

Pensions Committee



Thursday, 25 November 2021 at 6.30 p.m.

Committee Room One - Town Hall, Mulberry Place, 5 Clove
Crescent, London, E14 2BG

Agenda

Chair: Cllr Kyrsten Perry

Members

Vice-Chair:

Councillor Rachel Blake, Councillor Mufeedah Bustin, Councillor David Edgar, Councillor James King, Councillor Ayas Miah, Councillor Andrew Wood and Kehinde Akintunde

Co-optees:

Substitutes:

Councillor Shad Chowdhury, Councillor Gabriela Salva Macallan, Councillor Puru Miah and Councillor Peter Golds

[The quorum for the Pensions Committee is 3 Members]

Further Information

Reports for consideration, meeting contact details, public participation and more information is available on the following pages.



Public Information

Viewing or Participating in Committee Meetings

The meeting will be broadcast live on the Council's website. A link to the website is detailed below. The press and public are encouraged to watch this meeting on-line. Please note: Whilst the meeting is open to the public, the public seating in the meeting room for observers will be extremely limited due to the Covid19 pandemic restrictions. You must contact the Democratic Services Officer to reserve a place, this will be allocated on a first come first served basis. No one will be admitted unless they have registered in advance.

Meeting Webcast

The meeting is being webcast for viewing through the Council's webcast system.

<http://towerhamlets.public-i.tv/core/portal/home>

Contact for further enquiries:

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E-mail: farhana.zia@towerhamlets.gov.uk
Web:<http://www.towerhamlets.gov.uk/committee>

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Scan this code for an electronic agenda:



Pensions Committee

Thursday, 25 November 2021

6.30 p.m.

PAGE
NUMBER(S)

APOLOGIES FOR ABSENCE

1. DECLARATIONS OF INTERESTS

5 - 6

Members are reminded to consider the categories of interest, identified in the Code of Conduct for Members to determine: whether they have an interest in any agenda item and any action they should take. For further details, see the attached note from the Monitoring Officer.

Members are also reminded to declare the nature of the interest at the earliest opportunity and the agenda item it relates to. Please note that ultimately it is the Members' responsibility to identify any interests and also update their register of interest form as required by the Code.

If in doubt as to the nature of an interest, you are advised to seek advice prior the meeting by contacting the Monitoring Officer or Democratic Services.

2. ELECTION OF VICE-CHAIR

3. MINUTES OF THE PREVIOUS MEETING(S)

7 - 16

To confirm as a correct record the unrestricted minutes of the meeting of the Committee held on 23rd September 2021.

4. PETITIONS

To receive any petitions relating to matters for which the Committee is responsible.

5. SUBMISSIONS / REFERRALS FROM PENSION BOARD

6. REPORTS FOR CONSIDERATION

6.1 2022 Triennial Valuation Assumptions

17 - 38

- 6 .2 Pension Fund Account Audit Report**
- 6 .3 Asset Allocation Training Recap - Affordable Housing**
- 6 .4 Risk Management Policy and Quarterly Updates on Risk Register** 39 - 42
- 6 .5 ESG, Voting, Engagement and Stewardship Update** 43 - 82

7. TRAINING EVENTS

8. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

9. EXCLUSION OF PRESS & PUBLIC

In view of the contents of the remaining items on the agenda the Committee is recommended to adopt the following motion:

“That, under the provisions of Section 100A of the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985, the press and public be excluded from the remainder of the meeting for the consideration of the Section Two business on the grounds that it contains information defined as Exempt in Part 1 of Schedule 12A to the Local Government Act, 1972.”

EXEMPT SECTION (Pink Papers)

The exempt committee papers in the agenda will contain information, which is commercially, legally or personally sensitive and should not be divulged to third parties. If you do not wish to retain these papers after the meeting, please post them to the Democratic Service Office, 1st Floor, Mulberry Place London E14 2BG or hold onto the papers until such time you can return to the Town Hall and dispose of the papers in the confidential bins.

9 .1 RESTRICTED MINUTES OF THE PREVIOUS MEETING(S) 83 - 94

To confirm as a correct record the restricted minutes of the meeting of the Committee held on 23rd September 2021.

- 9 .2 Pensions Administration and LGPS Quarterly Update** 95 - 104
- 9 .3 London Collective Investment Vehicle Changes** 105 - 192
- 9 .4 Quarterly Performance Review** 193 - 262
- 9 .5 Decarbonisation Target Setting** 263 - 282

Next Meeting of the Committee:

Thursday, 10 March 2022 at 6.30 p.m. to be held in the Committee Room One - Town Hall, Mulberry Place, 5 Clove Crescent, London, E14 2BG

Agenda Item 1

DECLARATIONS OF INTERESTS AT MEETINGS– NOTE FROM THE MONITORING OFFICER

This note is for guidance only. For further details please consult the Code of Conduct for Members at Part C, Section 31 of the Council's Constitution

(i) Disclosable Pecuniary Interests (DPI)

You have a DPI in any item of business on the agenda where it relates to the categories listed in **Appendix A** to this guidance. Please note that a DPI includes: (i) Your own relevant interests; (ii) Those of your spouse or civil partner; (iii) A person with whom the Member is living as husband/wife/civil partners. Other individuals, e.g. Children, siblings and flatmates do not need to be considered. Failure to disclose or register a DPI (within 28 days) is a criminal offence.

Members with a DPI, (unless granted a dispensation) must not seek to improperly influence the decision, must declare the nature of the interest and leave the meeting room (including the public gallery) during the consideration and decision on the item – unless exercising their right to address the Committee.

DPI Dispensations and Sensitive Interests. In certain circumstances, Members may make a request to the Monitoring Officer for a dispensation or for an interest to be treated as sensitive.

(ii) Non - DPI Interests that the Council has decided should be registered – (Non - DPIs)

You will have 'Non DPI Interest' in any item on the agenda, where it relates to (i) the offer of gifts or hospitality, (with an estimated value of at least £25) (ii) Council Appointments or nominations to bodies (iii) Membership of any body exercising a function of a public nature, a charitable purpose or aimed at influencing public opinion.

Members must declare the nature of the interest, but may stay in the meeting room and participate in the consideration of the matter and vote on it **unless:**

- A reasonable person would think that your interest is so significant that it would be likely to impair your judgement of the public interest. **If so, you must withdraw and take no part in the consideration or discussion of the matter.**

(iii) Declarations of Interests not included in the Register of Members' Interest.

Occasions may arise where a matter under consideration would, or would be likely to, **affect the wellbeing of you, your family, or close associate(s) more than it would anyone else living in the local area** but which is not required to be included in the Register of Members' Interests. In such matters, Members must consider the information set out in paragraph (ii) above regarding Non DPI - interests and apply the test, set out in this paragraph.

Guidance on Predetermination and Bias

Member's attention is drawn to the guidance on predetermination and bias, particularly the need to consider the merits of the case with an open mind, as set out in the Planning and Licensing Codes of Conduct, (Part C, Section 34 and 35 of the Constitution). For further advice on the possibility of bias or predetermination, you are advised to seek advice prior to the meeting.

Section 106 of the Local Government Finance Act, 1992 - Declarations which restrict Members in Council Tax arrears, for at least a two months from voting

In such circumstances the member may not vote on any reports and motions with respect to the matter.

Further Advice contact: Janet Fasan, Director of Legal and Monitoring Officer, Tel: 0207 364 4800.

APPENDIX A: Definition of a Disclosable Pecuniary Interest

(Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, Reg 2 and Schedule)

Subject	Prescribed description
Employment, office, trade, profession or vacation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by the Member in carrying out duties as a member, or towards the election expenses of the Member. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority— (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
Land	Any beneficial interest in land which is within the area of the relevant authority.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.
Corporate tenancies	Any tenancy where (to the Member's knowledge)— (a) the landlord is the relevant authority; and (b) the tenant is a body in which the relevant person has a beneficial interest.
Securities	Any beneficial interest in securities of a body where— (a) that body (to the Member's knowledge) has a place of business or land in the area of the relevant authority; and (b) either— (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or (ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 6:30 P.M. ON THURSDAY 23RD SEPTEMBER 2021

**ROOM C1, 1ST FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE
CRESCENT, LONDON E14 2BG**

Members Present:

Councillor Kyrsten Perry (Chair)

Councillor Rachel Blake
Councillor Andrew Wood
Councillor Mufeedah Bustin*

Union and Admitted Bodies, Non-Voting Members Present:

Kehinde Akintunde* – GMB Union Representative

Apologies:

Councillor Kevin Brady
Councillor David Edgar

Others Present:

Barry Dodds* – Actuary
John Jones* – (Independent Chair) Pensions Board
Hemal Popat* – Mercer
Colin Robertson* – Independent Investment Advisor
(Pensions Committee)
Steve Turner* – Mercers - Senior Investment
Consultant
Lambert Leduc* – Mercer

Officers Present:

Miriam Adams – Interim Head of Pensions and
Treasury
Ngozi Adedeji* – (Principal Lawyer Civil Litigation,
Governance)
Hitesh Jolapara* – (Interim Divisional Director, Finance,
Procurement & Audit)
Farhana Zia – (Democratic Services Officer,
Committees, Governance)

*attended virtually – online

1. DECLARATIONS OF INTERESTS

There were no pecuniary declarations of interest declared at the meeting by members.

2. UNRESTRICTED MINUTES OF THE PREVIOUS MEETING(S)

The unrestricted minutes from the meeting held on the 5th July 2021 were agreed to be an accurate record of the meeting and were approved by the Committee.

3. PETITIONS

No Petitions relating to the matters for which the Committee is responsible had been received by the Officer.

4. SUBMISSIONS / REFERRALS FROM PENSION BOARD

Mr John Jones, the Independent Chair of the Pensions Board presented his submission on behalf of the Pensions Board.

Mr Jones stated the Board met on the 6th September and received a presentation from LGIM on their approach to ESG. He said the presentation covered climate related issues and their approach and action in getting companies to comply. He said voting was also discussed particularly voting in line with the Fund's policies.

Mr Jones said a full discussion took place on the Pension Administration and LGPS update report and it was encouraging to see the number of tasks outstanding falling and the progress made in relation to the recruitment of staff.

Mr Jones said the risk register for the Pension Fund had been reviewed and some amendments had been suggested. He praised the communication strategy and said this was welcomed by the Board. He said the Board had suggested the strengthening of some actions such as encouraging feedback from staff.

Members of the Committee had no questions from Mr Jones.

The Chair, Councillor Perry thanked Mr Jones for the updated provided.

The Pensions Committee **RESOLVED** to:

1. Note the report of the Pensions Board and the issues raised therein.

5. REPORTS FOR CONSIDERATION

5.1 Funding Update June 2021

Ms Miriam Adams, Interim Head of Pensions and Treasury introduced the report and stated that the funding update provided an illustration of the estimated funding position from 31st March 2019 to 30th June 2021.

Ms Adams said the projected benefit payments used in the calculation were based on the membership data and financial and demographic assumptions used for the 2019 formal valuation. She said this was in line with the Funding Strategy Statement (FSS) dated March 2020.

Mr Barry Dodds from Hymans Robertson LLP then provided Committee members with a detailed explanation of the funding position as of 30th June 2021. He referred members to page 26 of the agenda pack and explained the liabilities the Fund could incur based on future benefit payments. Mr Dodds then referred to the Fund's assets and the chart on page 27 of the agenda. He said that as of 30th June 2021, based on the Fund's asset allocation, it was estimated that there was a 70% likelihood of achieving an annual return of at least 3.7% per annum. Mr Dodds said the outlook for future investment returns had worsened since the last formal valuation.

In response to questions and comments from members the following was noted:

- The Chair, Councillor Perry stated that the funding level looked incredible for the last few years. She said the investments had been good, despite the pandemic but wondered if this was normal? If things go wrong, say a fluctuation of ½ or 1 percent in the estimated long term return, could this have a big impact on funding? Mr Dodds agreed with Councillor Perry saying these were unusual times but gains and losses were market related so no one can predict the outcome. He said climate change, politics, and the longevity of people in the Fund would impact the funding position of the Fund.
- Asked if deaths from the pandemic had been taken into account for the triennial valuation, Mr Dodds said they were working closely with ClubVita who were analysing data in relation to the impact Covid-19 had had on the Fund. However, from early indications the impact had been small.

The Pensions Committee **RESOLVED** to:

1. Note the contents of the report; and
2. Note that any investment decisions taken which fail to provide the desired returns will impact estimated funding levels.

5.2 2022 Triennial Valuation Plan

Ms Miriam Adams, Interim Head of Pensions and Treasury introduced the report stating that the LGPS regulations required the administering authority to complete an actuarial valuation of their Pension Fund on a three-year cycle. She said the next valuation was due as at 31st March 2022.

Ms Adams said the report set out the high-level summary timetable for the valuation and referred members to paragraph 1.1 and 1.2 of the report as well as the timetable on page 36 of the agenda pack, at paragraph 3.6.

In response to questions from members the following was noted:

- Mr Barry Dodds confirmed that behind the timetable presented at paragraph 3.6 sat a very detailed plan, with contingency built in, in case there was slippage in the timetable.
- Ms Adams said a considerable amount of work was required for the valuation, some of which had already been started. She said in terms of resources the team at present was under resourced however she was recruiting staff and hoped to deliver the valuation on time.

The Pensions Committee **RESOLVED** to:

1. Review and approve the March 2022 Triennial valuation process and Timetable.

5.3 Climate Change - Related Disclosures

Ms Miriam Adams, Interim Head of Pensions and Treasury introduced the report stating this was a summary of the Fund's first report complying with the Task Force for Climate Related Financial Disclosures (TCFD). She said the report supported the Fund's strategic investment objectives, with a particular focus on how it will fulfil its role as a responsible investor.

Ms Adams said the appendix was part of the restricted agenda however the main report was in the public domain. She said this was a key milestone for the committee as very few London Boroughs had achieved the same success as the London Borough of Tower Hamlets Pension Fund.

Mr Steve Turner from Mercer added that compliance with TCFD was not mandatory although consultation on LGPS pointed to compliance being expected shortly. He said this was the first report on the disclosure objectives, as previously the committee had received information on the carbon footprint. He said the matrix provided detailed information on the total emissions and implications of different temperature changes for the portfolio.

In response to questions from members the following was noted:

- The Chair asked if the temperature changes cited in the report were based on land and water and how the 3.2 degrees increase in the implied temperature rise of the listed portfolio was derived. In response Mr Turner stated that the analysis had been derived using scope 1 and scope 2 emissions data. He said calculating temperature rises was complex and therefore it was hard to predict their accuracy. However, the Tower Hamlets fund invested in funds such as the equities fund managed by Baillie Gifford which was Paris-aligned and therefore the Committee could be more confident the fund would achieve its targets. He said previously WACI data had been used to measure carbon

emissions, but more progress was required by all parts of society, companies and investors, to see improvements in climate change financial disclosure.

The Pensions Committee **RESOLVED** to:

1. Consider and approve the 2020-21 TCFD report (Appendix 1); and
2. Continue to enhance its approach to Climate Risk.

5.4 Pensions Administration and LGPS Quarterly Update – June 2021, 06/09/2021 Pension Board

Ms Miriam Adams, Interim Head of Pensions and Treasury stated the Pensions Administration and LGPS Quarterly update provided information relating to the administration and performance of the Fund over the last quarter as well as an update on the key LGPS issues and initiatives which impact the Fund.

She said several new employers had joined the scheme. The majority were from the contract services, cleaning and catering outsourcing, which had been taking place since 2017. Ms Adams referred members to the tables at paragraphs 3.1 and 3.2 and said considerable progress had been made with the backlog of work as well as workflows referred to in paragraph 3.6. Ms Adams said the annual benefit statements had been despatched to most members save for approximately 250 where there was either incomplete or missing data. She said the Pensions Team were continuing to work with employers, referred to in paragraph 3.10 and the senior officers were considering the recommendation made by the external auditor to refer this to the Pensions regulator.

In response to questions and comments from members the following was noted:

- Councillor Blake stated the outstanding tasks list had been significantly reduced and said this progress ought to be recognised by the members of the Pensions Committee.
- **ACTION:** Committee members wholeheartedly agreed with this statement and asked Ms Adams to express to staff their appreciation of the hard work they had assumed in reducing the number of outstanding tasks.
- In relation to paragraph 3.10, Ms Adams clarified some of the employers were using the Council's in-house payroll system and therefore it was also the Council itself that was being recommended to be reported to the regulator. Mr Hitesh Jolapara, Interim Divisional Director for Finance, Procurement and Audit stated that the recommendation made by the auditors was noted and it was for the Council to self-report to the regulator.

The Pensions Committee **RESOVLED** to:

1. Note and comment on the contents of this report and appendix
2. Note the following admissions to the Tower Hamlets Pension Fund:
 - Age UK East London
 - Juniper Ventures Limited
 - Olive Dinning Limited
 - Cyril Jackson Academy, Boleyn Trust Academy and Age UK Limited.
3. Note admission of University School Trust (Multi Academy Trust MAT) is in respect of Cyril Jackson School.
4. Note the exit of Tower Trust Multi Academy Trust and move of Schools managed by the Trust - The Clara Grant Primary School to Boleyn MAT Newham and Stepney Green Mathematics and Computing College to Mulberry Academy Trust (MAT) Tower Hamlets.
5. Note that Clara Grant Primary School although moving under the management of Boleyn Trust Newham have requested to remain in the Tower Hamlets Pension Fund.

5.5 Recap on Asset Allocation Training

Mr Steve Turner, from Mercer provided a recap on the asset allocation training held on the 15th September 2021. He said the session was split into two parts, with the first one looking at additional modelling of straw man portfolios, including different allocations to equities. He said previously there had been discussion as to whether to reduce this from 50% to 45% or 40% of the overall portfolio.

He said 11 strawman were looked at and the outcome of each showed that there was not a big difference in the fund's total return and risk across the 11 strawman. He said this was a good thing as it showed the Fund could broadly maintain the same level of expected return. He said there was a variation of 0.2% in return across the different strategies. He said the benefit of reducing equities meant greater diversity, less reliance on equities and potentially investing in assets that are more reliable, with predictable cash-flows linked to inflation. Mr Turner said members at the training session narrowed down the straw man portfolios to two strategies in addition to the current one.

Mr Turner continued stating that the second part of the training session focussed on a deep dive into three alternative asset classes which were private debt, long lease property and affordable housing, The key characteristics of each had been looked at, so members had a better understanding of each asset class.

Mr Colin Robertson, Independent Adviser, said that the characteristics of the fund as a whole, for example the sensitivity to inflation, needed to be taken into account in deciding which asset classes to add. Also, one needed to consider the potential managers for each new asset class and the current valuations of the asset classes.

In response to questions and comments from members the following was noted:

- Councillor Wood stated he was unsure of the Private Debt asset class and said he'd want more information on this before committing to this asset class. However, he agreed with the reduction of equity exposure. Mr Turner stated more time could be spent on Private Debt before decisions are made to invest in it.

The Chair thanked Mr Turner for the recap on asset allocation. She said he should continue his investigations without committing the fund.

5.6 Communication Strategy and Policy Statement, 06/09/2021 Pension Board

Ms Miriam Adams, Interim Head of Pensions and Treasury said the Communications Strategy and Policy Statement was the responsibility of the Pensions Board and was part of their terms of reference. However, following the successful launch of the self-service Pensions portal and the imminent launch of the Pensions website, a communications strategy had been developed with the aid of Hymans LLP. She referred members to page 59 of the agenda pack and said the idea was to build on the success of the website and ensure there was a regulatory framework on how the Fund communicates with its stakeholders, with clear objectives ensuring information on pensions is accessible to all. She referred to the detailed table starting on page 64 and said this showed how the Pensions Team would be communicating with different stakeholders.

In response to questions from members the following was noted:

- In reference to page 63 of the agenda and Freedom of Information requests, Councillor Wood asked what type of FOI requests were received. Ms Adams responded saying the nature of FOI requests varied, from organisations/media outlets compiling pensions data, to lobby groups enquiring where investments had been made (this was particularly enquired about during the recent Israel/Palestinian conflict), to individuals seeking information on their pensions and/or spouses' pensions.

The Pensions Committee **RESOLVED** to:

1. Note the Communication Strategy and Policy Statement (Appendix1); and
2. The Committee's feedback on the Communications Strategy presented at the meeting.

5.7 Update on Pension Fund Accounts 2020/21

Ms Miriam Adams, Interim Head of Pensions and Treasury and Mr Hitesh Jolapara, Interim Divisional Director for Finance, Procurement and Audit provided a verbal update in relation to the Pension Fund Accounts 2020/21. Mr Jolapara explained the external auditors had provided them with a list of queries that would require investigation and resolution before the accounts can be signed off. He said up until last week, there were no outstanding queries.

Ms Adams added that some of the queries raised had been previously answered and therefore they were seeking further clarity from the external auditors on the list they had issued. She said she would be meeting with them tomorrow to discuss the list they had provided.

In response to questions from members the following was noted:

- There were twelve queries that had been raised by the Auditors, some of which had been previously answered. Further clarity on how big the issues were would be provided once they had met with the external auditors.

The Pensions Committee **RESOLVED** to:

1. Note the verbal update and asked the Chair of the Pensions Committee be updated on the progress made.

6. TRAINING EVENTS

Ms Miriam Adams, Interim Head of Pensions and Treasury informed Committee Members that the registration forms for the online learning academy had been sent out to all members of the Committee and she encouraged members to join and complete the sessions. Ms Adams said a monthly report would be sent to her by the providers showing the progress made by members. Ms Adams said the online academy was in addition to regular training provided to the Committee and the Board.

Members of the Committee had no questions for Ms Adams.

7. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

There was no urgent business to be discussed by the Committee.

8. EXCLUSION OF PRESS & PUBLIC

The Chair **MOVED** and it was

RESOLVED

“That under the provisions of Section 100A of the Local Government Act 1972, as amended by the Local Government (Access to Information) Act

1985, the press and public be excluded from the remainder of the meeting for the consideration of the Section Two business on the grounds that it contains information defined as Exempt in Part 1 of Schedule 12A of the Local Government Act, 1972.”

8.1 RESTRICTED MINUTES OF THE PREVIOUS MEETING(S)

The restricted minutes from the meeting of 5th July 2021 were agreed to be an accurate record of the meeting and were approved by the Committee.

8.2 Quarterly Performance Review

The minute for this item is restricted.

8.3 ESG, Voting and Engagement Quarterly Update - June 21

The minute for this item is restricted.

8.4 Equity Protection Review

The minute for this item is restricted.

8.5 Climate Change - Related Disclosures Appendix 1

The Committee members noted the restricted appendix in relation to item 5.3 on Climate Change – Related Disclosures.

The meeting ended at 21:21

Chair, Councillor Kyrsten Perry
Pensions Committee

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London Borough of Tower Hamlets Pension Fund

Pension Committee Training on
2022 Valuation assumptions

Barry Dodds FFA
25 November 2021

Agenda

Page 18

Valuation refresher

Assumptions

What's next?

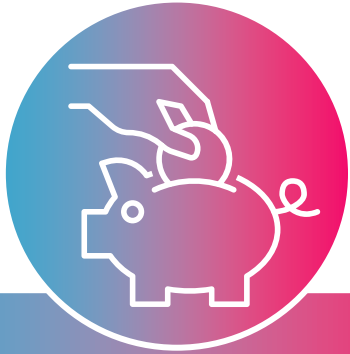
Please do ask questions as we go along

Valuation refresher



How the Fund works

Page 20



Collect money
(contributions)



Invest money
(its assets)



Pay money out
(benefits)

Why we do a valuation



Calculate employer contribution rates



Compliance with legislation



Analyse actual experience vs assumptions



Review Funding Strategy Statement

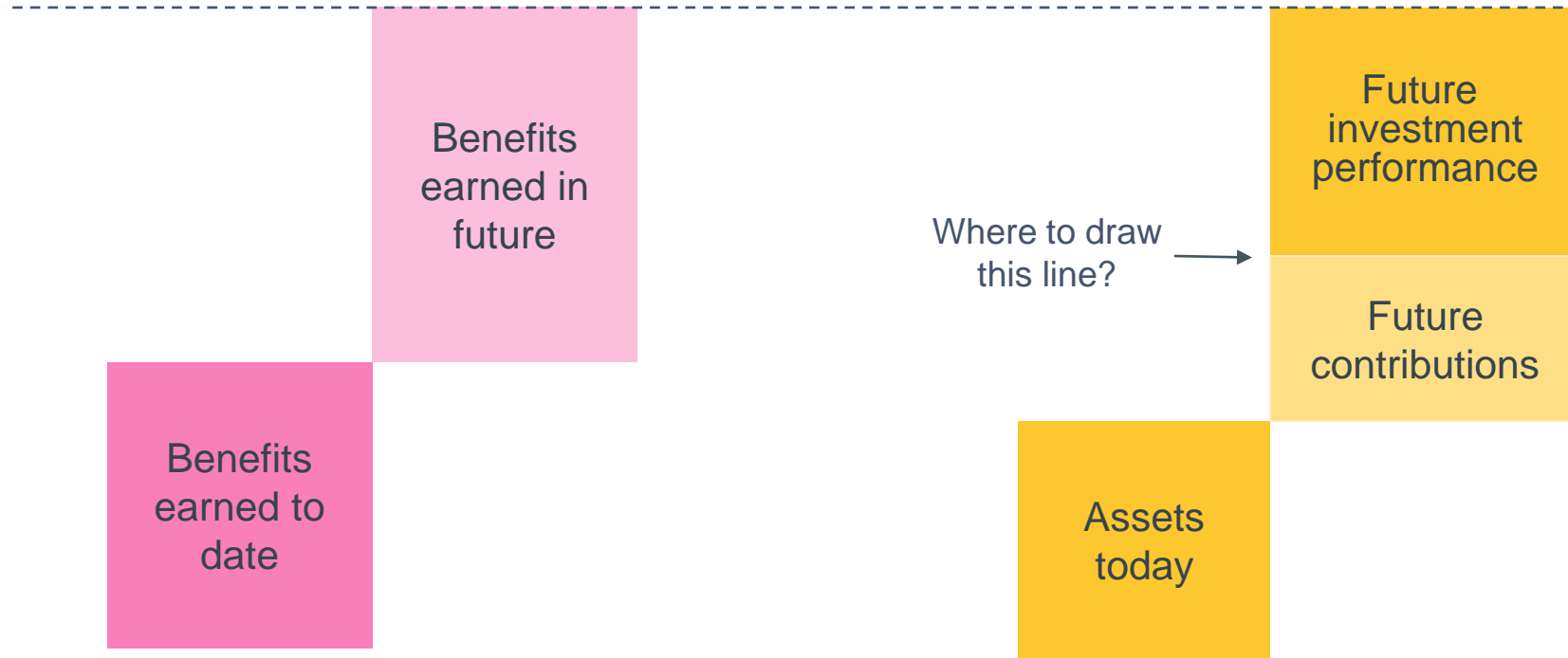


Part of continual 'health check' on fund solvency

The triennial valuation is a key risk management exercise for the Fund

How to fund benefits

Page 22



The key valuation decision is the balance of contributions and future investment performance

Two outputs from the valuation*

Funding position

Contribution rate

Page 23

Benefits
earned to
date

vs

Assets
today

= surplus / (deficit)

Benefits
earned in
future

Primary contribution rate

+

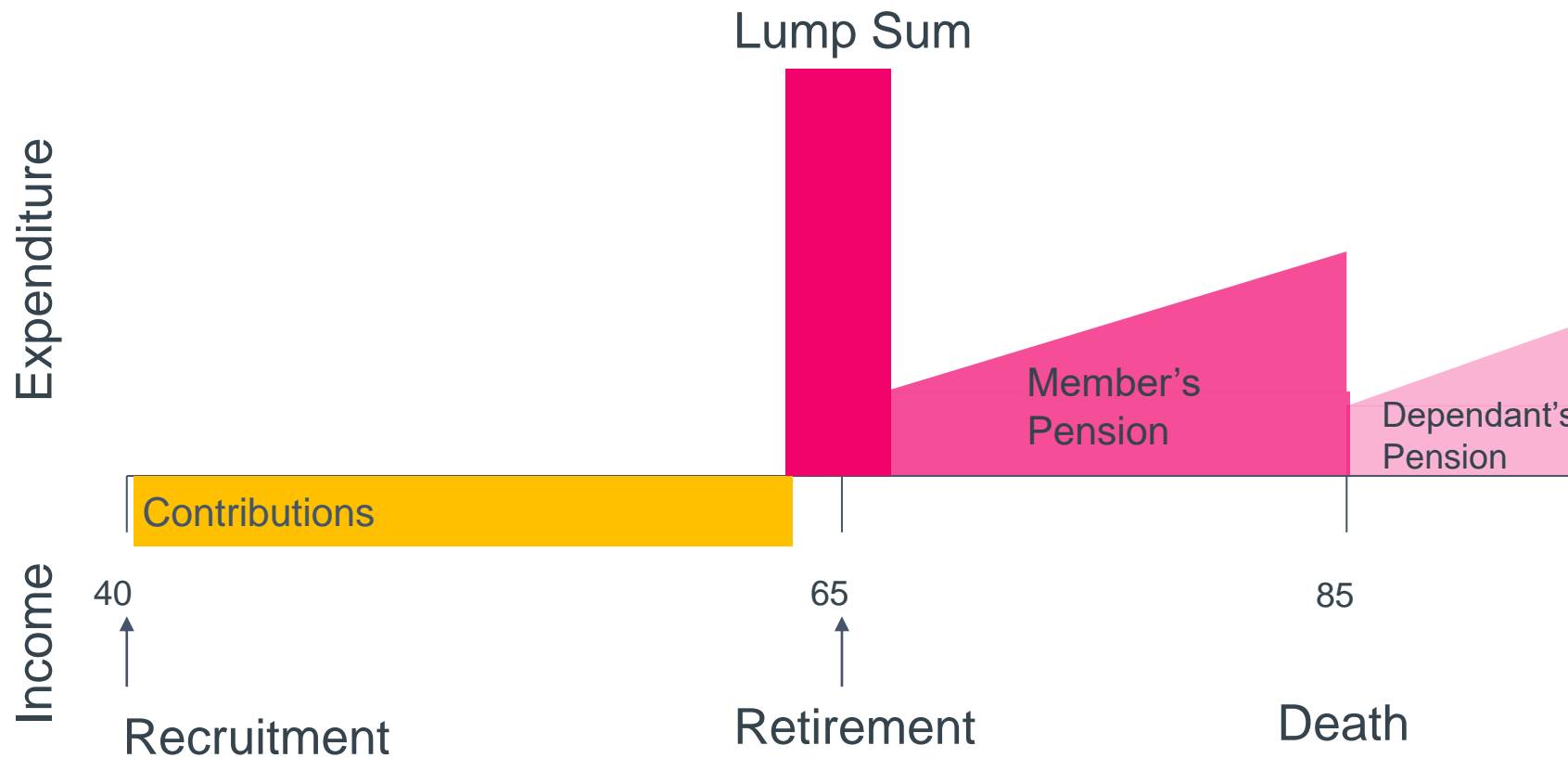
Secondary contributions

***Carried out for each employer**

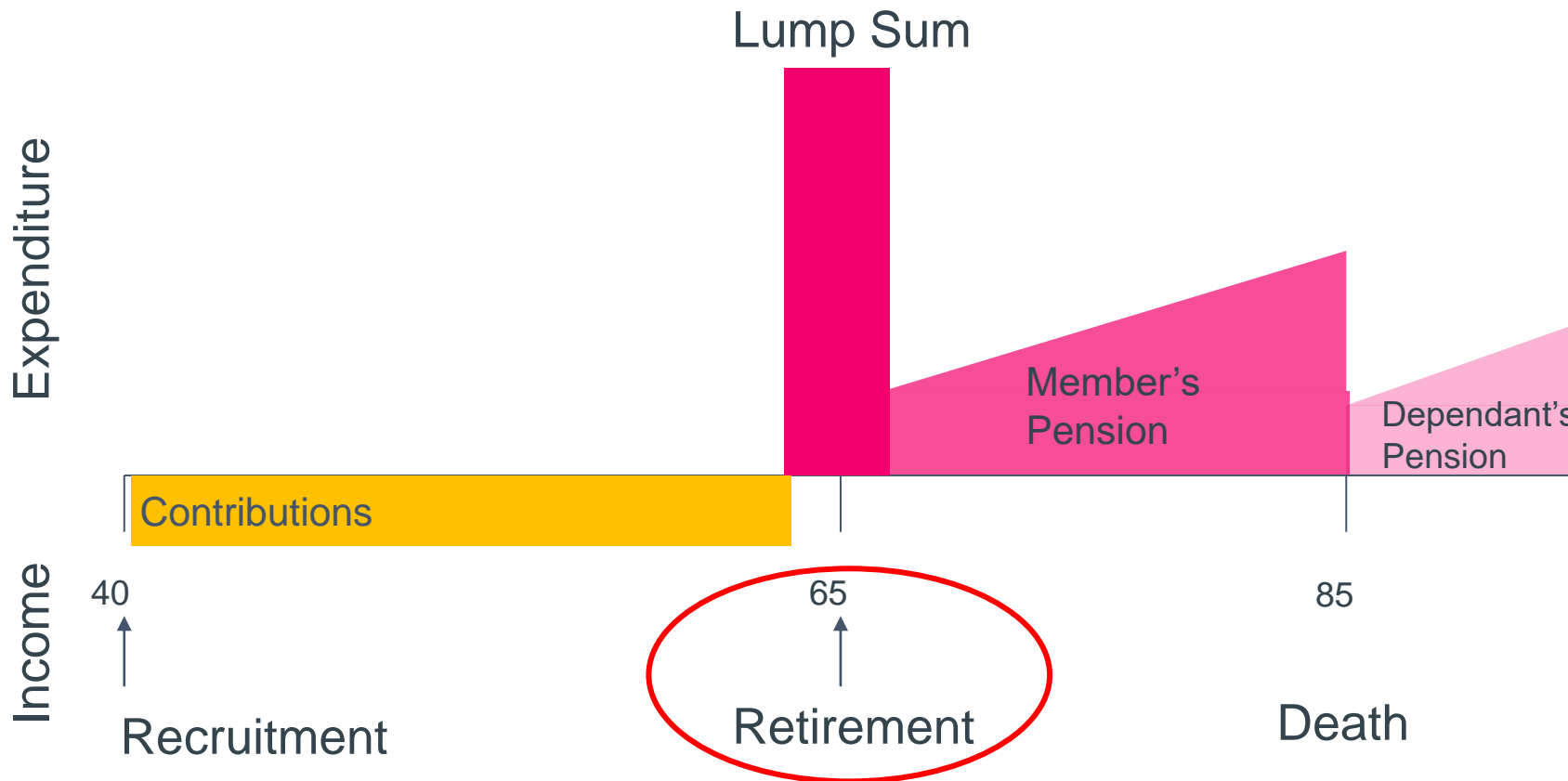
Assumptions



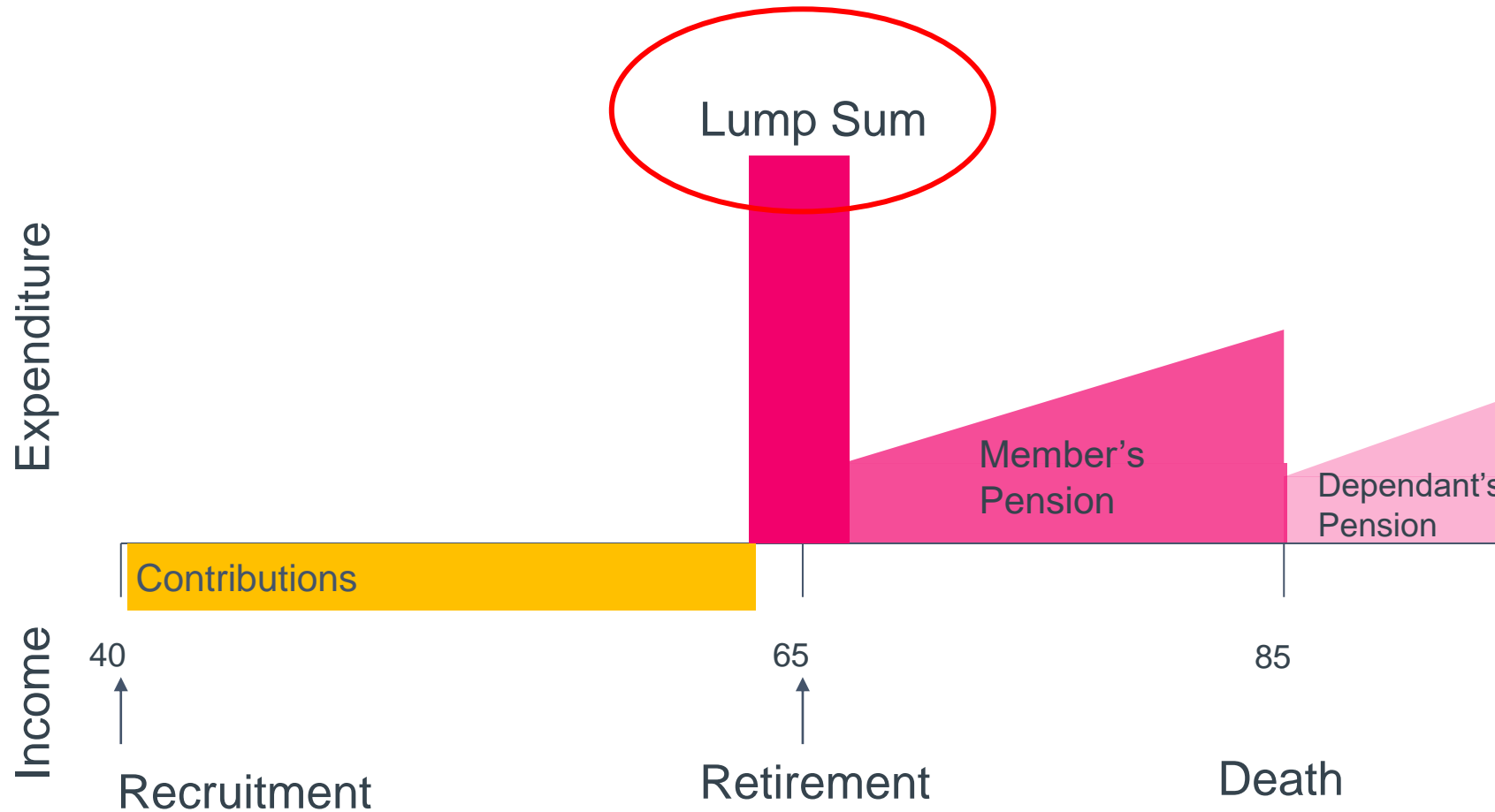
Valuation assumptions at member level



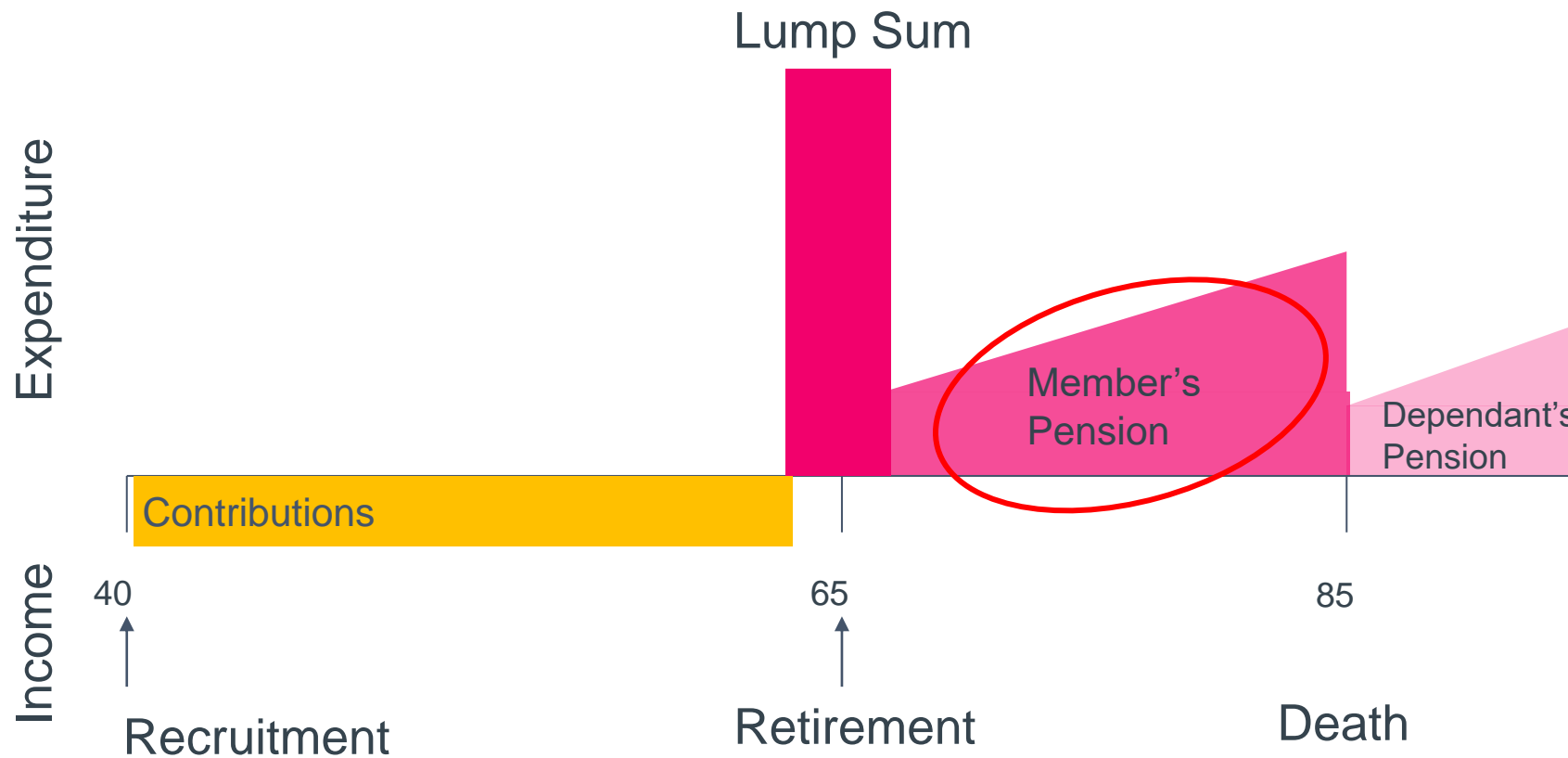
Valuation assumptions at member level



Valuation assumptions at member level

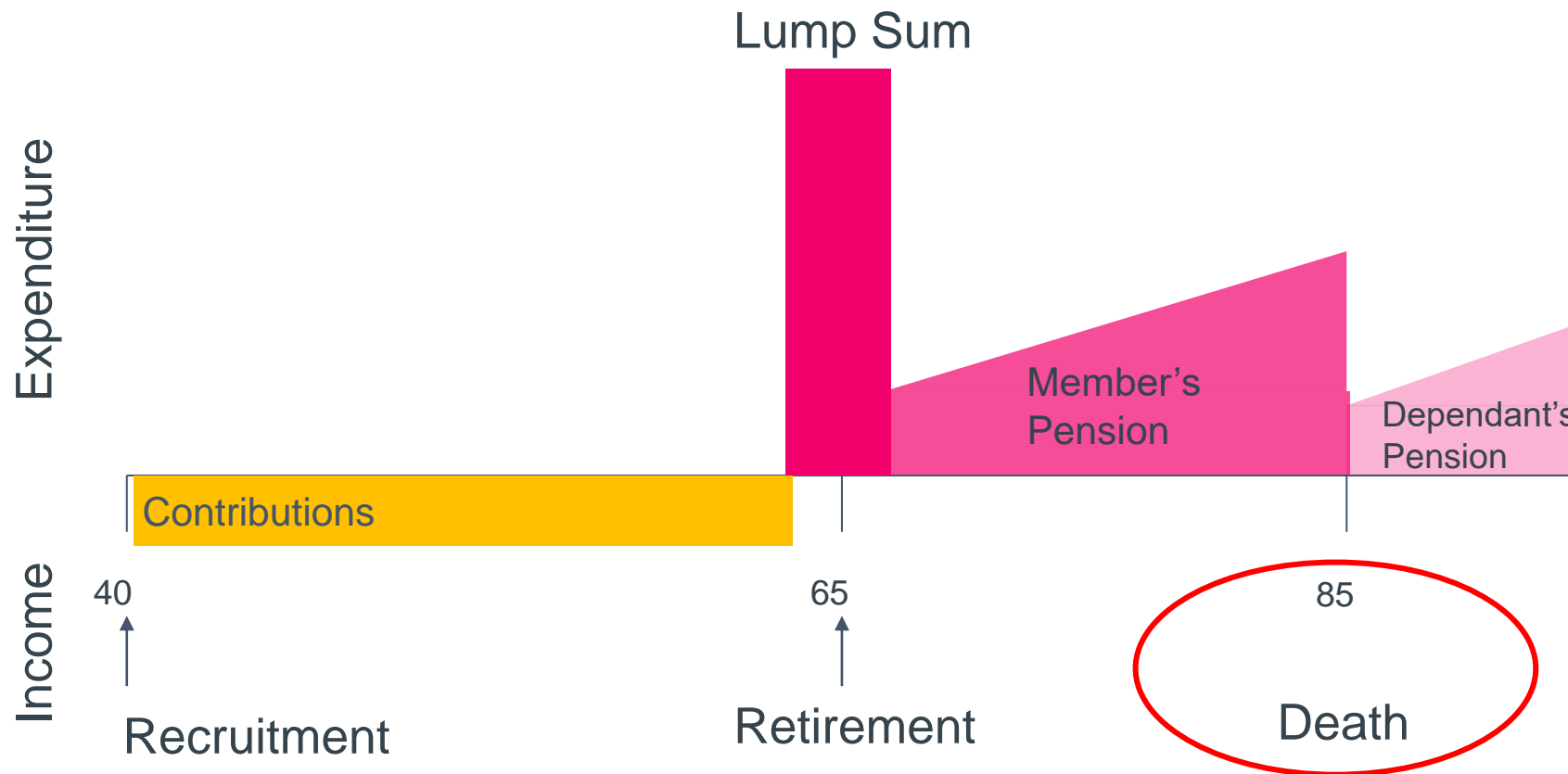


Valuation assumptions at member level



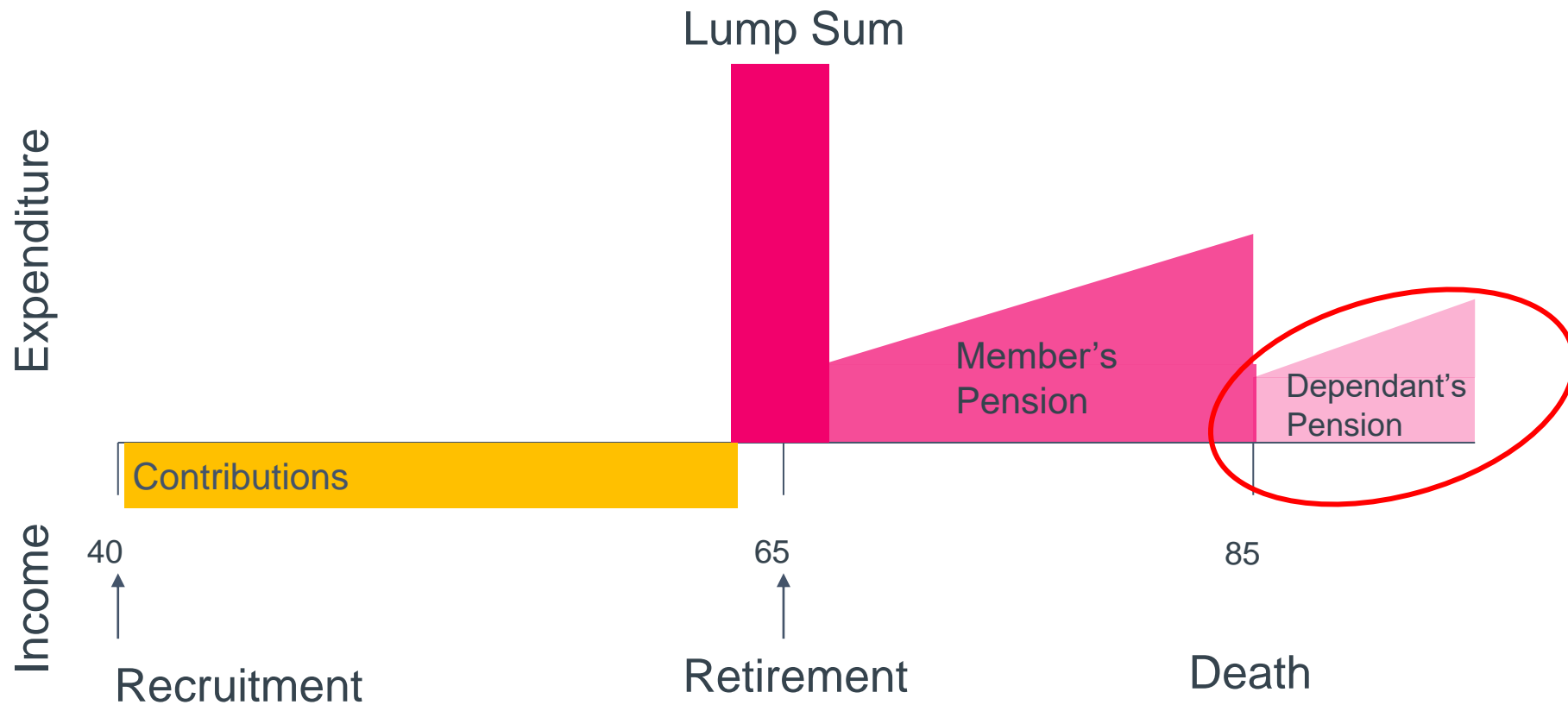
Valuation assumptions at member level

Page 29



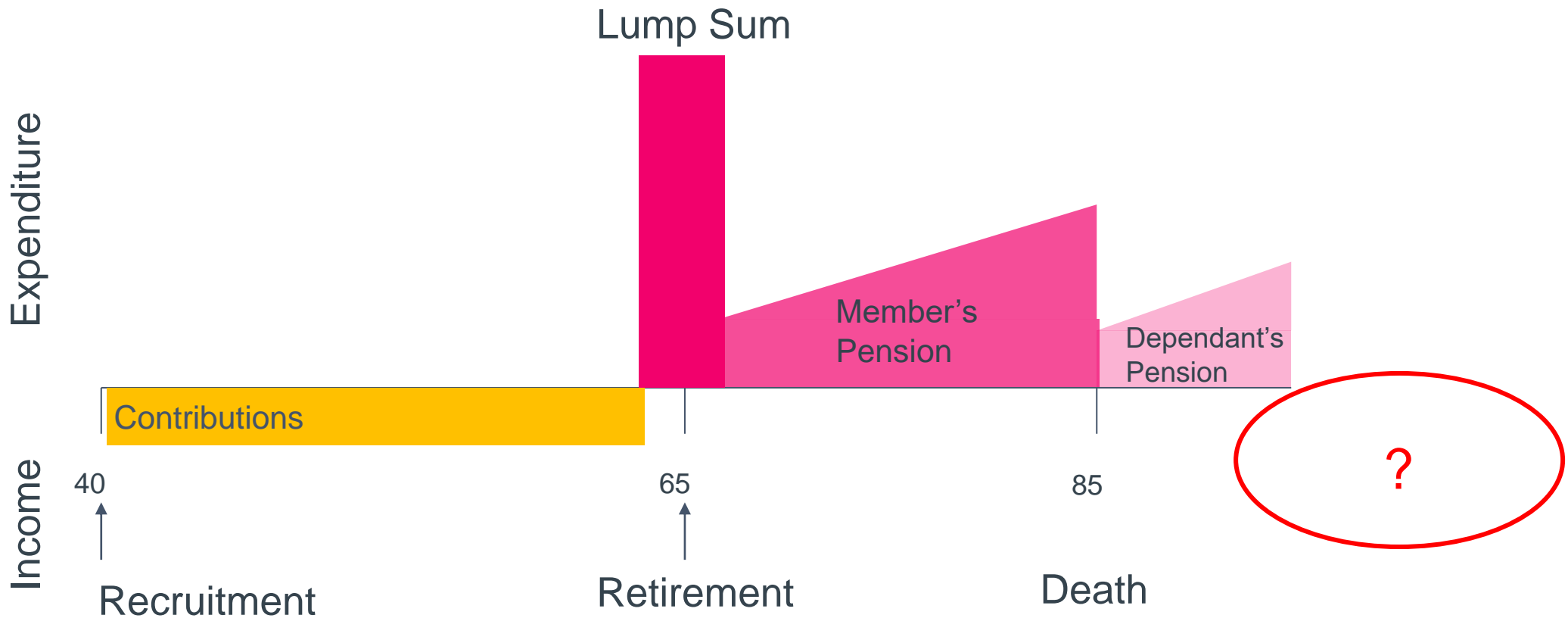
Valuation assumptions at member level

Page 30



Valuation assumptions at member level

Page 31



Issues affecting 2022 valuation results

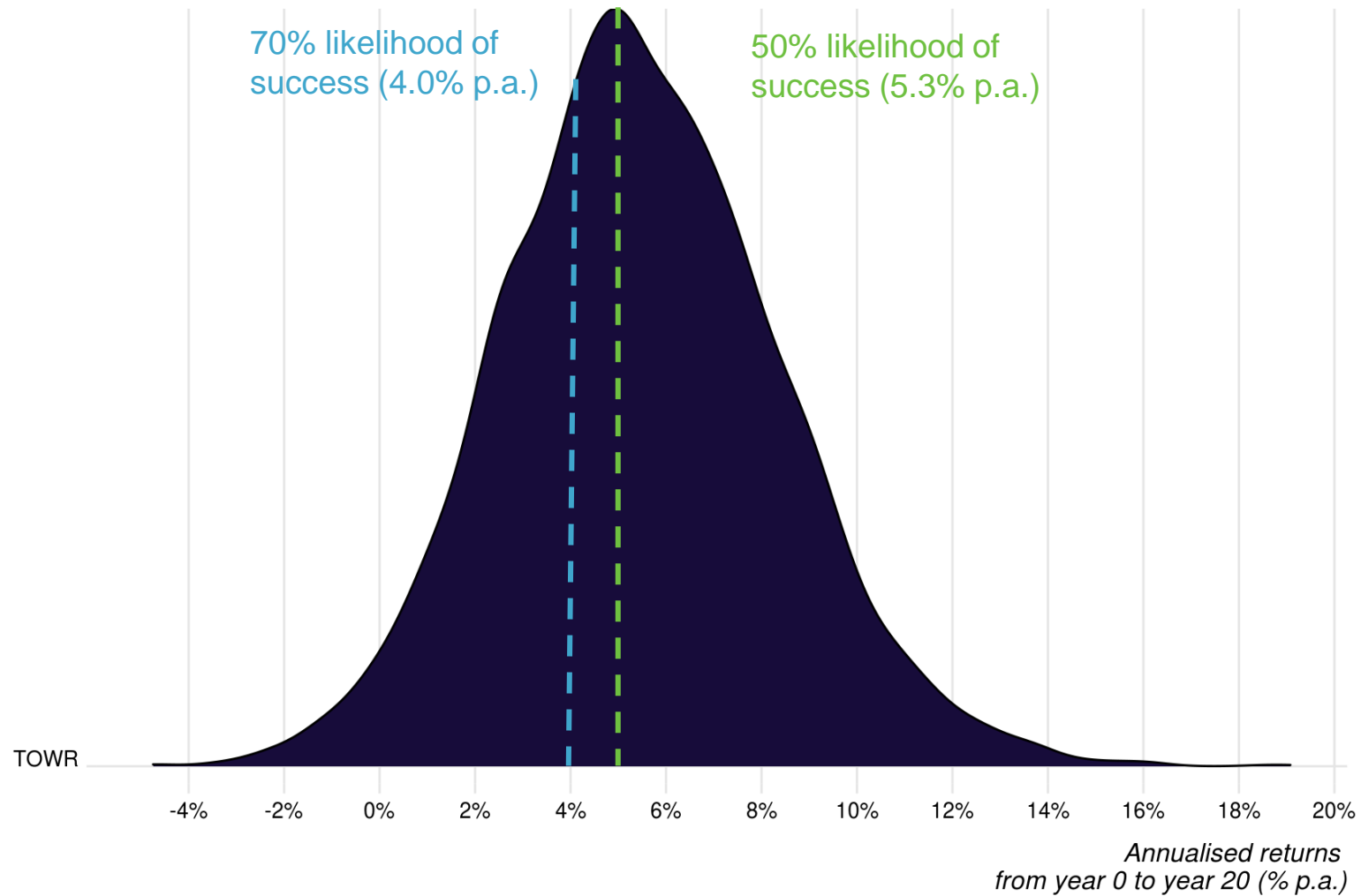
Page 32

- Long term market returns*
- Long term inflation
- Climate risk
- Covid-19 / longevity*

We will allow for all these in 2022 & report to you

*specific to London Borough of Tower Hamlets Pension Fund

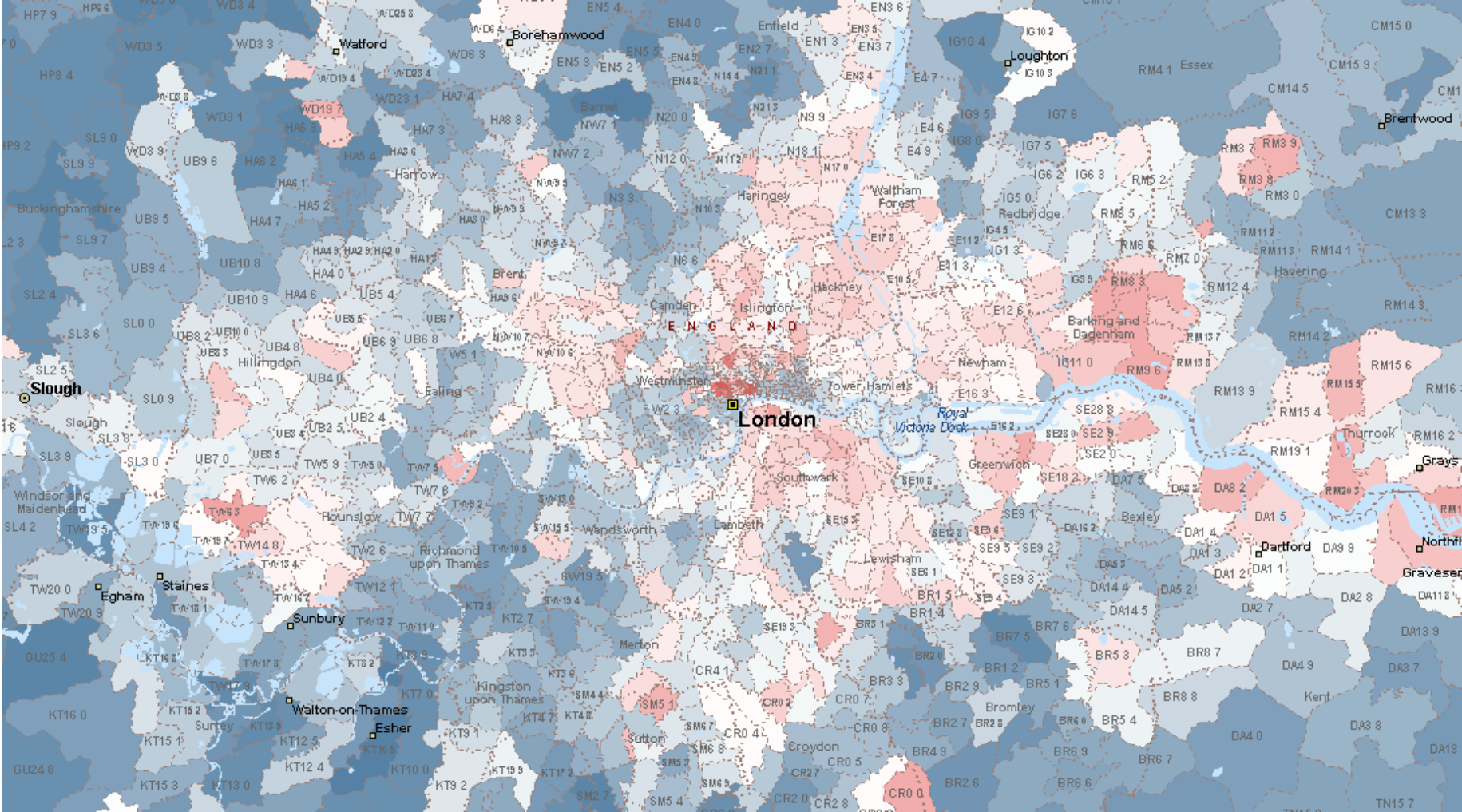
Investment return assumption (aka discount rate)



Tailored life expectancies



Page 34



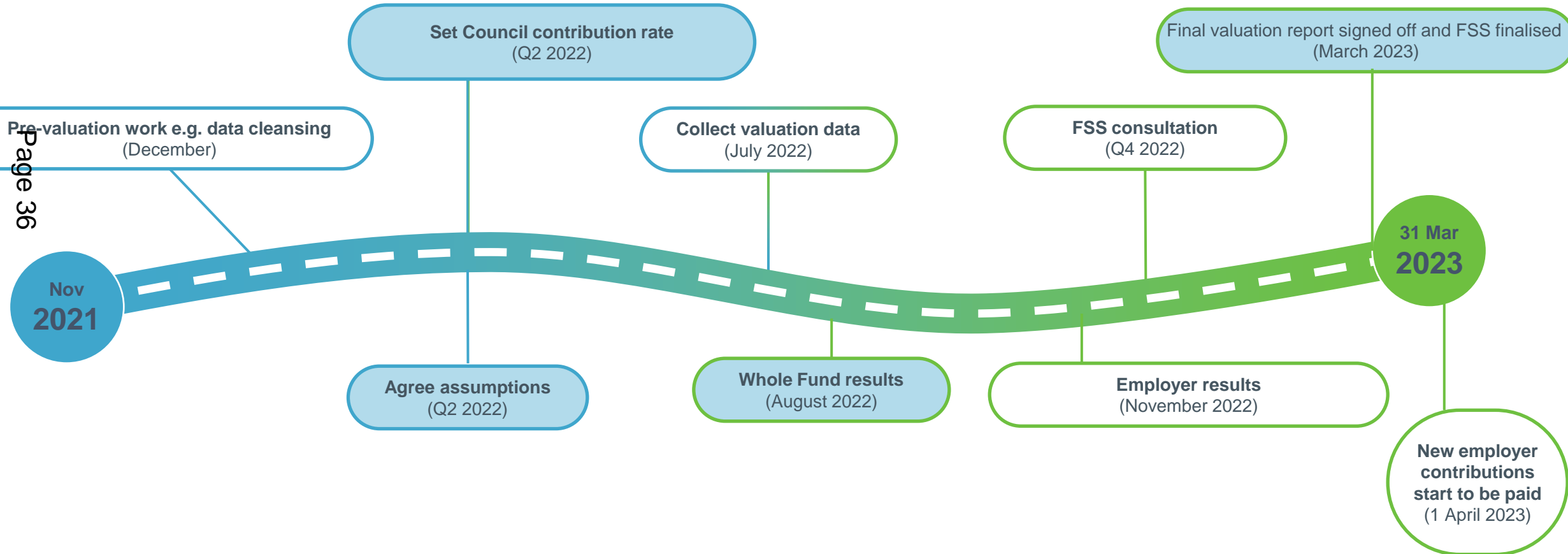
What's next?



The 2022 valuation process

Areas for Members' involvement

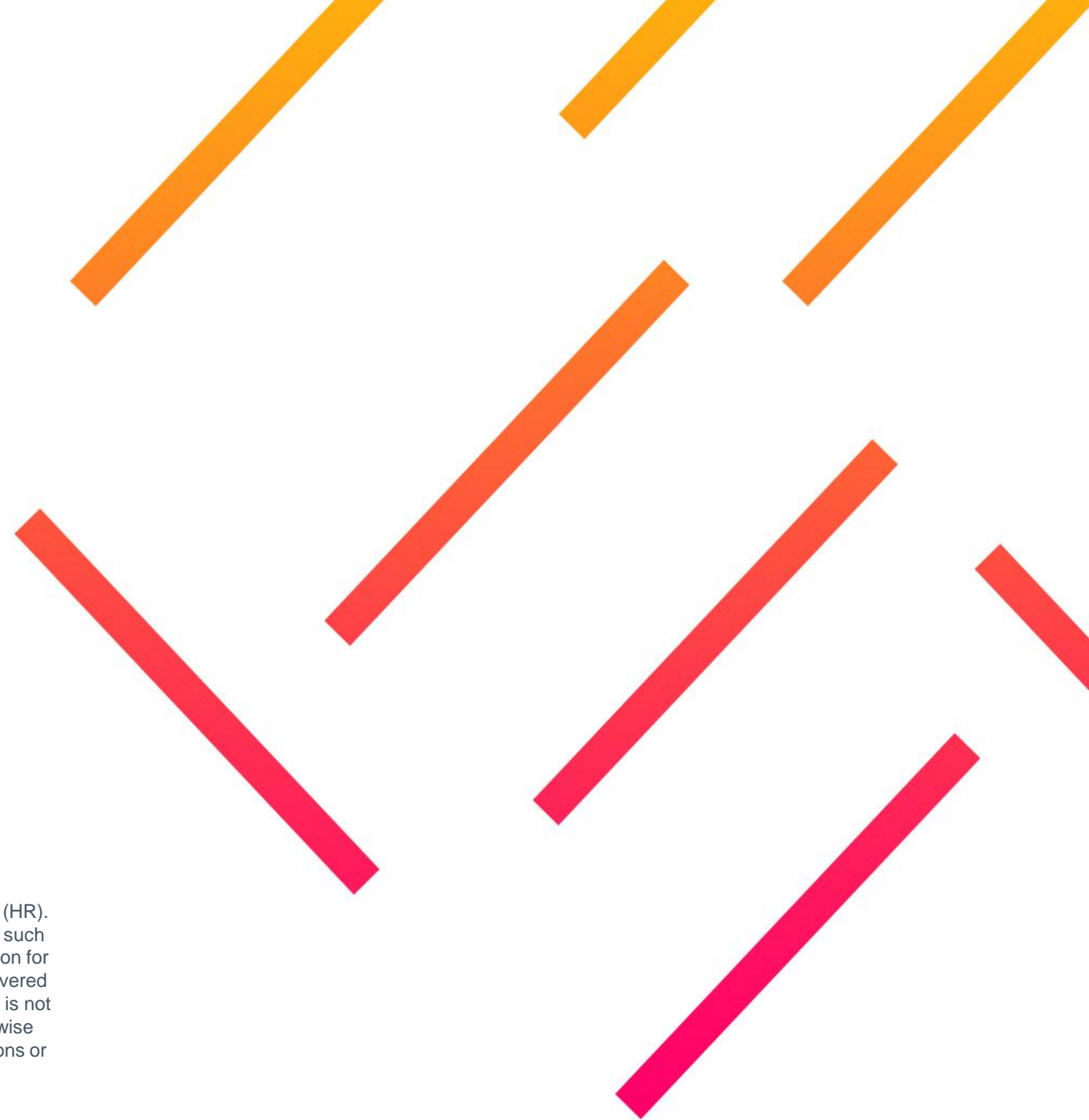
Page 36




Page 37

Thank you

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Non-Executive Report of the: Pensions Committee Thursday, 25 November 2021	 TOWER HAMLETS
Report of: Kevin Bartle, Interim Corporate Director Resources	Classification: Open (Unrestricted)
Risk Management Policy and Quarterly Review of Risk Register	

Originating Officer(s)	Miriam Adams
Wards affected	(All Wards)

The following report was not available for publication by the statutory publication deadline because additional information was required. It is presented for consideration at this meeting as it is not possible to defer until the next meeting. It should also be noted that the report title was made available as part of the original meeting agenda

Executive Summary

This report updates the Board and Committee on changes to the Fund’s Risk Register and Risk Management Policy. Risk Management is the practice of identifying, analysing and controlling in the most effective manner all threats to the achievement of the strategic objectives and operational activities of the London Borough of Tower Hamlets Pension Fund (“the Fund”). A certain level of risk is inevitable in achieving the Fund objectives, but it must be controlled.

Recommendations:

The Committee is recommended to:

1. Approve the Risk Management Policy (Appendix 1)
2. Note and comment on the detailed Risk Register (Appendix 2)

1. REASONS FOR THE DECISIONS

1.1 The terms of reference of the Pensions Committee sets out its responsibilities with regard to risk management, namely:

- *To review the risks inherent in the management of the Pension Fund.*

- 1.2 The Board is established by Public Sector Pensions Act 2013 and the first core function of the Board is to assist the Administering Authority in securing compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator (TPR) in relation to the Scheme.
- 1.3 The consideration of the risks associated with administering the Pension Fund properly fall within the terms of reference of the Committee. Setting out of a policy recognises the importance that is placed in this area in accordance with the CIPFA guidance and recognise the increased role of the Pensions Regulator following the Public Service pensions Act 2013.
- 1.4 The risk register is presented in Appendix 2 for the Board to review and assist to demonstrate compliance with both regulations and guidance provided by CIPFA and TPR.
- 1.5 Not all risks can be eliminated, however with proper management and monitoring the impact to the Fund will be minimised. An example of this is economic downturn which the Fund has mitigated to an extent by having Equity protection in place to cover some of its equity investments from severe falls in the market.

2. ALTERNATIVE OPTIONS

- 2.1 Not reviewing the Risk Register for the Pension Fund potentially exposes the Fund and Council to action by the Pensions Regulator.

3. DETAILS OF THE REPORT

- 3.1 The Pensions Regulator's Code of Practice recommends that a Pension Fund has a Risk Management Policy in place and that this is reviewed periodically. The risk management policy covers key areas such as:
 - The Fund's attitudes to, and appetite for risk;
 - Aims;
 - Risk measurement and management; and
 - Responsibility

The updated Risk Management Policy for Tower Hamlets Pension Fund is attached for approval at Appendix 1.

The Pensions Board undertakes quarterly detailed review of the identified risks and the process for maintaining the Risk Register and report back to the Pensions Committee on any areas of concern. The Pensions Committee carries out an annual review of the high level and emerging risks identified from the Fund's Risk Register. The Risk Register brings together all the Fund's risks in a single document. It continues to be based on the 4 key areas of activity within the Fund: Governance, Funding, Administration and Investment.

- 3.2 No new risks were identified during the quarter.
- 3.3 All existing risks have been reviewed and no change identified during the quarter. Updates to individual risks will be reported in March 2022 following the conclusion of the ongoing Governance review.

4. EQUALITIES IMPLICATIONS

- 4.1 There are no direct equalities implication arising from this report.

5. OTHER STATUTORY IMPLICATIONS

- 5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:
- Best Value Implications,
 - Consultations,
 - Environmental (including air quality),
 - Risk Management,
 - Crime Reduction,
 - Safeguarding.
 - Data Protection / Privacy Impact Assessment.

Risk Management

- 5.2 Section 249A of the Pensions Act 2004 requires the administering authority to manage risk by establishing and operating internal controls which are adequate for the purpose of securing that the scheme is administered and managed:
- (a) in accordance with the scheme rules
- (b) in accordance with the requirements of the law

The Risk Register, Risk Management Policy which is the subject of this report is designed to ensure compliance with the Council's statutory duties regarding managing risk related to the administration and management of the Pension Fund.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

- 6.1 There are no direct financial implications arising as a result of this report, other than that by implementing a new Risk Register, the Fund is trying to minimise the chance of financial and reputational loss occurring.
- 6.2 There are clearly some risks which would be difficult to transfer or manage, such as the impact that increased longevity will have on the liabilities of the

Pension Fund, but the understanding of such risks could well impact on the other aspects of the decision making process to lower risks elsewhere.

7. COMMENTS OF LEGAL SERVICES

- 7.1 Section 249A of the Pensions Act 2004 requires the administering authority to manage risk by establishing and operating internal controls which are adequate for the purpose of securing that the scheme is administered and managed: -
- (a) in accordance with the scheme rules
 - (b) in accordance with the requirements of the law
- 7.2 The Risk Register, Risk Management Policy which is the subject of this report is designed to ensure compliance with the Council's statutory duties regarding managing risk related to the administration and management of the Pension Fund.
-

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Risk Management Policy (Appendix 1)
- Risk Register (Appendix 2)

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

List of "Background Papers" used in the preparation of this report

List any background documents not already in the public domain including officer contact information.

- These must be sent to Democratic Services with the report
- State NONE if none.

Officer contact details for documents:

Miriam Adams, Interim Head of Pensions and Treasury Ext 4248

Email: miriam.adams@towerhamlets.gov.uk

Non-Executive Report of the: Pensions Committee Thursday, 25 November 2021	
Report of: Kevin Bartle, Interim Corporate Director, Resources	Classification: Unrestricted
ESG, Voting, Engagement and Stewardship Update	

Originating Officer(s)	Miriam Adams
Wards affected	(All Wards);

Exempt Report and Appendices – the report and two appendices are listed as exempt in accordance with paragraph 3 of Schedule 12a of the Local Government Act 1972 in that it involves the likely disclosure of exempt information in relation to the financial and business affairs of any particular person (including the authority holding that information).

Executive Summary

This report provides the Committee with an overview of the stewardship activity carried out by Tower Hamlets Pension Fund’s investment managers and on its behalf by Local Authority Pension Forum (LAPFF) in the quarter ending September 2021.

Recommendations:

The Pensions Committee is recommended to:

1. Note content of this report and appendices.

1. REASONS FOR THE DECISIONS

- 1.1 The exercise of voting rights and engagement with investee companies are a key path 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 There is no alternative approach. The Fund invests mainly in pooled structures. By nature of these structures, voting is exercised by the investment manager rather than directly by the Fund. The Fund would remain

a member of Local Authority Pension Fund Forum (LAPFF) to ensure the Fund's Responsible Investment (RI) approach is exercised via engagement.

3. DETAILS OF THE REPORT

- 3.1 The move to a pooled structure continues to impact this arrangement as voting rights are exercised at pool or underlying manager level rather than Fund level. The Fund works with London Collective Investment Vehicle (LCIV) to ensure its views through the exercise of voting rights through the investments it manages on its behalf.
- 3.2 This report includes four appendices 3 of which is set out below to ensure that the Pensions Committee and Pensions Board are aware of the engagement activity being carried out by Legal & General Investment Management (LGIM), London CIV (the Fund's pooling company) via underlying managers and engagement activities of Local Authority Pension Fund Forum (LAPFF)
- LAPFF Q3 2021 report (Appendix 2)
 - LAPFF Voting Alerts Addendum Q3 (Appendix 3)
 - LAPFF, TCI letter to FTSE All-share (Appendix 4)
 - LGIM ESG Impact report (Appendix 5)

LAPFF Engagement Summary

- 3.3 LAPFF engagement takes place in the form of sending correspondences, issuing alerts, meetings, press releases, attending company, site visitations and community engagement. LAPFF engaged with 82 companies during the quarter on a range of topics including:
- Climate Change
 - Human Rights
 - Governance
 - Social Risk
 - Board Composition
- 3.4 Appendix 2 to this report details the Forum's activity during the quarter, Climate emergency related issues was one of the main engagement themes. The Forum continues to engage with Shell to work toward a truly Paris-aligned climate and business plan for the company.
- 3.5 Other engagement activities included collaborative engagements, collaborative investor and community meetings.

Voting Activities

- 3.6 Voting takes place during company meetings such as Annual General meeting (AGM), Special General meeting or Extra Ordinary General Meeting. Meetings are initiated by either management or shareholders as the case may be.

3.7 London CIV (BG) Global Alpha Growth Paris Aligned fund– Voting activity and company engagement over the quarter. A total of 124 resolutions in 7 countries across 8 companies was cast. The manager cast votes in all 124 resolutions with 123 votes cast For, 1 against.

3.8 LCIV (Ruffer) Absolute Return fund – Votes were cast in 86 companies and one pooled fund across 17 countries. The manager cast votes in 1,250 of 1,272 resolutions, 82 votes Against, 1,162 For, 6 votes withheld and 22 Abstained votes. Meetings ranged from AGM’s, Annual Special, Extraordinary and Special.

The investment manager withheld votes in one company – Wheaton Precious Metal Corporation in relation to director matters.

3.9 LCIV (RBC) Sustainable Equity fund – The manager participated in 54 resolutions across 2 companies in 2 countries. 48 Votes cast For, 2 cast Against, and 3 No voting details. Majority of resolutions related to director election.

3.10 LCIV (BG) Diversified Growth fund – Stewardship voting activities during the quarter involved 21 companies across 7 countries. A total of 301 resolutions were voted on. 145 were voted For and 5 were voted Against. 4 votes Withheld, and no votes cast for 147 resolutions. Majority of voting involved resolutions for allocation of income, amendment of share capital, appoint/pay auditors, discharge of Board, incentive policy, remuneration policy and share repurchase. The table below shows reasons for no votes being cast in the 4 companies.

Company	Country	Meeting Type	Resolutions	Reason for No Vote
China Longyuan Power Group 'H'	China	Class	92	We did not vote the meeting due to an error with the electronic processing of votes. We intended to vote in favour of all resolutions. The outcome of the meeting was not impacted by the absence of our votes.
Wizz Air Holdings Plc	UK	AGM	26	We no voted this meeting as the company has restricted the voting rights of non-EU holders of Ordinary shares post-Brexit.
Ryanair	Ireland	AGM	17	We no voted this meeting as the company has restricted the voting rights of non-EU holders of Ordinary shares and ADRs post-Brexit.
HSBC Global Asset Backed High Yield Bond Fund	Luxembourg	AGM	12	We did not vote due to the practice known as "blocking" - the rules in some markets which restrict us from selling your shares during the period between the votes being cast and the date of the meeting.

3.11 LGIM Low Carbon funds – Stewardship voting activities during the quarter involved 99 companies across 19 countries. A total of 1,299 resolutions were voted on across a combination of annual, extraordinary, ordinary, special and other meetings. Resolutions covered a very wide range of categories

including capitalisation, Health and safety, climate change Human rights, reorganisations and mergers, director related, corporate governance and social proposals. The manager cast 199 votes against the resolution, 1.026 For, One year 2, 46 Withheld resolutions and 25 no decisions. LGIM ESG Impact report for the quarter is attached as appendix 5 to this report.

Voting Alert Variances

3.12 There was no voting alert variance during the quarter.

LAPFF Voting Alerts

3.13 During the quarter, the Forum issued 3 voting alerts – Appendix 1 to this report includes the breakdown of votes cast.

4. EQUALITIES IMPLICATIONS

4.1 There are no direct equalities implications from this report.

5. OTHER STATUTORY IMPLICATIONS

5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

5.2 Risk Management Implications

The rigorous robust management of London Borough of Tower Hamlets 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.

Ensuring good 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.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 This is a noting report and there are no direct financial implications as a result of the contents of this report.

- 6.2 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.
- 6.3 Poor corporate governance and unsustainable business practices can impact on share prices and increases in the risk that the Fund experience a loss of value in its investments in the future.

7. COMMENTS OF LEGAL SERVICES

- 7.1 [The Local Government Pension Scheme (Management and Investment of Funds) Regulation 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 considered 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.
- 7.2 This report provides information demonstrating that investment activity is occurring in line with the Investment Strategy
- 7.3 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.
- 7.4 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).

Linked Reports, Appendices and Background Documents

Linked Report

- List any linked reports
None

Appendices

- LAPFF Q3 voting alerts (Appendix 1)

- LAPFF Q3 2021 report (Appendix 2)
- LAPFF Voting Alerts Addendum Q3 (Appendix 3)
- LAPFF, TCI letter to FTSE All-share (Appendix 4)
- LGIM ESG Impact report (Appendix 5)

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:

Miriam Adams

Interim Head of Pensions & Treasury

Email: miriam.adams@towerhamlets.gov.uk

Appendix 1

LAPFF Voting Alerts Quarter Ending September 21

Company	LCIV DGF	LCIV Ruffer	LCIV Paris	LCIV RBC	LGIM
National Grid PLC <ul style="list-style-type: none"> • Resolution 20 – Approve ‘net zero’ commitment and associated targets - FOR • Resolution 25 – Approve new articles of association - FOR 	n/a	n/a	n/a	n/a	FOR FOR
Frasers Group <ul style="list-style-type: none"> • Approve the Directors’ Remuneration Policy - Oppose • Re-elect David Daly - Oppose • Re-elect David Bryshaw – Oppose • Approve the Executive Share Scheme – Oppose 	n/a	n/a	n/a	n/a	n/a
BHP <ul style="list-style-type: none"> • Resolution 20 – Approval of the Climate Transition Action Plan - Oppose • Amendment to the BHP Constitution - FOR • Climate-related Lobbying - FOR • Capital Protection - FOR 	n/a	n/a	n/a	n/a	n/a

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**Quarterly
Engagement
Report**

July-September
2021



**Shell, Rio Tinto,
ArcelorMittal,
National Grid,
SSE, Anglo
American**

CLIMATE EMERGENCY



LAPFF Chair Visits Tailings Dam in Devon

Objective: Although LAPFF's plans to visit Brazilian communities affected by tailings dams have been postponed due to Covid, LAPFF's work with the communities has continued apace over the last year and a half. As part of building an understanding of how tailings dams function, LAPFF Chair, Cllr Doug McMurdo, visited a mine in Devon that has a tailings dam (pictured above and on cover).

Achieved: Cllr McMurdo visited the tungsten mine at the beginning of July. He was shown round the various mining functions by the mine's CEO and other staff, and part of this tour included the tailings dam. The Devon tailings dam was of a downstream construction. When asked about the construction type, the mine staff explained that they would not use an upstream dam because this type of construction is too dangerous. One of

the big problems faced by communities affected by tailings dams globally is that they are potentially in the path of run off from upstream dams.

In Progress: LAPFF is continuing to engage with companies, communities, and other stakeholders, as well as undertaking research to prepare for its visit to Brazil, whenever that might be.

Shell

Objective: LAPFF had some serious concerns about the out-going Shell Chair's statement that oil and gas would be needed as part of the company's portfolio for the foreseeable future. Various conversations and interactions with the CEO had also raised concerns about the company's trajectory, both from a carbon perspective and from a business perspective.

Consequently, LAPFF was keen to meet the new Shell Chair, Andrew Mackenzie, formerly CEO of BHP and no relation to current BHP Chair, Ken MacKenzie.

Achieved: The meeting took place in early September, with the conversation focused primarily on Shell's financial performance and how the company's approach to fossil fuels would impact on that performance. LAPFF Chair, Cllr Doug McMurdo, noted that compared to BHP's total shareholder returns over the last ten years, Shell had performed poorly and that net zero objectives would not enable the company to achieve Paris-aligned climate targets. While LAPFF was grateful to Sir Andrew for his engagement and welcomed his willingness to take suggestions, significant inconsistencies in Shell's business strategy, business model, and climate strategy appear to persist.

CLIMATE EMERGENCY

In Progress: LAPFF will continue to engage with Shell to work toward a truly Paris-aligned climate and business plan for the company.

Rio Tinto

Objective: This year, LAPFF attended Rio Tinto's AGM to push the company on recognising the financial impacts of its social challenges. Therefore, Cllr McMurdo was pleased to meet Rio Tinto's Chief Financial Officer, Peter Cunningham, to discuss this issue further. Mr. Cunningham took over as interim CFO when Jakob Stausholm became CEO but has been made permanent recently.

Achieved: It appears that Mr Cunningham understands and agrees with the proposition that social impacts affect financial materiality at companies. However, everyone LAPFF has spoken to at Rio Tinto acknowledges that despite progress since Juukan Gorge, the company has some way to go to regain investor and affected community trust in its operations.

One area where Rio Tinto has improved substantially is in its willingness to engage with LAPFF. After the destruction of the Juukan Gorge rock shelters, LAPFF tried in vain to obtain meetings with the Chair to discuss what had happened but did not manage to do so for over six months after the shelters were destroyed. This year, LAPFF has met not only with Peter Cunningham but also with Mr. Stausholm and Chair Simon Thompson. The company continues to offer meetings with various specialist staff and affected community members with which the company engages.

LAPFF recognises that engagement is not progress. It also recognises that the staff and community members put forward by Rio Tinto probably have a particular bias or perspective on Rio Tinto's activities, especially since LAPFF continues to hear contradictory information from affected community representatives. However, engagement with all affected parties is useful for LAPFF to understand what questions to ask the various parties involved.

In Progress: Therefore, LAPFF is continuing to liaise with other interested investors, Rio Tinto, and affected communities and their representatives in Australia, the

US, Papua New Guinea, and elsewhere. This triangulated communication helps to paint a more complete picture for LAPFF of Rio Tinto's progress from an environmental, social, and financial perspective.

As a follow-up, the LAPFF Chair also met with Rio Tinto staff to discuss the forthcoming 'say on climate' vote at the 2022 AGM. The challenge as ever is addressing Scope 3 emissions, which comprise 95% of total emissions. In doing so, the pace of roll-out of zero-carbon technologies by the company's steel customers was noted.

Anglo American

Objective: LAPFF has been concerned that Anglo American's board and management have not been sufficiently engaged with community members affected by the company's operations. However, LAPFF learned at the Anglo American AGM that the company's CEO, Mark Cutifani, had visited the company's controversial Colombian joint venture with Glencore and BHP, Cerrejon. Therefore, Cllr McMurdo met with Mr. Cutifani to hear about the CEO's experience of visiting the project.

Achieved: LAPFF appreciated Mr. Cutifani's openness in discussing the political, cultural, and environmental challenges surrounding Cerrejon. The project is a thermal coal mine, and just days after speaking to both Mr. Cutifani and BHP Chair, Ken MacKenzie, LAPFF received news that both Anglo American and BHP were pulling out of the joint venture to leave Glencore as the sole mining giant involved with the project. Subsequently, LAPFF representatives also met with Anglo American to discuss the company's next 'say on climate' resolution.

Anglo American has developed a detailed community engagement approach as part of its Social Way programme. However, the fact remains that all three companies have been investors in Cerrejon during a time when there have been allegations of severe human rights and environmental violations. All three companies have been named in a complaint filed with a number of OECD National Contact Points on these grounds.

In Progress: LAPFF will continue to engage with Anglo American on its community engagement approach and its climate approach.

BHP Voting Alert

LAPFF issued a voting alert to oppose BHP's climate plan. While LAPFF commended BHP for putting its plan to a vote, the plan is not aligned with the goals of the Paris Agreement. BHP has undoubtedly made progress on climate, but given the pressing nature of the climate crisis, LAPFF expects all climate plans to be Paris-aligned at this stage. As the alert stated, climate change is not a negotiation.

BHP

Objective: There is a debate raging in Western Australia about a proposed cultural heritage law to increase protections for Indigenous communities in the area. LAPFF had spoken to Rio Tinto about the law, and the company had not seen the final draft. However, affected communities are apparently not pleased with either the process or the content of the law. As BHP is another company affected by the law, LAPFF had a meeting with the company's Indigenous Affairs representative to find out more about the law. LAPFF is also seeking a meeting with the affected Indigenous communities.

Achieved: LAPFF was able to understand from the discussion with BHP that the main point of contention appears to be the level of say affected communities have over whether projects move forward, a so-called 'right of veto'. While there are apparently improvements from the last piece of legislation, the question is whether sufficient positive change will be made to the new legislation to protect affected communities from another Juukan Gorge.

In Progress: LAPFF will continue to engage with BHP, Rio Tinto, and affected community members to see if there is a role for LAPFF to play in promoting a positive outcome to this debate and the eventual legislation.

COMPANY ENGAGEMENT

ArcelorMittal

Objective: After the long-awaited issuing of the company's second Group Climate Action report, a meeting was held with company representatives and other CA100+ investors to discuss company progress.

Achieved: ArcelorMittal now has a group-wide emission intensity reduction target for 2030 of 25%, and 35% for Europe. The LAPFF Vice-Chair, Cllr Chapman commended the strengthening of targets and announcements of zero carbon steel plants in Spain and Canada. On request, the report also included a mapping of the company progress against the CA100+ benchmark. This mapping will be used by many investors to inform AGM voting. Also raised were Paris-aligned accounts, climate considerations in remuneration, consulting shareholders on a transition plan vote at the 2022 AGM and requesting that the company run the 2022 AGM as openly as it did the 2021 AGM when the meeting was run on a virtual platform.

In Progress: Given the strengthened decarbonization targets and 'real world' impact of the new zero carbon steel plants, this engagement was considered to have shown substantial progress.

National Grid

Objective: LAPFF has had long-term ongoing engagement with National Grid, most recently as joint-lead investor in the Climate Action 100+ (CA100+) engagement. This engagement culminated in the board putting a 'say on climate' resolution to the AGM, which asked shareholders, from 2022, to approve annual reporting on the company's net zero strategy, 2030 action plan, and progress against emission reduction targets. Cllr Rob Chapman, the LAPFF Vice-Chair, met with the new chair, Paul Rasput Reynolds, and attended the AGM to encourage robust decarbonization plans.

Achieved: A voting alert recommended that members support the board's accountability for annual approval of a transition plan as well as article amendments supporting provisions for holding 'hybrid' annual meetings. The latter provides greater opportunities for shareowners to participate and ask

questions of board members. At the meeting with the chair, LAPFF questions focused on seeking more ambition due to the new International Energy Agency Net Zero pathway, on phasing out gas, on setting short term targets up to 2025, and on looking for changes in planned capex to allow for a larger take up of electrification for heating. At the AGM the following week, LAPFF posed questions; the questions and responses from the board can be viewed [here](#). Ms. Reynolds noted there would be a board meeting following the AGM to consider how the UK and US transition plans are implemented and remain fit for purpose.

In Progress: It was considered the outcome of the meeting was 'change in progress'.

SSE

Objective: Cllr Rob Chapman also met with SSE to discuss the company's 'say on climate' resolution ahead of SSE's AGM in July. LAPFF and SSE have a long-standing dialogue on environmental, social, and governance issues, including a just transition. The Forum is keen to continue this dialogue as SSE has been particularly constructive in its discussions with LAPFF over the years and has undertaken some innovative work in both the social and the environmental areas, not least a just transition to a zero-carbon economy.

Achieved: Acknowledging that SSE is ahead of the game on much of its transition planning, LAPFF raised some concerns in particular around Scope 3 emissions measurement and targets. A number of just transition challenges for the company were also discussed, along with a further discussion on the relevance of and uses for carbon capture and storage (CCS).

After the engagement meeting, Cllr Chapman also attended SSE's AGM by virtual means to ask questions around CCS and grid structure in relation to SSE's climate goals.

In Progress: LAPFF and SSE have agreed to continue dialogue and speak as necessary, but in particular prior to SSE's next 'say on climate' resolution.

HSBC

Objectives: The LAPFF chair met with HSBC representatives to ascertain how HSBC will be assisting its clients to set and implement coal phase-out plans in line with the bank's own commitment and timeline. Clarity was also sought on how the company is progressing on pulling out of coal-intensive industries.

Achieved: Representatives noted that the International Energy Agency scenario 'net zero by 2050' will be used to benchmark progress. The company has undertaken new analysis, with more data to be considered. The company joined the net zero banking alliance in April to help understand the transition journeys clients are on, and how the bank can have impact. On retreating from coal-intensive industries, it was noted that coal exposure represents 0.2% of wholesale loans and advances as measured under the Taskforce on Climate-related Financial Disclosure metrics in 2020. However, it was recognised this still represents investments of £1.2 billion, but as existing, not new, commitments.

In Progress: Representatives noted that they are developing the methodology for a transition risk questionnaire for clients and that commitments would be made in 2021. A further request was made to disclose fossil fuel investments in the annual report. This disclosure is done at 'top level' but would not separate out renewables investments made by such companies. At this stage, the outcome was considered 'change in progress'.

Standard Chartered

Objectives: The LAPFF chair met with the Standard Chartered chair, José Viñals, to ascertain how the company is progressing working with clients on climate change to reduce emissions and align with the bank's net zero by 2050 policy.

Achieved: Of concern has been the bank's funding of Adaro, a major coal supplier which Standard Chartered's own analysis shows to be aligned with an increase of 5-6°C in global warming. Standard Chartered will be issuing a roadmap setting out its route to net zero in October 2021, and the board is putting a 'say on climate' resolution to the 2022 AGM.

COMPANY ENGAGEMENT

In Progress: It appears that an NGO is considering filing a resolution to the Standard Chartered AGM asking for commitments not yet evident in the company’s current transition plans. LAPFF met with this NGO to hear more of its concerns.

Mitsubishi Financial

Objective: Cllr Glyn Caron, of the LAPFF Executive, joined a collaborative investor call organised by Asia Research and Engagement with Mitsubishi UFJ Financial (MUFJ). The meeting sought to cover constituent details of a plan which would align financing to the goals of the Paris agreement and the setting of a net zero financed emissions target. This call followed LAPFF correspondence with the company on the issuing of a voting alert for the company’s June AGM supporting the company issuing a plan to align financing with the Paris Agreement. The engagement was followed by media coverage on concerns over the bank’s provision of finance to fossil fuel expansion and deforestation.

Achieved: In May, MUFJ made a net zero declaration, and as part of this commitment joined the Net Zero Banking Alliance. The company is committed to developing a plan but has only just started addressing policy formulation and implementation. This initial activity has been through setting up working groups to see if improvement can be made on the current investment threshold of 50% coal, which is 50% of ‘total capacity’. The company representative noted this standard would be revised and a goal set, which will be shown in due course. On physical risk, currently only flooding impact is mapped.

In Progress: It was agreed further correspondence would follow, including sharing examples of good practice from other financial institutions and benchmarking of these companies on coal policies. It was noted further physical risks could be considered going forward. Overall, the outcome from the meeting illustrated there was a ‘change in process’.



Sainsbury

Objective: LAPFF attended Sainsbury’s ‘Plan for Better’ event and posed questions, both at this event and at the AGM, on the company’s packaging practices, electric vehicles, supply chains, climate change and ‘say on climate’.

Achieved: Sainsbury’s ‘Plan for Better’ ESG event covered a broad range of ESG topics, noting targets and progress against them. In 2020, Sainsbury announced its climate target to be net zero by 2040 and has this year announced Scope 3 emissions target, which followed with a key theme of this year’s ESG event being that the company was engraining ESG at the core of its business strategy. It is taking a number of steps in stores to tackle plastic packaging, opting for loose veg as opposed to prepacked. These steps have led Sainsbury to be recognised by Greenpeace as the retailer with the second highest proportion of loose fruit and vegetables in the market.

A large part of Sainsbury’s strategy with plastic packaging is attempting to enable a circular economy, having launched an initiative in June, offering customers the opportunity to bring back any flexible plastic packaging to front of store collection points in 520 supermarkets for recycling. LAPFF has also co-led an engagement with Sainsbury in a coalition led by First Sentier Investors, pushing for suppliers and distributors of domestic and commercial washing machines to fit, as a standard procedure, filters to their products to prevent plastic microfibrils entering the world’s ecosystems. Sainsbury responded that they had engaged with white goods suppliers and were looking at viable options.

In Progress: LAPFF will be meeting with Sainsbury for a more in-depth conversation on the company’s approach to a zero-carbon transition and will be querying the company further on a ‘say on climate’ vote.

COMPANY ENGAGEMENT



Persimmon

Objective: LAPFF has been engaging with Persimmon over a number of years following serious concerns about excessive executive pay, customer care and build quality. The Forum has also identified housebuilders as an important sector for climate change engagements, given the level of emissions from residential property. The Forum therefore sought to meet with the Chair of Persimmon, Roger Devlin, to discuss improvements in customer care and executive pay alongside how it was seeking to move to a net zero business model.

Achieved: It was noted how the company had made changes to its approach to

customer care following a review by Stephanie Barwise QC. The meeting covered inspections of properties following historic build quality concerns and the company’s improved customer ratings. The issue of executive pay was covered, including resolving issues that led to the high pay award of the former chief executive.

On climate change, Persimmon’s targets to reach net zero were discussed. Persimmon has made a commitment that all new homes will be net-zero by 2030 and for the company, including its operations, to be net zero by 2040. Gas boilers are being banned in new homes from 2025 and the discussion focused on how Persimmon was seeking to get ready for this change.

In progress: The company has made improvements to customer care but there is scope for further improvements. While emission targets have been set it will be important to monitor their progress towards net zero.

OCCUPIED PALESTINIAN TERRITORIES (OPT) ENGAGEMENTS

Objective: There are short-term and long-term objectives with this engagement. The short-term objective is to have the LAPFF target companies operating in this area engage meaningfully with LAPFF on their human rights practices in the OPT. The long-term objective is to have these companies produce credible, robust, independent human rights impact assessments of their practices in the OPT so that LAPFF members can assess whether the companies’ human rights practices meet international human rights and humanitarian law standards.

Achieved: In line with the UN Guiding Principles on Business and Human Rights, LAPFF has been working for some months with a business and human rights expert to help with this engagement. This expert has joined LAPFF engagements with Altice and Booking Holdings this quarter, providing invaluable contributions to the engagements and ideas for how to proceed with the engagement. Both companies provided insights into their human rights due diligence processes and Booking Holdings has publicly announced that it is in the process of drafting its Human Rights Statement.

In Progress: LAPFF sent a follow up meeting request to the target companies and was able to schedule a few more meetings this time round. It will continue to approach companies for engagement and to request meaningful responses to information requests. Specifically, LAPFF is not content with the explanation that companies are abiding by the relevant law in the way they conduct business in the OPT. In all of LAPFF’s work globally, this response is a red flag to LAPFF that companies are treading a thin line between legality and illegality in their conduct. This margin is not acceptable to LAPFF.

COMPANY ENGAGEMENT

PHARMACEUTICAL COMPANY ENGAGEMENTS

Objective: Some of LAPFF's largest holdings are in pharmaceutical companies. Many of these companies have been contributing to the development of Covid vaccines and have faced significant challenges over the last couple of years. LAPFF is interested in finding out how the Covid pandemic has affected these companies.

Achieved: LAPFF has written to five of the companies in which members hold a large number of shares in aggregate to find out whether the Covid pandemic has had an impact on their business strategies or business models. The companies of interest are AstraZeneca, GlaxoSmithKline, Novartis, Roche Holding, and Sanofi.

In Progress: LAPFF is in the process of arranging meetings with these companies, most of whom have responded that they are willing to meet and discuss this issue.

COLLABORATIVE ENGAGEMENTS

Chair's Quote: "The speed with which the 'say on climate' initiative has taken root is indicative of its importance. I am heartened to see the number of companies putting their climate plans to a vote. However, the number of plans that fail to meet the goals of the Paris Agreement is alarming. I have always shared the view that Covid is a dress rehearsal for climate change; we must learn and take meaningful action much more quickly on both fronts."

The Institutional Investor Group on Climate Change has published a guide on Investor Expectations of Companies on Physical Climate Risks and Opportunities. LAPFF has co-signed letters to 50 companies in sectors highly exposed to physical climate risk asking them to adopt the expectations set out in the guide. These expectations very broadly are to establish a climate governance framework,

to undertake physical climate risk and opportunity assessment, to develop and implement a strategy for building climate resilience, and to identify and report against metrics to demonstrate progress over time.

COLLABORATIVE INVESTOR MEETINGS

LAPFF continued to engage with other investors in the 30% Club, the Investors for Opioid and Pharmaceutical Accountability (IOPA) and the 'Financing a Just Transition Alliance'. It is also continuing to work with CA100+ on carbon reduction at widely held companies, and with Sarasin on Paris-aligned auditing of accounts. LAPFF continues to participate in investor collaborations to combat modern slavery too and is considering how best to expand engagement on this topic.

COLLABORATIVE COMMUNITY MEETINGS

LAPFF was pleased to learn that JGP Credito, a Brazilian investor with which LAPFF has been liaising in relation to the Samarco and Brumadinho tailings dam collapses in Brazil, visited communities affected by those disasters at the end of August. One of the main asks from the communities was that LAPFF get Brazilian investors involved to help highlight the communities' struggles in the wake of the dam collapses. JGP has been an excellent partner in this regard, but it has been a struggle for LAPFF to engage other Brazilian investors. In any case, LAPFF is planning to continue its quarterly meetings with affected community members to monitor their experiences and to see what LAPFF can do to help meet their needs.

POLICY ENGAGEMENT

Further to the setting up of the UK Accounting Standards Endorsement Board, which has taken over from the EU Commission in endorsing international accounting standards for use in the UK, the Chair of LAPFF has written to the Chair of the Board, Pauline Wallace. The letter requests production of the guidance used by the UKEB in endorsing standards in respect of 'true and fair view'. This

request comes after the former CEO of the FRC told Parliament that government lawyers had "concluded that they agreed" with "legal advice from Martin Moore QC who [had] concluded almost exactly the opposite of what [George Bompas, QC for the Local Authorities Pension Fund Forum (LAPFF)] had concluded." However, a Freedom of Information request revealed the government position: "We have never said that the views [of the LAPFF] are incorrect and may be disregarded. ... Ultimately, whether the views of the LAPFF are incorrect would be a matter for the courts".

In September, LAPFF – as part of a 587 investors strong group representing over USD \$46 trillion in assets – participated in sending the 2021 Global Investor Statement to Governments on the Climate Crisis. Considered the 'strongest ever call by global investors for governments to raise their climate ambition and implement meaningful policies to support investment in solutions to the climate crisis' the statement calls on all governments to undertake five priority actions in 2021. For further information on this statement, please access [here](#).

CONSULTATION RESPONSES

There has been a series of consultations by the government relating to the UK's commitments on carbon reductions, including the interim goal of reducing emissions by 78% by 2035 over 1990 levels.

Transport, is the sector with the fastest growing source of carbon emissions and LAPFF has provided three related responses to relevant government consultations. In its response to the Department of Transport's 'Jet Zero' consultation on the strategy for net zero aviation, LAPFF considers that the government should take the opportunity to support the development of UK leadership in electric flight. In the response to the DWP consultation on ending the sale of new non-zero emission heavy goods vehicles, LAPFF supports a clearly identified legislative framework for carbon reductions, so companies can make the necessary decisions and financial commitments to provide the crucial short and long-term solutions to decarbonising the economy. Responding to the Department for Transport Consultation on a new CO₂

ENGAGEMENT

emissions regulatory framework, LAPFF supports deploying the zero-emission vehicle mandate. To maximise zero emission capability, the government should ensure there is a focus on electric drive-train technology for all road vehicles. For cars or vans, the Department for Business, Energy and Industrial Strategy has already recognised that this approach is the lowest cost route to zero emissions. All responses can be viewed [here](#).

MEDIA COVERAGE

Investors with \$4 trln assets aim to tackle Asian firms on climate change goals <https://www.reuters.com/article/marketsNews/idUSL8N2QU68V?il=0>
<https://finance.yahoo.com/news/investors-4-trln-assets-aim-013000164.html>
<https://www.dealstreetasia.com/stories/investors-asian-firms-climate-change-262764/>
<https://www.straitstimes.com/business/economy/investors-handling-54-trillion-throw-weight-behind-new-platform-pushing-for-green>

LGPS – Making Net Zero Add up To Something Real <https://www.room151.co.uk/blogs/lgps-making-net-zero-add-up-to-something-real/>

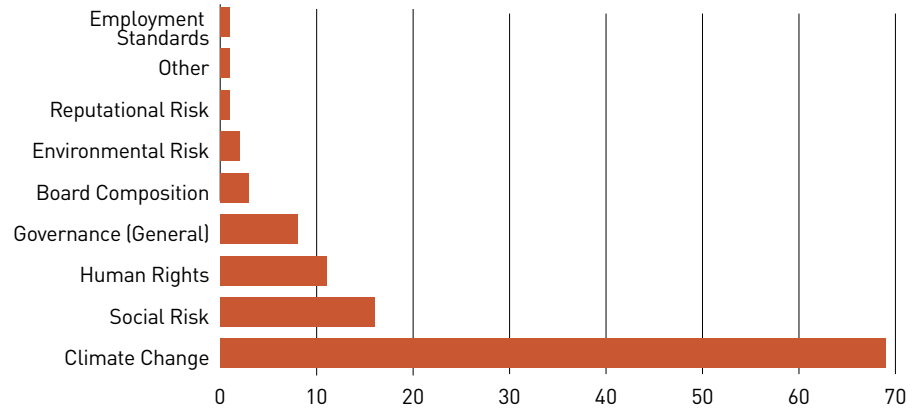
Legal Experts Warn on Issues with ICAEW Dividends guidance <https://www.ipe.com/news/legal-experts-warn-on-issues-with-icaew-dividends-guidance/10055010.article>

Phil Triggs: LGPS needs fine judgement on climate change and pooling <https://www.lgcplus.com/investment/phil-triggs-lgps-needs-fine-judgement-on-climate-change-and-pooling-08-09-2021/>

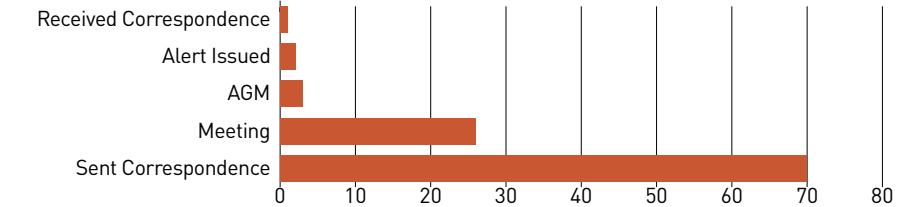
Sharp drop in LGPS fund and Pool signatories of stewardship code <https://www.lgcplus.com/investment/sharp-drop-in-lgps-fund-and-pool-signatories-of-stewardship-code-06-09-2021/>

ENGAGEMENT DATA

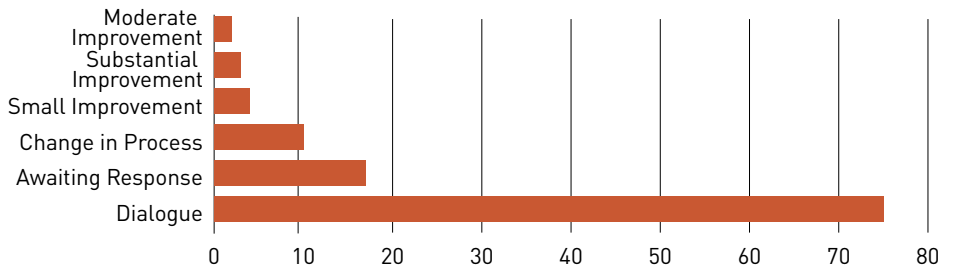
ENGAGEMENT TOPICS



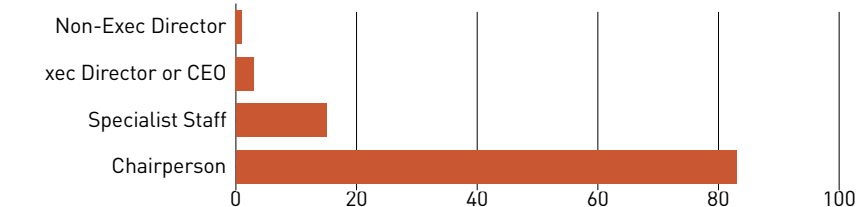
ACTIVITY



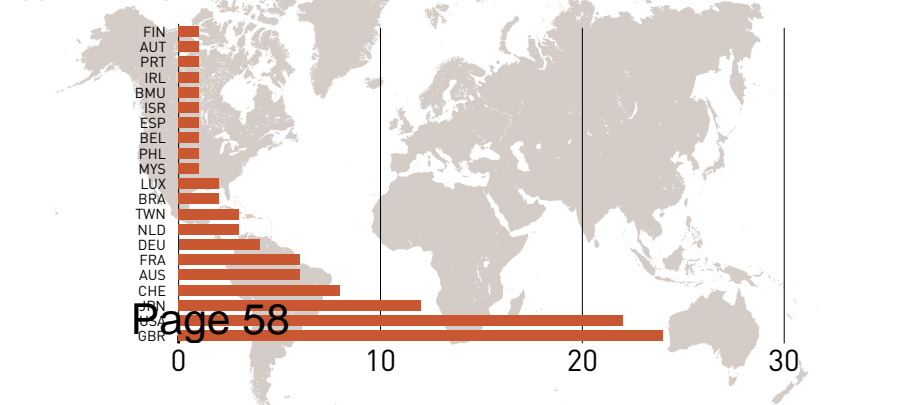
MEETING ENGAGEMENT OUTCOMES



POSITION ENGAGED



COMPANY DOMICILES



COMPANY PROGRESS REPORT

82 Companies engaged over the quarter

*The table below is a consolidated representation of engagements so reflects the number of companies engaged, not the number of engagements

Company/Index	Activity	Topic	Outcome
A G BARR PLC	Meeting	Other	Small Improvement
ABOITIZ EQUITY VENTURES INC	Sent Correspondence	Climate Change	Dialogue
AIR LIQUIDE SA	Sent Correspondence	Climate Change	Dialogue
AJINOMOTO CO INC	Sent Correspondence	Climate Change	Dialogue
ALLERGAN PLC	Sent Correspondence	Climate Change	Dialogue
ALSTOM SA	Meeting	Human Rights	Small Improvement
AMS AG	Sent Correspondence	Climate Change	Dialogue
ANGLO AMERICAN PLC	Meeting	Climate Change	Change in Process
ARCELORMITTAL SA	Meeting	Climate Change	Substantial Improvement
ARKEMA	Sent Correspondence	Climate Change	Dialogue
ASTRAZENECA PLC	Sent Correspondence	Governance (General)	Dialogue
BANK LEUMI LE-ISRAEL BM	Sent Correspondence	Human Rights	Awaiting Response
BHP GROUP LIMITED (AUS)	Alert Issued	Climate Change	Dialogue
BOOKING HOLDINGS INC.	Meeting	Human Rights	Small Improvement
CAMPBELL SOUP COMPANY	Sent Correspondence	Climate Change	Dialogue
CENTRICA PLC	Sent Correspondence	Climate Change	Dialogue
COCA COLA BEVERAGES PLC	Sent Correspondence	Social Risk	Awaiting Response
CONAGRA BRANDS INC.	Meeting	Social Risk	Awaiting Response
COVESTRO AG	Sent Correspondence	Climate Change	Dialogue
CSX CORPORATION	Sent Correspondence	Climate Change	Dialogue
DANONE	Sent Correspondence	Social Risk	Dialogue
DELTA AIR LINES INC	Sent Correspondence	Climate Change	Dialogue
DIALOG SEMICONDUCTOR PLC	Sent Correspondence	Climate Change	Dialogue
DOMINION ENERGY INC	Sent Correspondence	Climate Change	Dialogue
ENDO INTERNATIONAL PLC	Sent Correspondence	Climate Change	Dialogue
FIRSTGROUP PLC	Sent Correspondence	Climate Change	Dialogue
FORMOSA PLASTICS CORP	Sent Correspondence	Climate Change	Dialogue
GALP ENERGIA SGPS SA	Sent Correspondence	Climate Change	Dialogue
GENERAL MILLS INC	Sent Correspondence	Social Risk	Awaiting Response
GLAXOSMITHKLINE PLC	Sent Correspondence	Governance (General)	Dialogue
GRIFOLS SA	Sent Correspondence	Climate Change	Dialogue
HSBC HOLDINGS PLC	Meeting	Climate Change	Change in Process
INFINEON TECHNOLOGIES AG	Sent Correspondence	Climate Change	Dialogue
JABIL CIRCUIT INC	Sent Correspondence	Climate Change	Dialogue
KELLOGG COMPANY	Meeting	Social Risk	Awaiting Response
KERRY GROUP PLC	Sent Correspondence	Climate Change	Dialogue
KEURIG DR PEPPER	Sent Correspondence	Social Risk	Awaiting Response
LANXESS AG	Sent Correspondence	Climate Change	Dialogue
LITEON TECHNOLOGY CORP	Sent Correspondence	Climate Change	Dialogue
LOGITECH INTERNATIONAL S.A.	Sent Correspondence	Climate Change	Dialogue
LONZA GROUP AG	Sent Correspondence	Climate Change	Dialogue
LYONDELLBASELL INDUSTRIES N.V.	Sent Correspondence	Climate Change	Dialogue
MARVELL TECHNOLOGY GROUP LTD	Sent Correspondence	Climate Change	Dialogue
MEDTRONIC PLC	Sent Correspondence	Climate Change	Dialogue
MEIJI HOLDINGS CO LTD	Sent Correspondence	Social Risk	Awaiting Response
MISC BERHAD	Sent Correspondence	Climate Change	Dialogue
MITSUBISHI UFJ FINANCIAL GRP	Meeting	Climate Change	Change in Process
MONDELEZ INTERNATIONAL INC	Sent Correspondence	Social Risk	Awaiting Response
NAN YA PLASTICS CORP	Sent Correspondence	Climate Change	Dialogue
NATIONAL GRID PLC	AGM	Climate Change	Change in Process
NESTLE SA	Sent Correspondence	Climate Change	Dialogue
NEXTERA ENERGY INC	Received Correspondence	Climate Change	Substantial Improvement
NIPPON EXPRESS CO LTD	Sent Correspondence	Climate Change	Dialogue
NISSIN FOOD HLDGS CO LTD	Sent Correspondence	Climate Change	Dialogue
NOKIA OYJ	Sent Correspondence	Climate Change	Dialogue

COMPANY PROGRESS REPORT

82 Companies engaged over the quarter

*The table below is a consolidated representation of engagements so reflects the number of companies engaged, not the number of engagements

NORFOLK SOUTHERN CORPORATION	Sent Correspondence	Climate Change	Dialogue
NOVARTIS AG	Sent Correspondence	Governance (General)	Dialogue
PANALPINA WELTRANSPORT AG	Sent Correspondence	Climate Change	Dialogue
PEPSICO INC.	Sent Correspondence	Social Risk	Awaiting Response
PERSIMMON PLC	Meeting	Climate Change	Moderate Improvement
PUBLIC SERVICE ENTERPRISE GROUP INC	Sent Correspondence	Climate Change	Dialogue
RENASAS ELECTRONICS CORP	Sent Correspondence	Climate Change	Dialogue
RIO TINTO GROUP (AUS)	Meeting	Governance (General)	Dialogue
RIO TINTO PLC	Meeting	Climate Change	Change in Process
ROCHE HOLDING AG	Sent Correspondence	Climate Change	Dialogue
ROHM CO LTD	Sent Correspondence	Climate Change	Dialogue
ROYAL DUTCH SHELL PLC	Meeting	Governance (General)	Dialogue
SAINSBURY (J) PLC	AGM	Environmental Risk	Dialogue
SANOFI	Sent Correspondence	Climate Change	Dialogue
SANWA HOLDINGS CORP	Sent Correspondence	Board Composition	Dialogue
SEAGATE TECHNOLOGY PUBLIC LIMITED COMPANY	Sent Correspondence	Climate Change	Dialogue
SOLVAY SA	Sent Correspondence	Climate Change	Dialogue
SSE PLC	Meeting	Climate Change	Change in Process
STANDARD CHARTERED PLC	Meeting	Climate Change	Dialogue
STMICROELECTRONICS NV	Sent Correspondence	Climate Change	Dialogue
SUMITOMO MITSUI FINANCIAL GROUP	Meeting	Board Composition	Moderate Improvement
SUNTORY BEVERAGE & FOOD LTD	Sent Correspondence	Social Risk	Awaiting Response
SWATCH GROUP AG	Sent Correspondence	Climate Change	Dialogue
THE CLOROX COMPANY	Sent Correspondence	Climate Change	Dialogue
THE KRAFT HEINZ COMPANY	Sent Correspondence	Social Risk	Awaiting Response
UNILEVER PLC	Sent Correspondence	Social Risk	Awaiting Response
VALE SA	Meeting	Human Rights	Dialogue

LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

Avon Pension Fund	Enfield Pension Fund	London Pension Fund Authority	Teesside Pension Fund
Barking and Dagenham Pension Fund	Environment Agency Pension Fund	Lothian Pension Fund	Tower Hamlets Pension Fund
Barnet Pension Fund	Essex Pension Fund	Merseyside Pension Fund	Tyne and Wear Pension Fund
Bedfordshire Pension Fund	Falkirk Pension Fund	Merton Pension Fund	Waltham Forest Pension Fund
Berkshire Pension Fund	Gloucestershire Pension Fund	Newham Pension Fund	Wandsworth Borough Council Pension Fund
Bexley (London Borough of)	Greater Gwent Pension Fund	Norfolk Pension Fund	Warwickshire Pension Fund
Bromley Pension Fund	Greater Manchester Pension Fund	North East Scotland Pension Fund	West Midlands ITA Pension Fund
Cambridgeshire Pension Fund	Greenwich Pension Fund	North Yorkshire Pension Fund	West Midlands Pension Fund
Camden Pension Fund	Gwynedd Pension Fund	Northamptonshire Pension Fund	West Yorkshire Pension Fund
Cardiff & Glamorgan Pension Fund	Hackney Pension Fund	Nottinghamshire Pension Fund	Westminster Pension Fund
Cheshire Pension Fund	Hammersmith and Fulham Pension Fund	Oxfordshire Pension Fund	Wiltshire Pension Fund
City of London Corporation Pension Fund	Haringey Pension Fund	Powys Pension Fund	Worcestershire Pension Fund
Clywd Pension Fund (Flintshire CC)	Harrow Pension Fund	Redbridge Pension Fund	
Cornwall Pension Fund	Havering Pension Fund	Rhondda Cynon Taf Pension Fund	
Croydon Pension Fund	Hertfordshire Pension Fund	Shropshire Pension Fund	Pool Company Members
Cumbria Pension Fund	Hounslow Pension Fund	Somerset Pension Fund	Border to Coast Pensions Partnership
Derbyshire Pension Fund	Islington Pension Fund	South Yorkshire Pension Authority	Brunel Pensions Partnership
Devon Pension Fund	Kingston upon Thames Pension Fund	Southwark Pension Fund	LGPS Central
Dorset Pension Fund	Kensington and Chelsea (Royal Borough of)	Staffordshire Pension Fund	Local Pensions Partnership
Durham Pension Fund	Lambeth Pension Fund	Strathclyde Pension Fund	London CIV
Dyfed Pension Fund	Lancashire County Pension Fund	Suffolk Pension Fund	Northern LGPS
Ealing Pension Fund	Leicestershire Pension Fund	Surrey Pension Fund	Wales Pension Partnership
East Riding Pension Fund	Lewisham Pension Fund	Sutton Pension Fund	
East Sussex Pension Fund	Lincolnshire Pension Fund	Swansea Pension Fund	



LAPFF, TCI Fund Management and Sarasin & Partners write to the FTSE All-share calling for a Say On Climate resolution at every 2022 AGM

With COP 26 rapidly advancing and its goal to secure global net zero and keep 1.5°C within reach, the Local Authority Pension Fund Forum (LAPFF), Sarasin & Partners and TCI Fund Management have written to all UK listed companies¹ urging them to submit a Climate Transition Action Plan to each AGM for shareholder approval.

Cllr Doug McMurdo, Chair of Local Authority Pension Fund Forum, said: “The speed with which the ‘Say on Climate’ initiative has taken root is indicative of its importance. I am heartened to see a number of companies putting their climate plans to a vote.

However, the number of plans that fail to meet the goals of the Paris Agreement is alarming. I have always shared the view that Covid is a dress rehearsal for climate change; we must learn and take meaningful action much more quickly on both fronts.”

Natasha Landell-Mills of Sarasin & Partners, also an early joiner to the Say on Climate initiative, called on companies to ensure their capital deployment lines up with their net-zero strategies, saying “we consider it vital that companies provide accounting disclosures aligned with a 2050 net-zero emissions pathway”.

Sir Chris Hohn of TCI Fund Management, who also chairs the Children’s Investment Fund Foundation which launched the Say on Climate Initiative, has stressed the importance of companies outlining plans for the next five years and for long-term executive compensation to be clearly and substantially aligned with meeting critical climate goals.

It is clear that filing resolutions at a limited number of companies of high carbon impact is no longer enough. All listed companies need to present a clear

¹ Excluding investment trusts



strategy for reducing their entire emissions footprint and make provision for their shareowners to review this annually by means of a resolution at the AGM.

ENDS>

7 October 2021

For further information:

Tessa Younger, Head of Engagement
PIRC Ltd (research and engagement partner to LAPFF)
Tel: 07507 844561 Email: Tessa.younger@pirc.co.uk

About the Local Authority Pension Fund Forum: The Local Authority Pension Fund Forum (LAPFF) is a voluntary association of 84 public sector pension funds and seven pool companies based in the UK with combined assets of over £300 billion. It exists to 'promote the long-term investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate responsibility and high standards of corporate governance amongst the companies in which they invest.' PIRC is the Research and Engagement partner to the Forum @lapfforum <https://lapfforum.org/>.

Further information on the Say on Climate Initiative can be found here: <https://www.sayonclimate.org/>



Q2 2021

ESG Impact Report

Global engagement to
deliver positive change

Our mission

To use our influence to ensure:



1. Companies integrate environmental, social and governance (ESG) factors into their culture and everyday thinking



2. Markets and regulators create an environment in which good management of ESG factors is valued and supported

In doing so, we seek to fulfil LGIM's purpose: to create a better future through responsible investing.

Our focus

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, we encourage management to control risks while seeking to benefit from emerging opportunities. We aim to safeguard and enhance our 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 we use extensively.

Creating sustainable value

We believe it is in the interest of all stakeholders for companies to build sustainable business models that are also beneficial to society. We work to ensure companies are well-positioned for sustainable growth, and to prevent market behaviour that destroys long-term value. Our investment process includes an assessment of how well companies incorporate relevant ESG factors into their everyday thinking. We engage directly and collaboratively with companies to highlight key challenges and opportunities, and support strategies that can deliver long-term success.

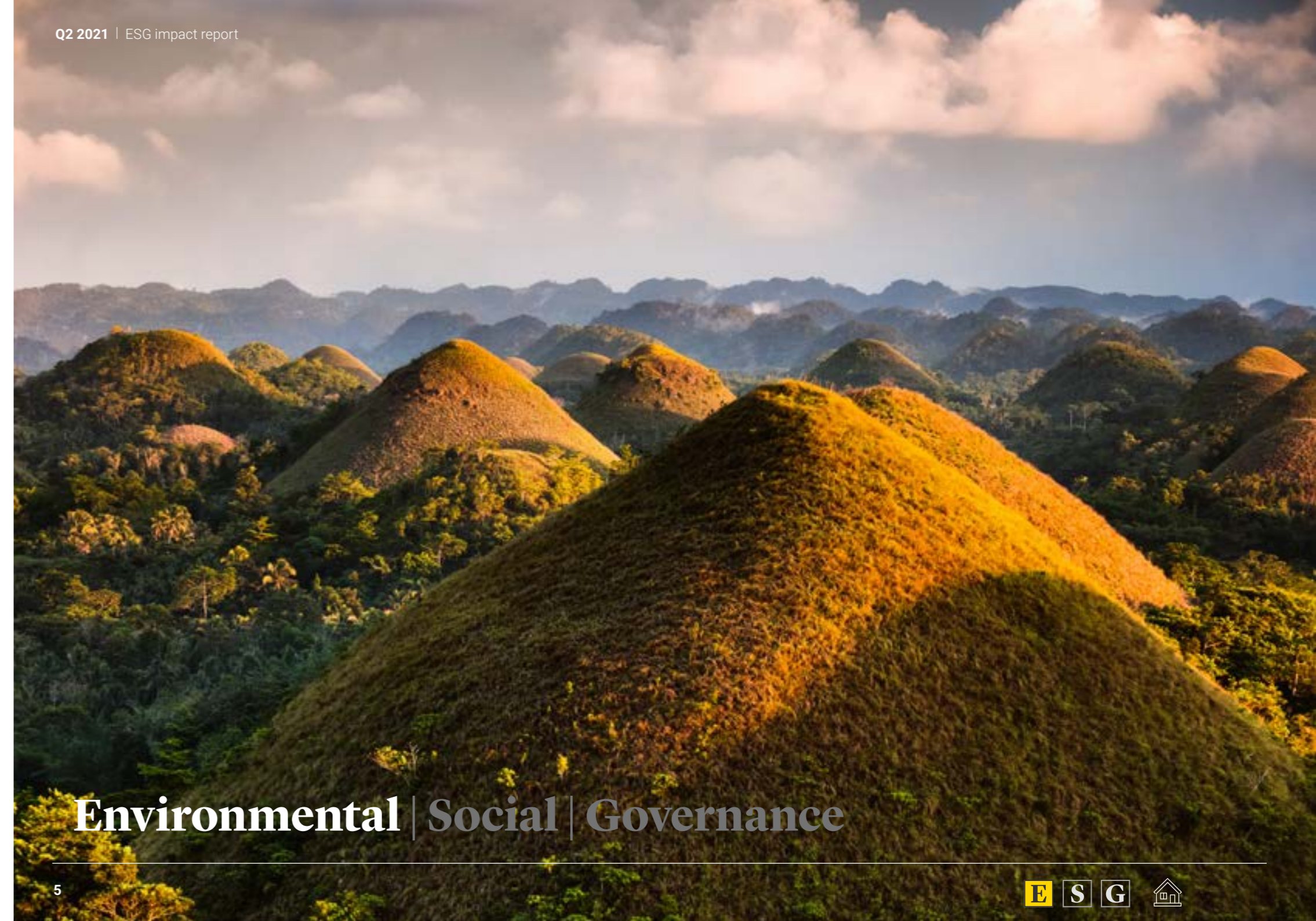
Promoting market resilience

As a long-term investor for our clients, it is essential that markets are able to generate sustainable value. In doing so, we believe companies should become more resilient to change and therefore seek to benefit the whole market. We use our influence and scale to ensure that issues impacting the value of our 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.



Action and impact

In the second quarter of 2021, we engaged with companies on a wide range of topics, from climate change to executive remuneration. You will find in this report details on our key activity during the period, including engagement campaigns, key votes and work with policymakers.



Environmental | Social | Governance

ESG: Environment

The latest results of our strengthened Climate Impact Pledge

In 2020, we expanded our Climate Impact Pledge engagement programme to focus on around 1,000 global companies in 15 climate-critical sectors. We were pleased to see progress across most sectors. Notably, food retailer **Kroger***, previously excluded as a sanction, has now been reinstated across select LGIM funds, following progress.

However, much remains to be done, which is why:

- Four new companies will be added to our exclusion list, taking the total number to 13.
- 130 companies have also been subject to voting sanctions for not meeting our minimum, data-driven standards.

Sustainability summit

On 15 June 2021, LGIM hosted its inaugural Sustainability Summit, during which we announced the pledge's results. The virtual global event focused on every aspect of ESG, illustrating its core role at LGIM, while showcasing our brand, purpose, capabilities and leadership as a responsible investor. More than 350 clients attended the event, along with 22 members of the press and 10 external speakers. Speakers included Nigel Topping, the UK Government's expert and leader on climate change, internationally renowned environmentalist Dr. Jane Goodall, as well as CEOs of the large multinationals **Unilever*** and **BHP***.



*References to any security are for illustrative purposes only.

Supporting clients with their climate reporting

With the UK government rolling out new climate reporting requirements for pension schemes, we have developed a five-step checklist to help clients better understand how we can support them in meeting their regulatory obligations.

Our [article](#) contains more information about the checklist, including details of the carbon and climate metrics on which we intend to report.



Asking questions at the LyondellBasell* AGM

On 28 April 2021 we joined investor colleagues under the IIGCC/CA100+ umbrella to directly engage with the Chair and the Directors of the Board around the chemical company's management of climate-related risks. Under this collaborative initiative we had asked for the board to add two discussion items to the AGM agenda: 'Climate Change and Commitment Strategy' and 'Advisory Vote on Climate Change'. The company agreed to this and, alongside seven other investors, we asked multiple questions regarding LyondellBasell's net-zero targets, science-based targets, lobbying, Task Force on Climate-Related Financial Disclosures (TCFD) reporting, and Paris-aligned activities. We also discussed director accountability and annual votes on the company's transition plan. We had a dialogue with the Board directors and will continue to engage with the company.

*References to any security are for illustrative purposes only.

Finance for biodiversity pledge

In April 2021 we signed the Finance for Biodiversity pledge at the 15th meeting of the Conference of the Parties to the Convention on Biological Diversity (CBD), alongside more than 50 financial institutions representing over €9 trillion in assets under management and custody. The pledge calls on global leaders to agree on timely and effective measures to reverse nature loss to ensure ecosystem resilience.

As a signatory, by 2024 at the latest we commit to: collaborating and knowledge sharing; engaging with companies; assessing impact; setting targets; and reporting publicly. We will help develop policies and differentiated expectations across industries, with the aim that companies reduce their negative/increase their positive impacts on biodiversity.





One of the proposals we supported requested the company to amend its articles to stop building new coal plants and to take measures to reduce emissions from coal generation.

Shareholder proposals

Page 67

LGIM voted in favour of shareholder proposals for oil majors **Chevron*** and **ConocoPhillips*** to set targets for emissions associated with the use of their products, and against the ‘say-on-climate’ proposals put forward by **Shell*** and **Total*** (now TotalEnergies*) for an advisory vote from shareholders. We have provided further comment on the significance on these votes in our [blog](#).

Today, Japan is only second to the US in terms of the number of activist campaigns.¹ Proposals in Japan have focused mainly on unlocking the value trapped within large balance sheets by returning cash to shareholders. Common proposals call for the unwinding of cross shareholdings and increased dividends but these are rarely successful.

One emerging theme in shareholder proposals is climate change. Last year, **Mizuho Financial Group*** was the first Japanese company to receive a [climate-related proposal](#). This year, environmental groups filed similar proposals calling for **Sumitomo Corporation*** and **Mitsubishi UFJ Financial Group*** to adopt and disclose plans to align their businesses with the goals of the Paris Agreement. While both companies have shown progress, including a commitment to achieve carbon neutrality by 2050, we chose to vote in favour of both proposals to signal our concerns around the pathway to successfully deliver on the long-term commitments. Neither passed, but they received 20% and 23% shareholder support, respectively.

At **Kansai Electric Power’s*** AGM, 24 proposals predominantly related to governance and environmental issues were filed by **33 shareholders** including the municipal governments of Osaka City and Kyoto City. One of the proposals we supported requested the company to amend its articles to stop building new coal plants and to take measures to reduce emissions from coal generation.

Toyo Seikan Group Holdings* received a proposal from an activist fund to amend its articles to disclose a plan outlining the business strategy, taking into account the TCFD framework.

While none of these shareholder resolutions passed in Japan, we hope our support for the resolutions has helped signal the importance and urgency for companies to act.

1. Source: CLSA based on Bloomberg data (as of 30 June 2021).
*References to any security are for illustrative purposes only.

Significant votes

Company name: ExxonMobil Corporation*			
ISIN: US30231G1022	Market cap: \$236.9bn ²		
Sector: Oil and gas			
Issue identified:	Due to persistent concerns around governance, climate and capital allocation, the company was removed from select LGIM strategies in 2019, with sanctions applied under LGIM’s Climate Impact Pledge. In 2020, we announced that we would be opposing the re-election of the company’s chair/CEO as we believe the separation of roles provides a better balance of authority and responsibility. In 2021, we escalated our engagement by supporting an activist investor who proposed an alternative slate of directors, as the experience and skills of the proposed four candidates would, in our view, make a positive contribution to board effectiveness and oversight. We announced our voting stance ahead of the AGM, with our position being widely covered in major news outlets and referenced in the voting recommendations from proxy adviser ISS.		
Summary of the resolution:	Proxy content at the AGM, 26 May 2021		
How LGIM voted:	<table border="0"> <tr> <td> LGIM voted FOR: <ul style="list-style-type: none"> The four activist-proposed director nominees A number of ESG shareholder proposals </td> <td> LGIM voted AGAINST: <ul style="list-style-type: none"> The re-election of the chair/CEO The reappointment of auditors The remuneration report </td> </tr> </table>	LGIM voted FOR: <ul style="list-style-type: none"> The four activist-proposed director nominees A number of ESG shareholder proposals 	LGIM voted AGAINST: <ul style="list-style-type: none"> The re-election of the chair/CEO The reappointment of auditors The remuneration report
LGIM voted FOR: <ul style="list-style-type: none"> The four activist-proposed director nominees A number of ESG shareholder proposals 	LGIM voted AGAINST: <ul style="list-style-type: none"> The re-election of the chair/CEO The reappointment of auditors The remuneration report 		
Rationale for the decision:	We have had multiple engagements with the company but remain dissatisfied with the strength of the company’s climate targets and strategy, along with the levels of transparency around sustainability and lobbying, and with the levels of board oversight (in particular the combined chair/CEO roles).		
Outcome:	<ul style="list-style-type: none"> Three of the four proposed new directors have been appointed. The chair of the remuneration committee, against whom LGIM voted last year, was not reappointed to the board. A majority of shareholders voted for a report on climate-related lobbying. 		
Why is this vote significant?	This is most high-profile example to date of a climate-related proxy contest; a recently formed hedge fund with a minority stake managed to galvanise sufficient support to replace a third of the board at a company that less than a decade ago was the world’s largest by market capitalisation. For LGIM, the escalation is in keeping with our approach of holding individual directors accountable for their companies’ climate performance. We have commented on the significance on the vote repeatedly in the media and in our blog		

2. The source for all market cap data in this document is Refinitiv, as at 21 July 2021
*References to any security are for illustrative purposes only.

Company name: HSBC Holdings plc*	
ISIN: GB0005405286	Market cap: £80.6bn
Sector: Banks	
Issue identified:	<p>The bank has repeatedly been identified as a substantial climate change financier, continuing to finance new fossil fuel projects not in line with the Paris Agreement goals.</p> <p>To work towards a net-zero future aligned with Paris Agreement goals, ShareAction initially proposed a resolution to strengthen HSBC's climate change policies and disclosure.</p> <p>As a result of further discussions between the company, the proponents and shareholders, ShareAction was sufficiently comfortable with management's counter proposal to withdraw its own resolution.</p>
Summary of the resolution:	<ul style="list-style-type: none"> AGM: 28 May 2021 Resolution 15 – to set, disclose and implement short- and medium-term targets, to publish and implement a phase-out policy and to report on progress.
How LGIM voted:	LGIM voted FOR the management-proposed climate change resolution (in line with management's recommendation).
Rationale for the decision:	<ul style="list-style-type: none"> LGIM has engaged with HSBC on its climate change policies and disclosures for a number of years, and we joined a collaborative engagement around the shareholder proposal ahead of the 2021 AGM. We encouraged the Board to reach a compromise with the proponents to require only a single resolution, and so were happy to support management's climate change proposal at the AGM.
Outcome:	<ul style="list-style-type: none"> Engagement between company, proponent and institutional shareholders led to the preferred outcome of a single resolution supported by management and proxy advisers. Resolution 15 received overwhelming support with 99.71% of votes cast FOR. We will continue to monitor the strength of HSBC's climate change policies and progress towards improved disclosure of targets and emissions across the portfolio.
Why is this vote significant?	<p>The topic of the proposal was in line with LGIM's climate change policy stance and our campaign to push for a net-zero economy globally.</p> <p>Ahead of the AGM and while engagement between the parties continued, we had many client and press queries regarding our views and likely vote on the proposals.</p>

*References to any security are for illustrative purposes only.



Environmental | Social | Governance

ESG: Social

Medical oxygen roundtables

The Investment Stewardship team was invited to participate in the first (of three) Access to Medical Oxygen roundtables, organised by the Access to Medicine Foundation and Every Breath Counts Coalition. The aim was to explore opportunities to increase access to medical oxygen in low-and middle-income countries (LMICs) in the context of COVID-19. The roundtable brought together companies and industry associations, investors, donor governments and foundations as well as global health agencies, such as the World Bank, World Health Organisation (WHO), and the Clinton Health Access Initiative.

Globally, to date, there have been approximately 180 million reported cases of COVID-19 and almost 4 million deaths.³ Medical oxygen therapy is a core part of the treatment of patients with severe COVID-19. Of those admitted to hospital with COVID-19, 41% need supplemental oxygen.⁴ With slower-than-expected vaccine rollout in many of the LMICs, access to oxygen and other medicines have been described during the

Access to Medical Oxygen roundtables as “exceedingly important” in reducing COVID-19 deaths in the short-term. Sir Jeremy Farrar, Director of the Wellcome Trust, an independent charitable foundation dedicated to combatting the most urgent global health challenges, has noted that medical oxygen will save more lives in 2021 than vaccines will, but supplies to many countries are precariously low.⁵

Medical oxygen is included under the Therapeutics Pillar of the Access to COVID-19 Tools Accelerator (ACT-A)—a global partnership led by WHO to accelerate development, production, and equitable access to COVID-19 tests, treatments, and vaccines. Under the umbrella of ACT-A, the ‘Oxygen Emergency Taskforce’ was established in February 2021 to help LMICs respond to the rapidly rising need for medical oxygen to treat COVID-19 patients.

The third roundtable was held on 9 June 2021 with the objective of engaging the oxygen industry more directly to prevent a repeat of the oxygen crises that have occurred in many LMICs, most recently in India and Nepal. The roundtable was opened by Carl Bildt, WHO Special Envoy for the Access to COVID-19 Tools Accelerator (ACT-A) and former Prime Minister and Foreign Secretary of Sweden. In conversations with participants and, in particular, some companies in which we invest, LGIM stated our clear support for those companies who were taking steps to increase access to medical oxygen and encouraged others to follow suit. We were delighted to hear, less than a week later, that two of the world’s largest medical oxygen suppliers **Air Liquide*** and **Linde plc*** – which have participated in the roundtables – had agreed to collaborate with the COVID-19 ‘Oxygen Emergency Taskforce’ to increase access to medical oxygen in LMICs.⁶ We will continue to participate in the roundtables and encourage other investee holdings to support the efforts of the ‘Oxygen Emergency Taskforce’.

3. John Hopkins Coronavirus Resource Center, last accessed 22 June 2021: <https://coronavirus.jhu.edu/map.html>

4. Jane Feinmann, BMJ 2021;373:n1166, last accessed 22 June 2021: <http://dx.doi.org/10.1136/bmj.n1166>

5. Interview with Jeremy Farrar by Mun-Keat Looi, BMJ, International Features Editors, last accessed 22 June 2021: <https://www.bmj.com/content/372/bmj.n459>

6. [Unprecedented cooperation with global oxygen suppliers paves way to increase access for low- and middle-income countries to address COVID-19 crisis - Unitaid](#)

*References to any security are for illustrative purposes only.

We are working to enhance global and political coordination, accountability and governance by strengthening future pandemic preparation and addressing challenges to tackle antimicrobial resistance.



Support of UN high level dialogue on AMR

On 23 January 2020 at the World Economic Forum annual meeting in Davos, the Access to Medicine Foundation, **FAIRR, PRI** and the UK Government launched a new initiative – Investor Action on Antimicrobial Resistance (AMR) – focused on tackling the global threat of drug-resistant infections. Since September 2020, LGIM has been a member of Investor Action on AMR. At the end of April 2021, under this umbrella and upon the request of the President of the United Nations (UN) General Assembly, we joined with other high profile organisations and supported the UN’s General Assembly’s Call to Action on AMR. The aim is to enhance global and political coordination, accountability and governance by strengthening future pandemic preparation and addressing challenges to tackle antimicrobial resistance. Collective dialogue and the influence of investors such as LGIM, will play a vital role in tackling AMR⁷ and again, this underscores, and confirms, the need of a ‘One Health’ approach to AMR, of which LGIM is a firm believer.⁸

7. [*2021_06 PGA-letter-Summary-of-High-Level-Interactive-Dialogue-on-Antimicrobial-Resistance-AMR.pdf](#)

8. The World Health Organization (WHO) has declared that AMR is one of the top 10 global public health threats facing humanity. Due to the complexity of AMR the WHO promotes a ‘One Health’ approach which brings together various stakeholders working in multiple fields such as human and animal health, food production, environment etc to work together in the designing and implementing research programmes, policies and legislation to attain better public health outcomes. A ‘One Health’ approach is essential in combating AMR as it affects all facets of society.

*References to any security are for illustrative purposes only.

Tax transparency

LGIM has long believed that tax is an ESG issue. Not only is it important that individual company earnings are of a high quality and not over-reliant on specific tax structures, but if over the longer term societies are insufficiently funded, this could lead to greater societal inequalities and begin to impact companies' ability to operate sustainably. This quarter our desire to see greater transparency on tax and a fairer tax system has been bolstered by significant developments. In June, the G7 committed to set a global minimum corporate tax rate of at least 15%, and to take it forward with the G20. We have also lent our support, alongside other investors, to proposed legislation in [Europe](#), and the [US](#), which would mandate country by country tax reporting for multinational companies.



Page 70

*References to any security are for illustrative purposes only.

Significant votes

Company name: McDonald's Corporation*	
ISIN: US5801351017	Market cap: \$174.8bn
Sector: Hotels, restaurants & leisure	
Issue identified:	AMR is a key focus of the engagement strategy of LGIM's Investment Stewardship team. We believe that, without coordinated action today, AMR could prompt the next global health crisis, with a potentially dramatic impact on the planet, its people, and global GDP.
Summary of the resolution:	Resolution 5 - Report on Antibiotics and Public Health Costs at the company's AGM held on 20 May 2021.
How LGIM voted:	LGIM voted FOR the shareholder resolution (against management).
Rationale for the decision:	<p>LGIM voted in favour as we believe the proposed study will inform shareholders and other stakeholders of the negative ramifications of sustained use of antibiotics in the company's supply chain and its impact on global health, with a particular focus on the systemic implications.</p> <p>While LGIM applauds the company's efforts over the past few years in reducing the use of antibiotics in its supply chain for chicken, beef and pork, we believe AMR is a financially material issue for the company and other stakeholders, and we wanted to signal the importance of this topic to the company's board of directors.</p>
Outcome:	11.3% of shareholders supported the resolution. LGIM will continue to engage with the company and monitor progress.
Why is this vote significant?	We consider this vote to be significant as LGIM took the rare step of publicly pre-declaring it before the shareholder meeting.

*References to any security are for illustrative purposes only.

Company name: Rio Tinto plc*	
ISIN: GB0007188757	Market cap: £98bn
Sector: Mining	
Issue identified:	Community rights and social license to operate.
Summary of the resolution:	Resolution 3 and 4 – Approve remuneration report for UK and Australian law purposes.
How LGIM voted:	LGIM voted AGAINST the remuneration reports, at both AGMs of the dual-listed mining giant.
Rationale for the decision:	LGIM believed that further reductions in the exit package awarded to the outgoing CEO would have been appropriate given the destruction of the heritage site at Juukan Gorge, the associated reputational damage and the strain it has put on community relations, which are essential to maintaining the social license to operate for the industry.
Outcome:	A majority of shareholders opposed the pay package at the UK AGM
Why is this vote significant?	The destruction of a 46,000-year old heritage site in Western Australia during a 2020 mine site expansion prompted a backlash from local communities, the Australian government, the media and investors, culminating in the departure of four directors, including the chairman and the CEO. This vote represents the latest development in LGIM's efforts to press the company for accountability since the beginning of the scandal.

*References to any security are for illustrative purposes only.



Environmental | Social | Governance

ESG: Governance

Summary of pre-declarations

This is the first year in which LGIM has centralised the reporting of our vote intentions in advance of a company’s AGM. LGIM’s voting intentions for 2021, in [our blog post](#), highlights the companies and resolutions we believe require additional scrutiny from the market. Publicly pre-declaring our vote intention is an important tool for our engagement activities. We decide to pre-declare for a number of reasons, including as part of our escalation strategy, where we consider the vote to be contentious, or as part of a specific engagement programme.

The pre-declarations covered a number of different ESG topics, too. For example, our post on Informa* highlighted our intention to vote against a number of resolutions, including one pertaining to its remuneration policy, to reflect our concerns over the media company’s pay practices.

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Co-filed significant shareholder resolutions

During the autumn of 2020 we co-filed, together with members of Investors for Opioid and Pharmaceutical Accountability (IOPA), two shareholder resolutions at **Eli Lilly*** and **Gilead Sciences*** seeking the appointment of an independent chair. LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills and experiences. Since 2015 we have supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 we have voted against all combined board chair/CEO roles. Furthermore, we have published a guide for boards on the separation of the roles of chair and CEO, and we have reinforced our position on leadership structures across our stewardship activities – e.g. via individual corporate engagements and director conferences.

In our advocacy process, the obvious next step was to start filing shareholder resolutions on this subject. At the Eli Lilly* AGM the shareholder proposal received support from 42% (excl. insider shares) of the independent shareholders and at Gilead Sciences* the same proposal received 35% support from shareholders. For Gilead Sciences*, we also took the rare step of publicly pre-declaring our vote intentions before the shareholder meeting.

9. Source: Sumitomo Mitsui Trust Bank (as of 1 July 2021). Note that in a hybrid AGMs, a "participating" shareholder can view the meeting online but cannot vote during the meeting, while an "attending" shareholder can not only view but also vote during the meeting. Only a small number of companies have given shareholders the option to "attend" virtually.

10. In Japan, a new [law](#) has come into effect, allowing companies to hold virtual-only meetings without the need to amend the articles for two years from 16 June 2021.

*References to any security are for illustrative purposes only.

COVID-19 and virtual AGMs

In June, more than 300 Japanese companies held ‘hybrid AGMs’, allowing shareholders the option to either physically turn up for the meeting, or alternatively ‘participate’ or ‘attend’ online.⁹

Additionally, we note that 10 Japanese companies proposed to amend their articles of incorporation to allow virtual-only AGMs.¹⁰ We chose to support proposals by companies that specified the situations - such as during a pandemic or major natural disaster - in which a virtual-only AGM would be allowed without shareholder approval (e.g. **Takeda Pharmaceutical Company***). However, we voted against proposals that did not limit the conditions (e.g. **Sumitomo Mitsui Financial Group***), as we believe that authorising companies to hold virtual-only meetings permanently could undermine the quality of exchange between shareholders and companies. This is particularly important to retail investors who do not have the same access to companies that institutional investors have outside the AGM.



Board composition

In 2021, we strengthened our board diversity policy to vote against companies in the TOPIX 500 in instances where there are no women on the board. This resulted in 51 votes against the chairman or most senior member of the board during the second quarter.¹¹ This is compared to six in the same period in 2020, the first year in which we implemented a voting policy in Japan to vote against any company in the TOPIX 100 with an all-male board. We are pleased to note that three of those six companies have appointed women directors to the board this year.



In 2021, we strengthened our board diversity policy to vote against companies in the TOPIX 500 in instances where there are no women on the board.

Further information and views on diversity in Japan can be found in the LGIM blog:

- [Why gender diversity in Japan’s boardrooms should matter to investors](#) (10 May 2021)
- [Hi-seiki, high stakes: how we engage on gender diversity in Japan](#) (17 May 2021)

Moreover, we have continued to vote against Japanese companies when independent directors account for less than one third of the board. During the latest quarter, we voted against 141 companies, down from 191 during the same period in 2020, due to board independence concerns.¹²

11. Votes represent voting instructions for our main FTSE pooled index funds which include approximately 500 Japanese holdings.
12. Ibid.
*References to any security are for illustrative purposes only.

Significant votes

Company name: AT&T*	
ISIN: US00206R1023	Market cap: \$199.3bn
Sector: Telecommunications	
Issue identified:	LGIM identified serious issues with the structure and quantum of AT&T’s executive remuneration. In particular, the US\$48 million sign-on equity award to the incoming CEO of its Warner Media division and a US\$9 million retention grant to the General Counsel.
Summary of the resolution:	<ul style="list-style-type: none"> • Item 3 - Advisory Vote to Ratify Named Executive Officers' Compensation • AGM – 30 April 2021
How LGIM voted:	AGAINST
Rationale for the decision:	The awards and payments made by AT&T did not meet LGIM’s expectations of fair and balanced remuneration both in respect to their magnitude and the lack of performance criteria.
Outcome:	A majority of investors (51.7%) voted against the advisory resolution, sending a strong signal to management that its remuneration policy revision.
Why is this vote significant?	This was a high-profile vote.

*References to any security are for illustrative purposes only.

Company name: General Electric*	
ISIN: US00206R1023, US3696041033	Market cap: \$111.5bn
Sector: Industrials	
Issue identified:	<p>LGIM believes that the roles of chair and CEO should be separated. The concentration of power in the hands of a single individual can be seen as an advantage for a company. For example, having a single person is thought by many to facilitate quick decision-making. However, LGIM believes that, on balance, the perceived advantages do not outweigh the risks of such a structure. Instead, a separate chair and CEO provides a balance of authority and responsibility that is in both the company's and investors' best interests. At the company's 2021 AGM, a shareholder resolution was proposed to require an independent chair, which would in effect result in a separation of the chair and CEO roles.</p> <p>LGIM is committed to addressing the issue of climate change. We believe that climate change and the transition to low-carbon presents both risks and opportunities for our investee companies. At the company's 2021 AGM, a shareholder resolution was filed by requesting that the company report on its progress towards achieving a target of net zero greenhouse gas emissions by 2050.</p>
Summary of the resolution:	<ul style="list-style-type: none"> Item 6 – Require Independent Board Chair Item 7 – Report on Meeting the Criteria of the Net Zero Indicator AGM – 4 May 2021
How LGIM voted:	<ul style="list-style-type: none"> FOR – Item 6 FOR – Item 7
Rationale for the decision:	LGIM voted to support both resolutions in an effort to improve the company's governance structure and to spur meaningful action by the company to address gaps in its climate related disclosure and strategy.
Outcome:	<p>The resolution requiring an independent board chair received 29.8% votes in favour and failed to pass. LGIM will continue to engage with the company on this important governance structure best practice.</p> <p>The board and an overwhelming majority of 97.96% of investors supported the shareholder resolution. General Electric* and the board issued a statement reiterating their recognition that climate change is an urgent priority and that the company will disclose a Scope 3 emissions target and says that it plans on publishing a sustainability report in 2021 that will include whether the company intends to set a net-zero target and the rationale behind it.</p>
Why is this vote significant?	This was a high-profile vote.

*References to any security are for illustrative purposes only.

Public policy update



United Kingdom

Over the past quarter, the UK government has been very active with regards to strengthening ESG-related policy and regulation. There have been announcements ranging from the UK audit reform, UK taxonomy, sustainability labelling, the Task Force on Climate-Related Financial Disclosures (TCFD), social factors in pensions schemes, green bond issuance, to sustainability disclosures requirements.

In May, LGIM and L&G Group submitted a joint response to the UK's 'Department for Work and Pensions and the Department for Business, Energy & Industrial Strategy' (BEIS) consultation on "mandatory climate-related financial disclosures by publicly quoted companies, large private companies and Limited Liability Partnerships (LLPs)". LGIM has for many years been encouraging the significant strengthening climate-related reporting across the UK economy and beyond, and this consultation was very welcome. We again highlighted the importance that such regulations must be aligned across the investment chain to ensure the required data is disclosed by corporates, thus enabling disclosures further up the chain. This is critical if we are to get accurate, comparable and consistent disclosures for end investors. We were, however, disappointed to see that the ambition from BEIS was below what we feel is necessary i.e. reporting at a TCFD 4 pillar level as opposed to the full 11 recommendations. In collaboration with other investors, LGIM wrote to the government to highlight this as a serious area of concern.

LGIM has also been: i) engaging with the FCA on the next steps to the Lord Hill review (e.g. use of special purpose acquisition companies or 'SPACs'); ii) preparing responses to the BEIS Audit Reform consultation; iii) joined the **Aldersgate Group** and UK Green Building Council **collaboration** of businesses and investors that wrote to the prime minister to call for the UK Planning Bill to deliver net zero and protect nature (**picked up** in the FT); and iv) reviewing the forthcoming FCA TCFD consultations for asset managers and standard listed issuers.

*References to any security are for illustrative purposes only.



United States

In June, we submitted a comment letter to Securities and Exchange Commission (SEC) as part of its **public input solicitation** for the climate change disclosure rules under consideration. Within the letter, among other points, we highlighted the importance of consistent global disclosure requirements across all asset classes on climate-related risks as well as the need for broader ESG disclosures. LGIM also met with the Environmental Protection Agency (EPA) in June to discuss the importance of federal methane policies, given the potency of substance and its incompatibility with a net zero future. In May, as part of the **Human Capital Management Coalition**, we met with SEC Chairman Gary Gensler to discuss human capital disclosure recommendations: number of workers, cost of work force, turnover and diversity.

We met to discuss human capital disclosure recommendations: number of workers, cost of work force, turnover and diversity.





European Union

As ever, the European Union (EU) continues to lead the way on developing a comprehensive policy and regulatory framework in sustainable finance, as well as driving progress on the transition to a low-carbon economy (and meet the Paris Agreement targets) across each sector. An area of focus for the EU at this time is improving ESG transparency right across the investment chain. In May, following last year's consultation on reviewing the Non-Financial Reporting Directive, the EU released its proposal for the **'Corporate Sustainability Reporting Directive'**. While this is just the first step, and a lot will depend on how close the EU aligns with the new IFRS Sustainability Standards Board (which is key), we welcome the proposal. We have summarised the key changes in [our blog](#). We will be continuing to engage with the EU and advocate for robust sustainable finance policies, including an area that the EU may have overlooked, integrating strong 'stewardship' activities. It is also worth mentioning we [joined a collaboration](#) through The Institutional Investors Group on Climate Change (IIGCC) on reiterating the requirements and the importance of a strong EU methane policy, with our stance covered by major news agency [Reuters](#).



Japan

In June, the Tokyo Stock Exchange (TSE) **announced** the second revision of Japan's Corporate Governance Code, which was first compiled in 2015 and revised in 2018. This was accompanied by the Japan Financial Services Agency's (FSA) revised Guidelines for Investor and Company Engagement (Engagement Guidelines) **announced** the same day. LGIM engaged with the public consultation both directly and alongside our partners in the Asian Corporate Governance Association (ACGA), and also worked with the International Corporate Governance Network (ICGN) to provide input into the *"Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code"* (set up by the TSE and the FSA).

LGIM welcomes the Code's enhancements to: i) board independence; ii) references to climate change (including TCFD-aligned reporting) and human rights issues among others as aspects of sustainability for the board to embrace; iii) strengthened wording regarding nomination and remuneration committees; and iv) increased emphasis on diversity at the board and management level.

All are issues that LGIM has advocated on for many years. In our view, however, the latest board independence requirements still leave room for further enhancement. Moreover, we believe the revised Code does not sufficiently add to the sections on the management and timing of [shareholder meetings](#), and cross-shareholdings (we note, however, that there have been some additions to the Engagement Guidelines). Additionally, in future revisions, we would like to see a number of important items – including English disclosures, TCFD-aligned reporting, and independent board committees – become applicable to companies beyond just those listed on the prime market. We have also recommended that the TSE and FSA consider ways to monitor and enforce compliance against the Code, as adherence should not be a tick-box exercise and any non-compliance should be explained with compelling reasons. A sound corporate governance framework is in the long-term interests of all participants in the Japanese market, and we will continue to engage on this topic going forward.

*References to any security are for illustrative purposes only.

In April, and in the context of delivering on Paris Agreement, LGIM engaged on pushing the Japanese government to encourage setting an appropriate 2030 greenhouse gas emission reduction target to be included in their National Determined Contribution (NDC – which was being negotiated ahead of COP26 later this year). LGIM's position was to encourage a strengthening of the reduction target to 50% below 2013 levels (which had previously been set at just 26%), however, the government eventually decided on a less ambitious 46% reduction target along with an unofficial goal to aim to reduce emissions by 50%. It is encouraging to see that the government has now codified into law its commitment for the economy to be carbon-neutral (net zero) by 2050. We are also pleased to announce that LGIM is now part of the **'Japan Climate Leaders' Partnership'** (JCLP), and look forward to collaborating with the group on Japanese climate related policy.

*References to any security are for illustrative purposes only.

ACGA Japan Working Group

LGIM has been a member of the Asian Corporate Governance Association (ACGA), an independent research and advocacy non-profit membership organisation based in Hong Kong, since 2012. This year, Aina Fukuda, who leads LGIM's stewardship efforts in Japan, was appointed deputy chair of the ACGA Japan Working Group (JWG). The JWG is a sub-group of ACGA investor members comprised of professionals committed to advancing corporate governance and stewardship in Japan on behalf of their organisations. The JWG comprises 29 ACGA member organisations with global assets under management of more than US\$20tn (as of December 2020).

During her two-year term, Aina will represent LGIM and work with ACGA and the JWG chair to advance JWG's engagement with regulators, listed companies and other key stakeholders in Japan. Since her appointment, JWG members have identified corporate engagements on board independence, diversity, and capital management (e.g. cross-shareholdings) as a key priority for the group. Other JWG meetings during this quarter involved knowledge sharing as well as constructive dialogue between JWG members and Japanese companies, proxy advisers, and NGOs.





Australia

LGIM responded to a [Treasury consultation](#) that is reviewing the regulatory regime for proxy advice and looking to introduce reforms that reportedly encourage greater transparency in the system. This consultation was similar to that of the SEC in the US in 2019, a proposal to which LGIM strongly opposed. In the US, the SEC has announced the ruling will be revisited. We encouraged the Treasury in Australia not to proceed with the proposal highlighting: i) that proxy advisers are agents of investors, not issuers; ii) research must be independent; iii) investors take the final decision on voting; and iv) that investors already publicly publish voting reports, engagements, and voting policies on their websites. We will closely follow this proposal going forward.

Page 76

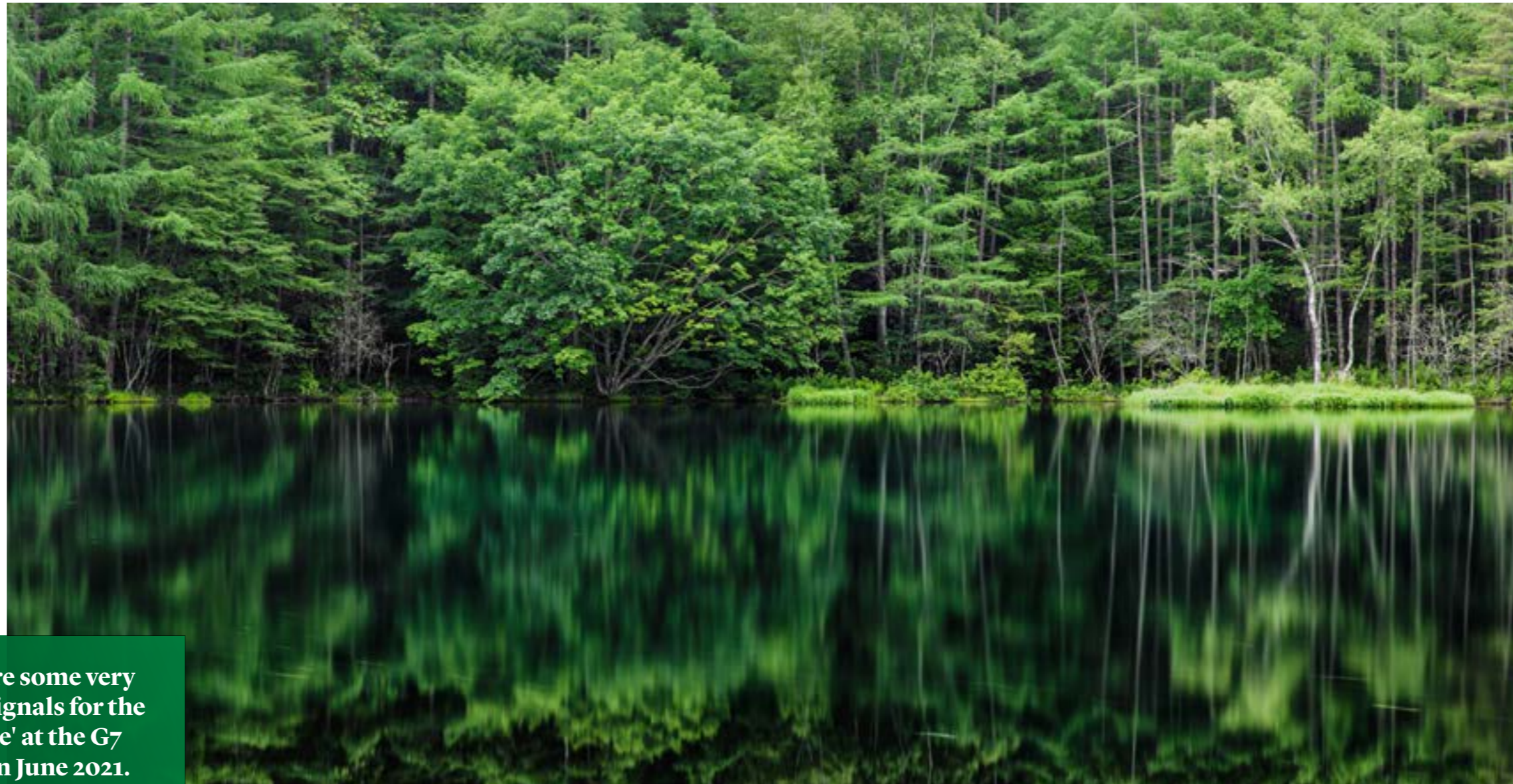


Global

G7

In June, world leaders gathered at the G7 meeting in Cornwall, UK. While there was a lot on the agenda, we felt there were some very positive signals for the 'ESG space', specifically: i) the political ambition and alignment on climate change and biodiversity (ahead of both COPs later this year); ii) ESG disclosures; iii) corporate tax standards; iv) anti-microbial resistance; and v) financing the transition to low carbon economies in emerging markets. Please see our [blog](#) for further details.

There were some very positive signals for the 'ESG space' at the G7 meeting in June 2021.



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Tax

This quarter has seen some big moves in our desires to see greater transparency on tax and a fairer tax system. As mentioned above, in June the G7 committed to set a global minimum corporate tax rate of at least 15%, and to take it forward with the G20. We have also lent our support, alongside other investors, to proposed legislation in [Europe](#) and [the US](#) which would mandate country by country tax reporting for multinational companies.

Climate change

In June, LGIM joined the 2021 [Global Investor Statement](#) to governments on the climate crisis. The statement was coordinated by The Investor Agenda and represents 457 investors with more than US\$41tn in assets under management and custody. The statement sets out five actions that governments need to urgently take steps on: i) strengthening National Determined Contributions (NDC) for 2030 and in-line with limiting warming to 1.5 degrees centigrade; ii) commit to mid-century net zero targets with decarbonisation roadmaps; iii) strengthen pre-2030 policy actions e.g. phase out fossil-fuel subsidies; iv) ensure COVID-19 recovery plans support the transition to net zero; and v) mandate climate risk disclosures e.g. TCFD. LGIM is also: i) preparing a response to the FSB's consultation on establishing cross-sectorial TCFD metrics; and ii) working with a collaborative group of investors to push for a greater focus and action on micro-fibre pollution.

Agriculture

Continuing our focus on ensuring that policymakers strengthen their focus and policies to reduce greenhouse gas emissions (GHG) emitted by the agriculture sector – see our previous engagement on [EU Common Agricultural Policy](#) when we met with the Commission to discuss and spoke about during closing remarks [of this event](#) – we have joined a collaborative with the [FAIRR Initiative](#) titled 'Where is the Beef'. The [investor statement](#) is urging all G20 nation to enact ambitious policies and to publicly disclose effective targets for GHG reductions in the agriculture sector within or alongside their NDCs commitments at COP26. If well managed, the sector can actually serve as a 'carbon sink'. The statement has received strong support from the former secretary-general of the UNs, Ban Ki-Moon, and was [picked up](#) in the media.

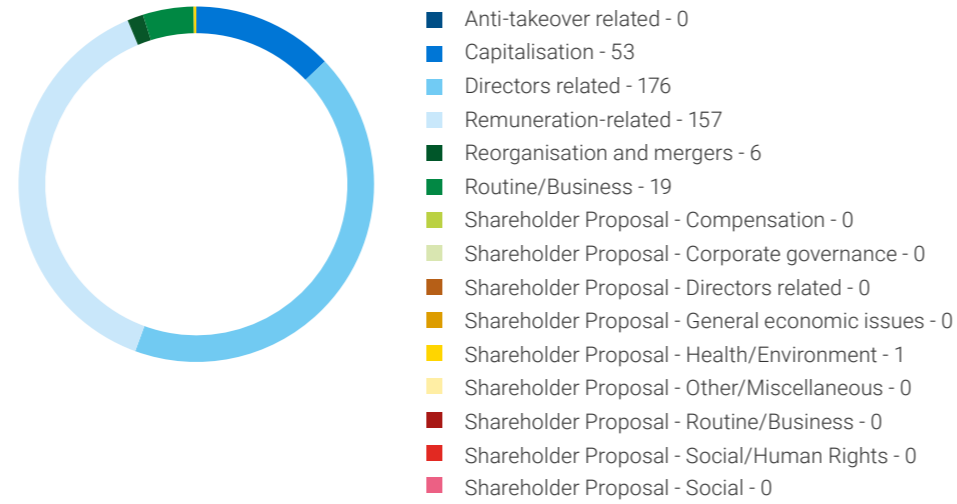
Regional updates

UK - Q2 2021 voting summary

Page 77

Proposal category	Total for	Total against	Total abstentions
Anti-takeover related	215	0	0
Capitalisation	1077	53	0
Directors related	2150	176	0
Non-Salary compensation	332	157	0
Reorganisation and mergers	26	6	0
Routine/Business	1312	19	0
Shareholder Proposal - Compensation	1	0	0
Shareholder Proposal - Corporate governance	0	0	0
Shareholder Proposal - Directors related	2	0	0
Shareholder Proposal - General economic issues	0	0	0
Shareholder Proposal - Health/Environment	2	1	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	0	0	0
Shareholder Proposal - Social/Human rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	5117	412	0
Total resolutions		5529	
No. AGMs		295	
No. EGMs		42	
No. of companies voted on		314	
No. of companies where voted against management/abstained on at least one resolution		173	
% of companies where at least one vote against management (includes abstentions)		55%	

Votes against management



Number of companies voted for/against management



■ No. of companies where we supported management
■ No. of companies where we voted against management

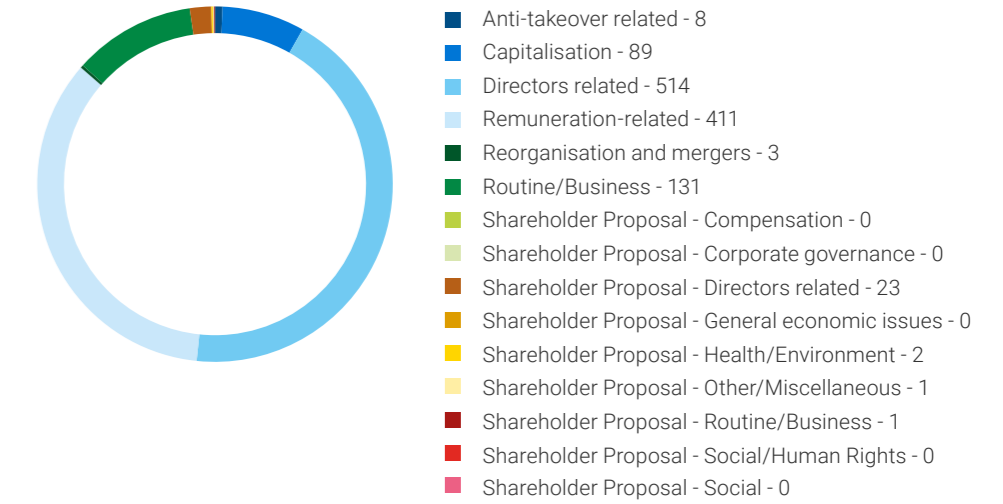
LGIM voted against at least one resolution at 55% of UK companies over the quarter.



Europe - Q2 2021 voting summary

Proposal category	Total for	Total against	Total abstentions
Anti-takeover related	4	8	0
Capitalisation	684	89	0
Directors related	2118	502	12
Non-Salary compensation	689	409	2
Reorganisation and mergers	57	3	0
Routine/Business	1692	128	3
Shareholder Proposal - Compensation	2	0	0
Shareholder Proposal - Corporate governance	4	0	0
Shareholder Proposal - Directors related	19	23	0
Shareholder Proposal - General economic issues	0	0	0
Shareholder Proposal - Health/Environment	1	2	0
Shareholder Proposal - Other/Miscellaneous	1	1	0
Shareholder Proposal - Routine/Business	6	1	0
Shareholder Proposal - Social/Human rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	5277	1166	17
Total resolutions		6460	
No. AGMs		322	
No. EGMs		11	
No. of companies voted on		325	
No. of companies where voted against management/abstained on at least one resolution		281	
% of companies where at least one vote against management (includes abstentions)		86%	

Votes against management



Number of companies voted for/against management



■ No. of companies where we supported management
■ No. of companies where we voted against management

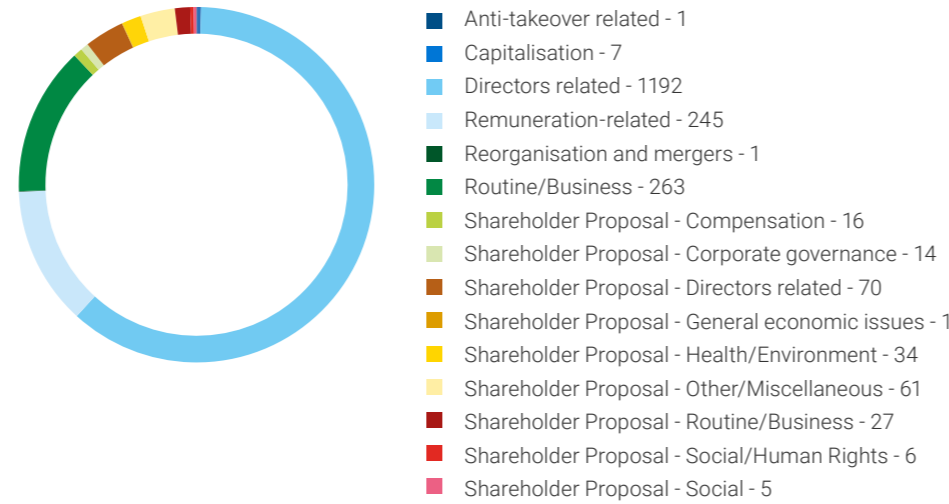
LGIM voted against at least one resolution at 86% of European companies over the quarter.



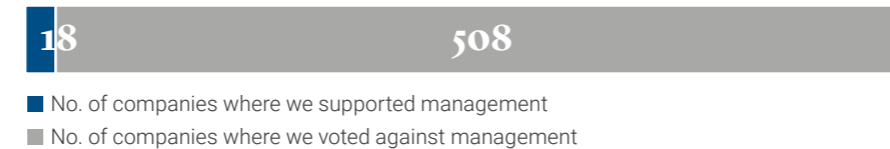
North America - Q2 2021 voting summary

Proposal category	Total for	Total against	Total abstentions
Anti-takeover related	59	1	0
Capitalisation	53	7	0
Directors related	3813	1187	5
Non-Salary compensation	423	245	0
Reorganisation and mergers	12	1	0
Routine/Business	310	263	0
Shareholder Proposal - Compensation	4	16	0
Shareholder Proposal - Corporate governance	16	14	0
Shareholder Proposal - Directors related	62	70	0
Shareholder Proposal - General economic issues	0	1	0
Shareholder Proposal - Health/Environment	6	34	0
Shareholder Proposal - Other/Miscellaneous	5	61	0
Shareholder Proposal - Routine/Business	2	27	0
Shareholder Proposal - Social/Human rights	0	6	0
Shareholder Proposal - Social	13	5	0
Total	4778	1938	5
Total resolutions		6721	
No. AGMs		520	
No. EGMs		10	
No. of companies voted on		526	
No. of companies where voted against management/abstained on at least one resolution		508	
% of companies where at least one vote against management (includes abstentions)		97%	

Votes against management



Number of companies voted for/against management



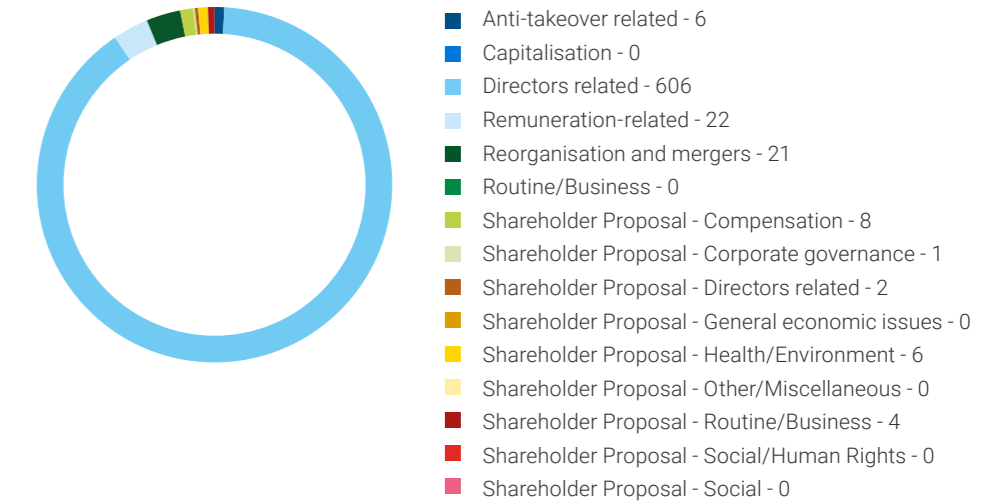
LGIM voted against at least one resolution at 97% of North American companies over the quarter.



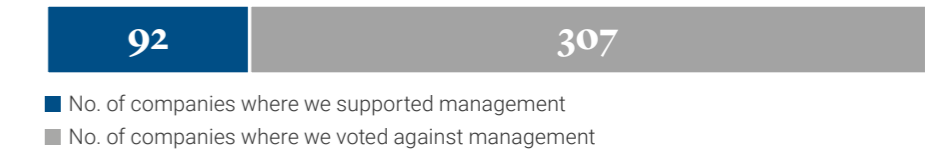
Japan - Q2 2021 voting summary

Proposal category	Total for	Total against	Total abstentions
Anti-takeover related	0	6	0
Capitalisation	1	0	0
Directors related	3614	606	0
Non-Salary compensation	209	22	0
Reorganisation and mergers	77	21	0
Routine/Business	267	0	0
Shareholder Proposal - Compensation	1	8	0
Shareholder Proposal - Corporate governance	1	1	0
Shareholder Proposal - Directors related	23	2	0
Shareholder Proposal - General economic issues	0	0	0
Shareholder Proposal - Health/Environment	38	6	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	17	4	0
Shareholder Proposal - Social/Human rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	4248	676	0
Total resolutions		4924	
No. AGMs		396	
No. EGMs		3	
No. of companies voted on		399	
No. of companies where voted against management/abstained on at least one resolution		307	
% of companies where at least one vote against management (includes abstentions)		77%	

Votes against management



Number of companies voted for/against management



LGIM voted against at least one resolution at 77% of Japanese companies over the quarter.

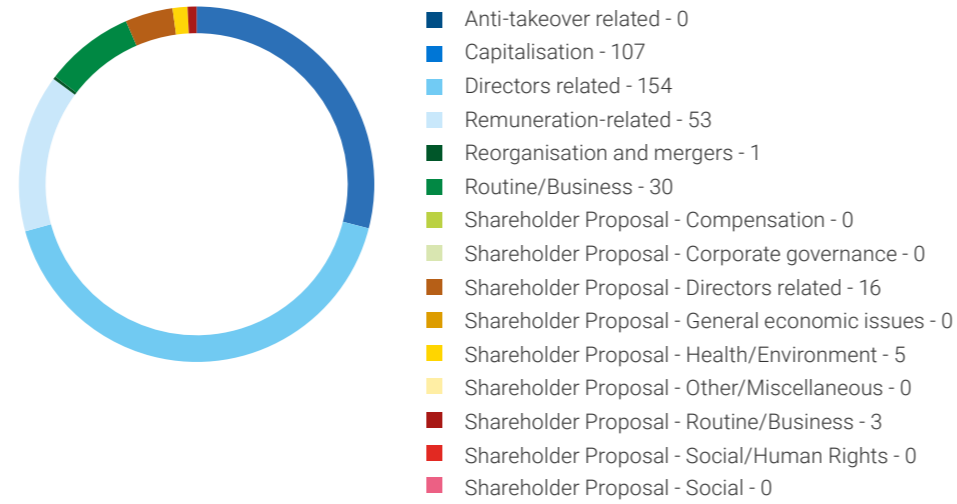


Asia Pacific - Q2 2021 voting summary

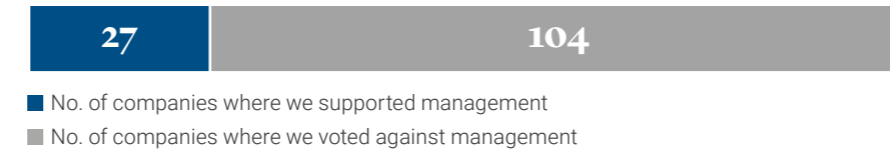
Page 79

Proposal category	Total for	Total against	Total abstentions
Anti-takeover related	4	0	0
Capitalisation	137	107	0
Directors related	371	149	5
Non-Salary compensation	25	53	0
Reorganisation and mergers	41	1	0
Routine/Business	259	30	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate governance	0	0	0
Shareholder Proposal - Directors related	0	16	0
Shareholder Proposal - General economic issues	0	0	0
Shareholder Proposal - Health/Environment	1	5	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	0	3	0
Shareholder Proposal - Social/Human rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	838	364	5
Total resolutions		1207	
No. AGMs		117	
No. EGMs		25	
No. of companies voted on		131	
No. of companies where voted against management/abstained on at least one resolution		104	
% of companies where at least one vote against management (includes abstentions)		79%	

Votes against management



Number of companies voted for/against management



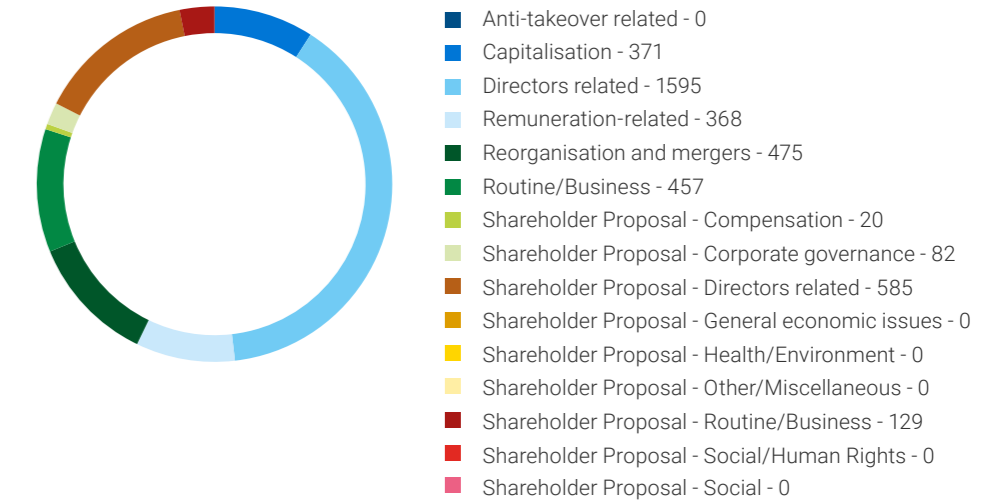
LGIM voted against at least one resolution at 79% of Asia Pacific companies over the quarter.



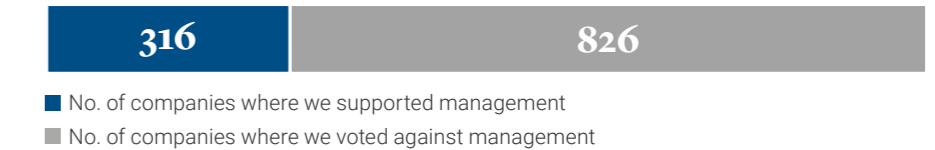
Emerging markets - Q2 2021 voting summary

Proposal category	Total for	Total against	Total abstentions
Anti-takeover related	1	0	0
Capitalisation	1954	371	0
Directors related	4080	1239	356
Non-Salary compensation	133	368	0
Reorganisation and mergers	1761	475	0
Routine/Business	6506	457	0
Shareholder Proposal - Compensation	8	20	0
Shareholder Proposal - Corporate governance	19	82	0
Shareholder Proposal - Directors related	86	570	15
Shareholder Proposal - General economic issues	0	0	0
Shareholder Proposal - Health/Environment	0	0	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	20	129	0
Shareholder Proposal - Social/Human rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	14568	3711	371
Total resolutions		18650	
No. AGMs		1110	
No. EGMs		323	
No. of companies voted on		1142	
No. of companies where voted against management/abstained on at least one resolution		826	
% of companies where at least one vote against management (includes abstentions)		72%	

Votes against management



Number of companies voted for/against management



LGIM voted against at least one resolution at 72% of emerging market companies over the quarter.

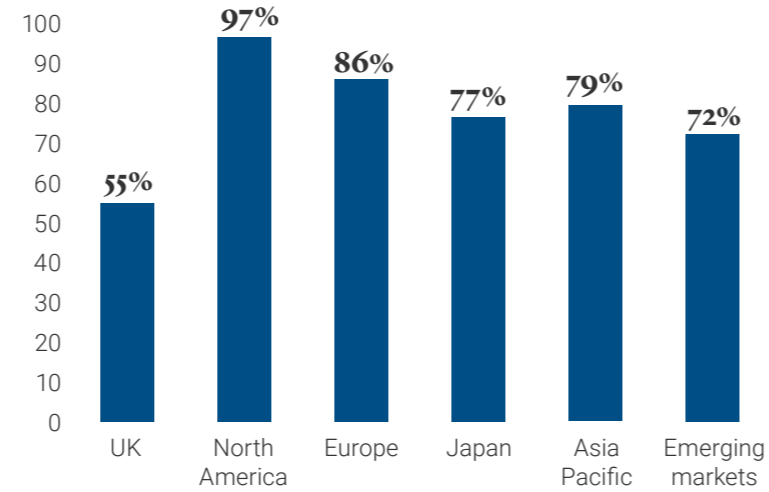


Global - Q2 2021 voting summary

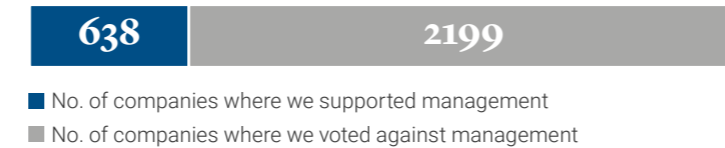
Proposal category	Total for	Total against	Total abstentions	Total
Anti-takeover related	283	15	0	298
Capitalisation	3906	627	0	4533
Directors related	16146	3859	378	20383
Non-Salary compensation	1811	1254	2	3067
Reorganisation and mergers	1974	507	0	2481
Routine/Business	10346	897	3	11246
Shareholder Proposal - Compensation	16	44	0	60
Shareholder Proposal - Corporate governance	40	97	0	137
Shareholder Proposal - Directors related	192	681	15	888
Shareholder Proposal - General economic issues	0	1	0	1
Shareholder Proposal - Health/Environment	48	48	0	96
Shareholder Proposal - Other/Miscellaneous	6	62	0	68
Shareholder Proposal - Routine/Business	45	164	0	209
Shareholder Proposal - Social/Human rights	0	6	0	6
Shareholder Proposal - Social	13	5	0	18
Total resolutions	34826	8267	398	43491
No. AGMs				2760
No. EGMs				414
No. of companies voted on				2837
No. of companies where voted against management/abstained on at least one resolution				2199
% of companies where at least one vote against management (includes abstentions)				78%

Page 80

% of companies with at least one vote against (includes abstentions)



Number of companies voted for/against management



Global engagement summary



In Q2 2021, the Investment Stewardship team held

112



engagements

with

91

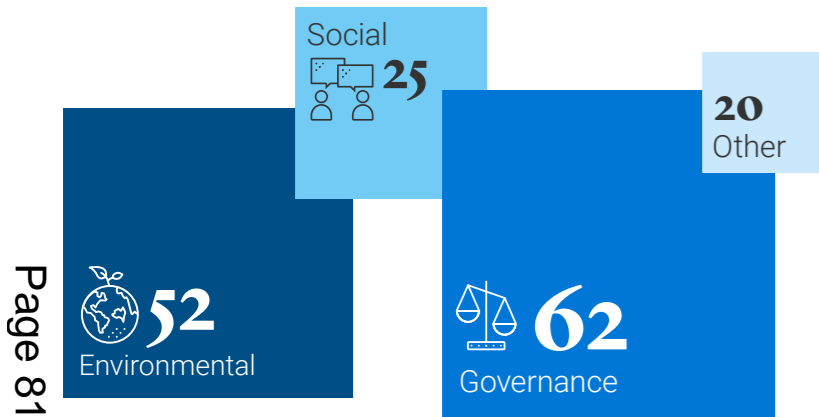


companies

(vs. 234 engagements with 216 companies last quarter)

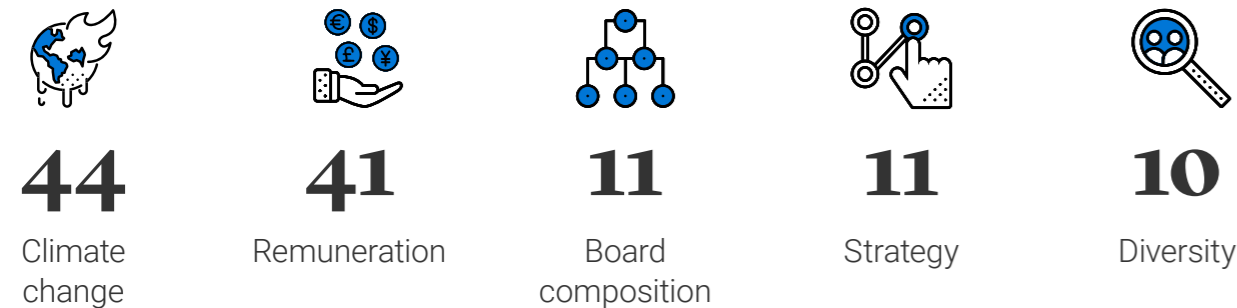
Breaking down the engagement numbers

Breakdown of engagement by themes



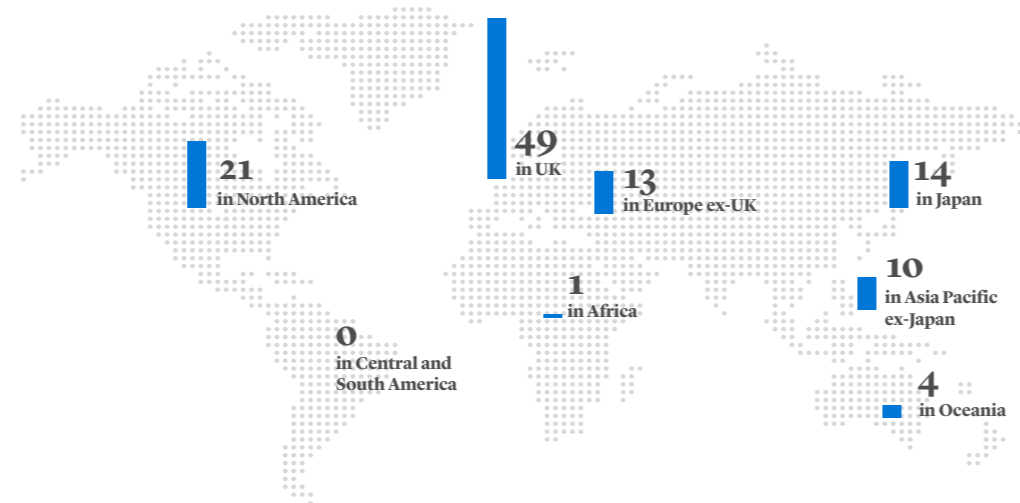
Page 81

Top five engagement topics*

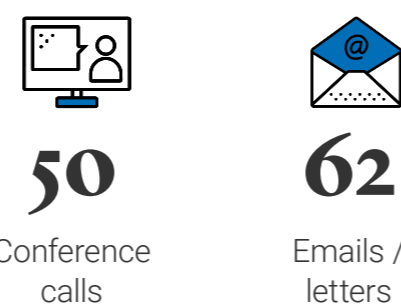


*Note: an engagement can cover more than a single topic

Regional breakdown of engagements



Engagement type



Contact us

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