Non-Executive Report of the:

Pensions Committee

Thursday, 24 June 2021

TOWER HAMLETS

Classification:
Open (Unrestricted)

Report of: Kevin Bartle, Interim Corporate Director, Resources

Voting, Engagement and Stewardship Update

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

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 March 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. <u>ALTERNATIVE OPTIONS</u>

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. <u>DETAILS OF THE REPORT</u>

- 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 g five appendices 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) and engagement activities of Local Authority Pension Fund Forum (LAPFF)
 - Q1 2021 LCIV (BG) Global Equity Proxy Voting Summary (Appendix 1)
 - Q1 2021 LCIV (Ruffer) Absolute Return Proxy Voting Summary (Appendix 2)
 - Q1 2021 LCIV (BG) Diversified Growth Fund Proxy Voting Summary (Appendix 3)
 - Q1 2021 LGIM ESG Impact Report (Appendix 4)
 - April 21 LAPFF Business Meeting Papers (Appendix 5)

LAPFF Engagement Summary

- 3.3 LAPFF engaged with 39 companies during the quarter on a range of topics including:
 - Climate Change
 - Human Rights
 - Governance
 - Board Composition
 - Employment Standards
 - Environmental Risk
 - Reputational Risk
 - Finance and Accounting
 - Audit Practices
- 3.4 Appendix 5 to this report details the Forum's activity during the quarter. Also included was a follow up on letters sent to all 16 companies it reached out to of the 112 business entities that the United Nations High Commissioner for Human Rights published in February 2020. The aim of these engagement letters was to ascertain whether these companies had undertaken human rights impact assessments on their operations and if not ask them to do so. Of the 16 companies LAPFF had one engagement meeting in the third quarter of 2020 with one company and received a number of responses from other companies.

In addition the Forum reached out to the United Nations Human Rights Office of the Hight Commissioner (UN OHCHR), seeking a meeting to engage on a couple of aspects of the UN list. The meeting took place at the end of March. The Forum has also been investigating models for a human rights impact

- assessment as a baseline to provide companies with in what the Forum might expect them to be undertaking.
- 3.5 Other engagement activities included collaborative engagements with asset managers to discuss approaches to responsible investments.

Voting Activities

- 3.6 Meetings tend to be Annual General meeting (AGM), Special General meeting or Extra Ordinary General Meeting. Meetings are initiated by either management or shareholders.
- 3.7 London CIV (BG) Global Equity fund—Voting activity and company engagement over the quarter. Votes were cast in 8 companies during the quarter and a total of 63 resolutions. Proxy voting details is attached as Appendix 1 of this report.
- 3.8 LCIV (Ruffer) Voting activity and engagement for Ruffer Absolute Return fund for the quarter ending March 2021. Votes were cast in 9 companies and one pooled fund across 4 countries. The manager cast votes in 124 of 125 resolutions. Proxy voting details is attached as Appendix 2.
- 3.9 LCIV (BG) Diversified Growth fund Stewardship voting activities during the quarter involved 16 companies across 6 countries. A total of 101 resolutions were voted on. 98 were voted For and 3 were voted Against. Proxy voting details is enclosed as appendix 3 to this report.
- 3.10 LGIM Low Carbon funds At the time of writing this report, LGIM are yet to provide proxy voting information. Once received this will be circulated to the Committee. ESG Impact report for the manager is included as appendix 4 to this report. In the first quarter of 2021, LGIM continued to focus on engagements with companies on the issues of executive pay and climate change, while also highlighting that the pandemic and growing global awareness of racial injustice have brought other societal inequalities.

Voting Alert Variances

3.11 No voting alerts variances occurred during this quarter. Voting alert variances occur where investment manager do not vote in line with the Forum's suggested voting for companies.

LAPFF Voting Alerts

3.12 During the quarter, the Forum issued one voting alert – Rio Tinto covering reelection and renumeration of Board Members. At the time of writing this report, proxy voting details has yet to be received from LGIM. No LCIV funds included investments in Rio Tinto.

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

6.2

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. <u>COMMENTS OF THE CHIEF FINANCE OFFICER</u>

- 6.1 This is a noting report and there are no direct financial implications as a result of the contents of this report.
- 6.3 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.
- 6.4 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 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.
- 7.3 When carrying out its functions, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristics and those who don't (the public sector duty).

Linked Reports, Appendices and Background Documents

Linked Report

• List any linked reports **None**

Appendices

- Q1 2021 LCIV (BG) Global Equity Proxy Voting Summary (Appendix 1)
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Local Government Act, 1972 Section 100D (As amended) List of "Background Papers" used in the preparation of this report

NONE.

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