

Non-Executive Report of the:  <b>Pensions Committee</b>  Thursday, 27 June 2022	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Kevin Bartle, Interim Corporate Director, Resources	<b>Classification:</b> Unrestricted
<b>ESG, Voting, Engagement and Stewardship Update</b>	

<b>Originating Officer(s)</b>	Miriam Adams
<b>Wards affected</b>	(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 2022.

### 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 two appendices which are 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) and engagement activities of Local Authority Pension Fund Forum (LAPFF)
- LAPFF Q4 2021 report (Appendix 1)
  - LGIM ESG Impact report (Appendix 2)

### **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 various companies during the quarter on a range of topics including:
- Social Risk
  - Finance and Accounting
  - Employment Standards
  - Audit Practices
  - Governance (General)
  - Environmental Risk
  - Human Rights
  - Climate Change
- 3.4 Appendix 1 to this report details the Forum's activity during the quarter, Climate Change, Human Rights, Employment Standards, Governance and Audit Practices were some of the main engagement themes during the quarter. The Forum engaged with 50 companies during the quarter while engagement took the form of alerts, correspondences issued and received as well as meetings with Chairpersons, Specialist staffs, Executive directors, CEO's and Non-Executive Directors.

### **LAPFF Company Engagement**

- 3.5 Although LAPFF is engaged in a range of company engagements reporting is limited to companies which the Fund is invested in via pooled funds.

LAPFF now has a meeting set with **Novartis** for the first week of April to discuss the company's business strategy and business model in a post-pandemic world. This will be the third such meeting with a pharmaceutical company after similar meetings with Roche and AstraZeneca. **Sanofi** has responded with a generic letter about its business model and strategy in the context of Covid, so LAPFF will follow up and request a meeting.

## Nestlé

LAPFF attended an investor roundtable with Nestlé this week. The company provided a brief overview of its work and progress across a broad range of ESG topics. Investors asked questions about nutrition, the company's net zero targets, mergers & acquisitions, regenerative agriculture, the company's commitment to the living wage, and a range of other topics. Notable comments included that Nestlé had a poor score on indicator 7 of the CA100+ benchmark last year, relating to the company's climate policy engagement.

## Collaborative Engagement

- 3.6 Starbucks - The collaborative investor letter to Starbucks calling for the company to respect the right for workers to bargain collectively has garnered \$3.4 trillion assets under management in support to date. There is now a National Labor Relations Board complaint against Starbucks on this issue.

### Socio Economic Diversity Taskforce

- 3.7 Tower Hamlets Pension Fund Board Member John Gray also LAPFF Vice Chair was appointed to the advisory board of the Socio-Economic Diversity Taskforce last year. The Taskforce has already held a number of roundtables and interviews to try and understand how government, regulators and sector bodies can create incentives for employer action in increasing socio-economic diversity at senior levels in the sector. LAPFF members now have an opportunity to join the dialogue and contribute directly to an industry consultation at a roundtable discussion.

### Ukraine

- 3.8 LAPFF issued a statement on the situation in Ukraine and solidarity with the people of Ukraine. The situation has highlighted a number of issues:
- Humanitarian and human rights
  - Governance
  - Environmental perspective highlighting the world's reliance on fossil fuels
  - Social I

Ukraine engagement cover other engagement activities including collaborative engagements, collaborative investor, and community meetings.

### Occupied Palestinian Territories (OPT) Engagement Update

- 3.9 LAPFF continues engagement with companies appearing on the UN list as having Business in the OPT. The Forum is also reviewing the recent letter from the UN Rapporteur and its applicability to LGPS funds. An update on this work will be published in the next quarter.

LAPFF recently met with Booking Holdings who have recently published their human rights statement. The company's approach to its activities in the OPT and other conflict zones such as Ukraine were discussed. The company realises it has more work to be done on its approach to human rights.

## **Voting Activities**

- 3.10 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.
- 3.11 London CIV (BG) Global Alpha Growth Paris Aligned fund– Voting activity and company engagement over the quarter. A total of 28 resolutions across 3 companies was cast. The manager cast 23 votes FOR, 3 votes cast Against, and No votes cast for 2 resolutions.

Updates on previous quarter queries voting data

London CIV was contacted and able to confirm that of the 10 companies, votes were cast in respect of 2 and issues of delays in Ballots coming through due to changes in voting systems may have resulted in missed opportunity to vote for others. LCIV have since responded that the issue was due to a delay in the proxy set up by their custodian Northern Trust which meant ballots were not being routed to ISS the LCIV voting agent until after 16 November 2021. As a result, LCIV did not make recommendations to the manager for these meetings. This has now been set up properly ahead of the voting season.

- 3.12 LCIV (Ruffer) Absolute Return fund – Votes were cast in 11 companies across 6 countries. The manager cast votes in 181 resolutions, 172 of which all were votes cast FOR while 9 votes were cast Against. Meetings during the quarter were AGM's and written consent. The written consent was with Ruffer Illiquid Multi Strategies Fund 2015 Ltd.
- 3.13 LCIV (RBC) Sustainable Equity fund – The manager participated in 17 resolutions in 1 company during the quarter. 10 votes cast For, none cast Against and 7 No Votes. Majority of resolutions related to director election. Votes against where in respect of executive compensation, report on pay disparity and corporate governance. The table below shows the details of resolutions cast against.

Company Name	Meeting Type	Meeting Date	Proposal Code Category	Votable Proposal	Proposal Text	Vote Instruct
Neste Corp.	Annual	30-Mar-22	Routine/Business	No	Open Meeting	
Neste Corp.	Annual	30-Mar-22	Routine/Business	No	Call the Meeting to Order	
Neste Corp.	Annual	30-Mar-22	Routine/Business	No	Designate Inspector or Shareholder Representative(s) of Minu	
Neste Corp.	Annual	30-Mar-22	Routine/Business	No	Acknowledge Proper Convening of Meeting	
Neste Corp.	Annual	30-Mar-22	Routine/Business	No	Prepare and Approve List of Shareholders	
Neste Corp.	Annual	30-Mar-22	Routine/Business	No	Receive Financial Statements and Statutory Reports; Receive	
Neste Corp.	Annual	30-Mar-22	Routine/Business	Yes	Accept Financial Statements and Statutory Reports	For
Neste Corp.	Annual	30-Mar-22	Routine/Business	Yes	Approve Allocation of Income and Dividends of EUR 0.82 Per	For
Neste Corp.	Annual	30-Mar-22	Directors Related	Yes	Approve Discharge of Board and President	For
Neste Corp.	Annual	30-Mar-22	Non-Salary Comp.	Yes	Approve Remuneration Report (Advisory Vote)	For
Neste Corp.	Annual	30-Mar-22	Directors Related	Yes	Approve Remuneration of Directors in the Amount of EUR 78,	For
Neste Corp.	Annual	30-Mar-22	Directors Related	Yes	Fix Number of Directors at Nine	For
Neste Corp.	Annual	30-Mar-22	Directors Related	Yes	Reelect Matti Kahkonen (Chair), John Abbott, Nick Elmslie, M	For
Neste Corp.	Annual	30-Mar-22	Routine/Business	Yes	Approve Remuneration of Auditors	For
Neste Corp.	Annual	30-Mar-22	Routine/Business	Yes	Ratify KPMG as Auditors	For
Neste Corp.	Annual	30-Mar-22	Capitalization	Yes	Authorize Share Repurchase Program	For
Neste Corp.	Annual	30-Mar-22	Routine/Business	No	Close Meeting	

3.14 LCIV (BG) Diversified Growth fund – Stewardship voting activities during the quarter involved 16 companies across 7 countries. A total of 133 resolutions were voted on. 115 were voted For and 14 were voted NO votes, 4 votes Against. Meeting types included AGM, Extraordinary GM, Ordinary GM and scheme meetings. Majority of voting involved resolutions.

13 of the NO Votes related to Blackrock Asian High Yield Bond Fund and the same was provided by the manager - due to the practice known as “Blocking” – the rules in some markets which restrict the manager from selling the company’s shares during the period between the votes being cast and the date of the meeting. One NO vote in in respect of BG Worldwide Global Strategic Bond Fund C USD Acc with the reason for NO vote being due to adherence with Baillie Gifford’s Conflict of Interest Policy.

Company Name	Country	Meeting Date	Meeting Type	Proposal Label	Proposal Text	Proposed For	Instruction	Reason for Vote
BG Worldwide Global Strategic Bond Fund C USD Acc	Ireland	25-Feb-22	Extraordinary General Meeting	1	Articles of Association	Management	No Vote	No vote - we did not vote due to adherence with our Conflicts of Interest Policy.
Blackrock Asian High Yield Bond Fund	Luxembourg	18-Feb-22	Annual General Meeting	1	Appoint/Pay Auditors	Management	No Vote	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.
	Luxembourg	18-Feb-22	Annual General Meeting	2	Allocation of Income	Management	No Vote	
	Luxembourg	18-Feb-22	Annual General Meeting	3	Discharge of Board	Management	No Vote	
	Luxembourg	18-Feb-22	Annual General Meeting	4	Elect Director(s)	Management	No Vote	
	Luxembourg	18-Feb-22	Annual General Meeting	5	Elect Director(s)	Management	No Vote	
	Luxembourg	18-Feb-22	Annual General Meeting	6	Elect Director(s)	Management	No Vote	
	Luxembourg	18-Feb-22	Annual General Meeting	7	Elect Director(s)	Management	No Vote	
	Luxembourg	18-Feb-22	Annual General Meeting	8	Elect Director(s)	Management	No Vote	
	Luxembourg	18-Feb-22	Annual General Meeting	9	Elect Director(s)	Management	No Vote	
	Luxembourg	18-Feb-22	Annual General Meeting	10	Director Related	Management	No Vote	
	Luxembourg	18-Feb-22	Annual General Meeting	11	Elect Director(s)	Management	No Vote	
	Luxembourg	18-Feb-22	Annual General Meeting	12	Remuneration - Non-Executive	Management	No Vote	
	Luxembourg	18-Feb-22	Annual General Meeting	13	Appoint/Pay Auditors	Management	No Vote	

3.12 LGIM Low Carbon funds – Stewardship voting activities during the quarter involved 124 companies across 21 countries. A total of 2,036 resolutions were voted on across a combination of annual, extraordinary, ordinary, court, 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 378 votes Against the resolution, 1,527 For, Votes allowing only one year for the resolution 1, 25 Withheld

resolutions, Abstain 31 and 74 non-voting items. LGIM ESG Impact report for the quarter is attached as appendix 2 to this report. The manager has been contacted to provide reasons for instances of 74 decision votes.

### Voting Alert Variances

3.13 Table below shows voting alert variances during the quarter.

#### LAPFF Voting Alerts Quarter Ending March 22

Company / Resolutions	LCIV DGF	LCIV Ruffer	LCIV Paris	LCIV RBC	LGIM
Apple INC <ul style="list-style-type: none"> <li>• Elect Director Andrea Jung <b>Abstain</b></li> <li>• Elect Director Art Levinson <b>FOR</b></li> <li>• Elect Director Monica Lozano <b>FOR</b></li> <li>• Elect Director Ron Sugar <b>FOR</b></li> <li>• Elect Director Sue Wagner <b>FOR</b></li> <li>• Ratify Ernst &amp; Young LLP as Auditors <b>FOR</b></li> </ul>	n/a	n/a	n/a	n/a	Against Against For  Against For For
RIO TINTO <ul style="list-style-type: none"> <li>• Annual Report <b>Oppose</b></li> <li>• Remuneration Report Implementation <b>Oppose</b></li> <li>• Remuneration Report <b>Abstain</b></li> <li>• Re-elect Megan Clark AC <b>Oppose</b></li> <li>• Climate Action Plan <b>Oppose</b></li> </ul>	n/a	n/a	n/a	n/a	n/a

3.14 During the quarter, the Forum issued 2 voting alerts.

Apple - The voting alert focused on shareholder proposals on human rights. The alert recommended that members vote in favour of improved transparency reporting on the removal of apps following concerns about freedom expression in China, reporting on policies and procedures to protect against forced labour, and undertaking a civil rights audit. The alert also recommended supporting shareholder proposals for clearer reporting on gender and ethnic pay gaps and assessing risks of workplace concealment clauses.

Rio Tinto - The alert recommended that LAPFF members oppose the annual report, the remuneration report implementation, the re-election of Megan Clark, and the company's climate action plan. There was a recommendation to abstain on the remuneration report. The recommendation to oppose the annual report was based on concerns that Rio Tinto had not adequately reported the risk of community relations considerations at its Resolution

Copper joint venture in Arizona, had not adequately set out a just transition strategy, and had not adequately considered whether the company's auditors were taking account of climate risk in appointing the auditors

#### **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).

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

### **Linked Report**

- List any linked reports  
**None**

### **Appendices**

- LAPFF Q4 2021 report (Appendix 1)
- LGIM ESG Impact report March 22 (Appendix 2)

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

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

- NONE.

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