI Sicav S.A. and Foresight Solar Fund Limited on corporate governance issues and engaged with Fondul Proprietatea SA and Greencoat UK Wind PLC on AGM or EGM proposals. Overall although the investment manager has seen a heartening increase in ESG related reporting, the quality and coverage of data was much less encouraging with the use of estimated companies by companies still common practice.

3.4 London CIV – Voting activity and engagement for Ruffer Absolute Return for the quarter ending June (Appendix 3).

Voting activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	44	Companies	13	Companies	12
Resolutions	610	Resolutions	53	Resolutions	21

3.5 Stewardship activities for Goldman Sachs Absolute Return Fixed Income fund for the period ending 30 June 2019 involved 6 companies. Unlike equity managers where voting and direct company engagement takes place, ESG tends to be integrated in process especially in credit allocation.

Company	Issue
Activision Blizzard	Governance – board structure and independence, succession planning
Arcelormittal SA	Environmental, governance – climate change, lobbying disclosure
ExxonMobil Corporation	Environmental, governance – climate change
General Motors Company	Environmental, governance – fuel economy and emissions standards, board structure, succession planning and lobbying disclosure.

Sophos Group	Governance issue - remuneration
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3.6 Voting and engagement activities for Legal and General. During the quarter ending March 2019, Legal and General participated in voting and engagement activities in 111 companies. Appendix 2

3.7 There were 13 voting alerts during the quarter ending June 2019. The table below shows voting information where common stocks exist with LAPFF voting recommendations.

Company	Proposal Description	LAPFF Recommendation	Vote For / Oppose		AGM Vote outcome
				LCIV RUFFER	
Alphabet INC	11. Nomination of an employee representative director	For		n/a	
	16. Report on content governance	For			
TELSA INC	2. Approve the Telsa Inc. 2019 Incentive Plan	Oppose		n/a	oppose the 2019 Incentive Plan and to vote in favour of the shareholder resolution requesting a public policy committee
	7. Shareholder Resolution: Public Policy Committee	For			
General Motors Company	4. Require Independent Board Chairman	n/a		Oppose	Improved lobbying disclosures
	5. Report on Lobbying Communications and Activities	For		For	
Facebook, INC.	9. A content governance report	For		n/a	resolution asking the company produce a report on content governance
Exxon Mobil	1a. Election of Director: Susan K. Avery	Oppose		Oppose	Resolutions asking for an independent chair, a report on the risks Risks of Gulf Coast Petrochemical Investments and for a report on lobbying. As well as oppose the election of the entire Board based
	1b. Election of Director: Angela F. Braly	Oppose		Oppose	
	1c. Election of Director: Ursula M. Burns	Oppose		Oppose	
	1d. Election of Director: Kenneth C. Frazier	Oppose		Oppose	
	1e. Election of Director: Steven A. Kandarian	Oppose		Oppose	
	1f. Election of Director: Douglas R. Oberhelman	Oppose		Oppose	
	1g. Election of Director: Samuel J. Palmisano	Oppose		Oppose	
	1h. Election of Director: Steven S Reinemund	Oppose		Oppose	
	1i. Election of Director: William C. Weldon	Oppose		Oppose	

	1j. Election of Director: Darren W. Woods	Oppose		Oppose	on the company's inadequate approach to climate change.
	4. Independent Chair	Oppose		Oppose	
	8. Report on Risks of Gulf Coast Petrochemical Investments	For		For	
	10. Report on Lobbying	For		For	

\*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.
- 4.3 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 When carrying out its functions, 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.

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### **Linked Reports, Appendices and Background Documents**

#### **Linked Report**

- NONE

#### **Appendices**

- Appendix 1 – Quarterly LAPFF Voting and Engagement Update March 2019
- Appendix 2 – LGIM Voting and Engagement report June 2019
- Appendix 3 – LCIV voting and engagement - RUFFER June 2019
- Appendix 4 – Voting & engagement Schroders Real Estate

#### **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:**

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