

Non-Executive Report of the: Pensions Committee Thursday, 25 November 2021	 TOWER HAMLETS
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:

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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