

Non-Executive Report of the: Pensions Committee Monday, 13 March 2023	 TOWER HAMLETS
Report of: Caroline Holland, Interim Corporate Director, Resources	Classification: Unrestricted
ESG, Voting, Engagement and Stewardship Update	

The report was not published five clear days in advance of the meeting. Therefore, before this item can be considered at this meeting, the Chair of the Board would need to be satisfied that it is necessary to consider ESG, Voting, Engagement and Stewardship Updates at this meeting, the Board may also take the view that it is important that there should not be an extended period without any member oversight.

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 December 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 Q3 2022 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.
- 3.5 Reporting has been limited to companies which the Fund has investments in during the quarter. 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 Engagements relating to fund investments during the quarter

Company Engagements

- 3.6 Companies like BHP, Vale and Anglo-American have sent in responses on LAPFF Brazil Report. Responses are being considered by LAPFF as part of their due diligence process.

Say on Climate

LAPFF with Sarasin & Partners, CCLA and Ethos Foundation have written to the chairs of all FTSE listed companies (excluding investment trusts) requesting that boards allow for a shareholder vote on their greenhouse gas emission reduction strategy.

The initiative has gained some useful coverage about the importance of an annual vote to help enhance transparency and accountability on one of the most pressing financially material risks facing investee companies.

AIA

LAPFF was due to meet with AIA Group, one of the Forum's most widely held companies to discuss its approach to climate change and the role that insurers play. Unfortunately, AIA has had to reschedule until after its annual results. LAPFF has sent through the questions that were due to be asked and will follow up with the company for a meeting following the results. This stock is held by Baillie Gifford and RBC.

Collaborative Engagements

Mitsubishi UFJ Financial Group (MUFG) – Asia Research and Engagement (ARE)

LAPFF joined other investors on a collaborative call hosted by ARE to discuss MUFG's ongoing efforts on climate change. The call focused on the company's risk management process and how it was assisting clients with their transition to net zero.

Initiative for Responsible Mining Assurance (IRMA)

IRMA is a third-party certification system of industrial scale mining sites, covering all mined materials. Its voluntary audit certification system publishes publicly available audit reports. LAPFF has met with various auto-manufacturers to discuss responsible mineral sourcing, and IRMA has been mentioned in most of these meetings.

Follow This

Follow This is a group of self-described 'green shareholders in oil and gas companies. It seeks to encourage big oil to take leadership in the energy transition to a net-zero emissions energy system and has filed resolutions at a number of oil and gas majors. LAPFF provided voting alerts to members recommending support for these resolutions at both Shell and BP's AGMs in 2022. As part of a continued engagement with the oil and gas industry

Market Forces

Market Forces is an environmental advocacy project which primarily focuses on financial institutions. It notably coordinated a shareholder resolution at Standard Chartered's AGM last year, which received 11.7 percent support, and has continually engaged and provided commentary on the likes of HSBC and Barclay's.

Consultations

Shareholder Resolutions

Nestlé

There is an opportunity for LAPFF funds to co-file a healthy markets shareholder resolution at Nestlé's 2023 AGM. The aim of the resolution is for the company to set targets to increase sales from healthier products against government endorsed nutrient profiling models. The Nestlé engagement has formed part of LAPFF's involvement with the Healthy Markets Initiative being facilitated by ShareAction. Nearly a third of deaths worldwide are attributable to the consumption of health-harming commodities, including products high in fat, salt, and sugar. Nestlé is the largest producer of food and beverages in the world, and therefore a positive change in the company's approach to nutrition would have a significant impact on public health.

Policy Engagements

Diversity on the LAPFF Executive

- 3.15 Over the next couple of months LAPFF will be inviting member representatives to apply for election to the LAPFF executive committee. A wide range of Members are expected to put themselves forward for election to the executive.

Voting Activities

- 3.16 Voting takes place during company meetings such as Annual General (AGM), Special General meeting or Extra Ordinary General Meeting. Meetings are initiated by either management or shareholders as the case may be.
- 3.17 London CIV (BG) Global Alpha Growth Paris Aligned fund– Voting activity and company engagement over the quarter. A total of 68 resolutions across 5 countries and 8 companies was cast. The manager cast 55 votes FOR, 12 votes cast Against and 1 Withheld vote. The withheld vote on director election was due to concerns about overall board structure.
- 3.18 LCIV (Ruffer) Absolute Return fund – Votes were cast in 5 companies in 4 Countries. The manager cast votes in 43 resolutions all of which were FOR.
- 3.19 LCIV (RBC) Sustainable Equity Fund – Votes were cast in 3 companies all in the US. 33 votes FOR, 6 votes Against and 1 withheld vote. Withheld vote was same company as LCIV(BG)(DGF).
- 3.20 LCIV (BG) Diversified Growth fund – Stewardship voting activities during the quarter involved 9 companies across 4 countries. A total of 55 resolutions were voted on. 52 were voted For and 3 votes Abstained. Meeting types included AGM and Ordinary GM meetings. Abstained votes were in respect of 3 companies. The Manager's reason was due to absence of information and the

manager does not believe that the resolution is in the best interests of clients who vote by proxy.

Engagement

The investment manager met with Nexans and Iberdrola. The engagement with Iberdrola was identified as a top five contributor to portfolio carbon emissions, a number of environmental controversies having been identified and historical concerns remaining regarding relations with indigenous communities related to a Brazilian dam project. This meeting also covered various governance, social and environmental topics.

- 3.21 LGIM Low Carbon funds – Stewardship voting activities during the quarter
Involved 111 companies across 19 countries. A total of 1,041 resolutions were voted on across a combination of annual, annual/special, extraordinary, court, proxy contest, ordinary shareholders, special, and other meetings.

Resolutions covered a very wide range of categories including antitakeover related matters, compensation, capitalisation, climate change Human rights, reorganisations and mergers, climate emissions, tax transparency, emission reduction targets aligned with Paris Agreement goals, director elections and other director related matters, corporate governance, preferential bond holders and social proposals. The manager cast 218 votes Against the resolution, 772 For, 1 Votes allowing only one year for the resolution, 32 Withheld resolutions, 4 Abstain, 3 non-voting items and 11 blanks in respect of non-voting resolutions.

LGIM BHP voting reasons

Significant votes

Company name	BHP Group Limited*
ISIN	AU000000BHP4
Market cap	£128 billion (source: Salesforce, as at 23 December 2022)
Sector	Metals and mining
Issue identified	Climate-policy advocacy and climate disclosure, both of which LGIM considers to be material to the net zero transition. LGIM considers shareholder proposals on an individual basis.
Summary of the resolution	Resolution 14: Approve Policy Advocacy Resolution 15: Approve Climate Accounting and Audit AGM date: 10 November 2022
How LGIM voted	These were both shareholder-proposed resolutions and LGIM voted in favour of both (i.e. against management).
Rationale for the vote decision	Resolution 14 was a request that the company proactively advocate for Australian policy settings that are consistent with the Paris Agreement's objective of limiting global warming to 1.5°C. A vote in favour of this proposal was applied as LGIM believes positive climate-related advocacy is in the best interest of the company and its shareholders. We also note that nothing in this resolution was designed to limit the board's discretion to take decisions in the best interest of the company. Resolution 15 requested that, from 2023, the notes to the company's audited financial statements include a climate sensitivity analysis which includes a scenario aligned with limiting global warming to 1.5°C, presents the quantitative estimates and judgements for all scenarios used, and covers all commodities. While we consider the company to be a leader with respect to its climate-related disclosure, a vote for this proposal was applied as LGIM believes that further quantitative disclosure in the company's financial statements around the impact of climate change scenarios on BHP's material commodity portfolio is important.
Outcome	These resolutions received 12.7% and 18.7% support, respectively, from shareholders. We continue to engage with BHP and, more broadly, to support proposals that are aligned with LGIM's net zero aims and beliefs.
Why is this vote 'significant'?	These votes were significant because of their importance within our climate change engagement.

3.22 LCIV MAC fund (fixed income fund)

CQS engagement – during the quarter, the investment manager continued its on-going engagement with EG Group. EG group published its ESG report in October 2022. The manager also engaged with SFR Group. Following contact from SFR Group, the manager was able to assist the company to take steps on how to incorporate ESG factors into the investment process.

PIMCO engagement - the investment manager held a call with the investor relations team at HSBC focusing on climate change and human rights.

Voting Alert Variances

3.22 Table below shows voting alert variances during the quarter.

LAPFF issued 2 voting alerts during the quarter ending December 22.

Company/Resolutions/LAPFF RECOMMENDATION	LCIV DGF	LCIV Ruffer	LCIV Paris	LCIV RBC	LGIM
KLA Corporation AGM 2 ND November 22	n/a	n/a	n/a	n/a	For

4. Stockholder proposal for a report on net zero targets and climate transition planning FOR					
BHP Group Ltd AGM of 10 November 2022	n/a	n/a	n/a	n/a	n/a
1. Approve the financial statements and reports ABSTAIN 8. Re-elect Ken MacKenzie OPPOSE 12. Approval of equity grants to the CEO OPPOSE 13. Amendment to the Constitution FOR 14. Policy advocacy FOR 15. Climate accounting and audit FOR					

Voting Alerts

- 3.24 During the quarter, LAPFF issued two voting alerts. These alerts were for:
- BHP PLC (AGM on 10 November 2022) with LAPFF recommending voting in favour of resolution 6 resolutions:
 - Abstain on resolution one which asks shareholders to approve the financial statement and reports.
 - Oppose resolution eight which asks shareholders to re-elect Mr. ken MacKenzie, chair of the Board.
 - Oppose resolution 12 which asks shareholders to approve the provision of equity grants to the CEO.
 - Approve shareholder resolution 13 which calls for a constitutional amendment.
 - Approve shareholder resolution which calls for climate policy advocacy, and
 - Approve shareholder resolution 15 which calls for improved climate audit and accounting.
- 3.25 LAPFF issued a voting alert in respect of KLA Corporation climate change.
- Vote for Stockholder proposal for a report on net zero targets and climate transition planning
- The resolution requests 'the Board issue a report, at reasonable expense and excluding confidential information, disclosing how the Company intends to reduce its GHG emissions in alignment with the Paris Agreement's 1.5-degree goal requiring net zero emissions by 2050.'

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 Q1 2022 report (Appendix 1)
- LAPFF Workplan 2023/24 (Appendix 2)
- LGIM ESG Impact report June 22 (Appendix 3)

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

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

- NONE.

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