

Non-Executive Report of the: Pensions Committee Monday, 3 October 2022	 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);

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 June 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 Q1 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

- 3.6 London Stock Exchange Group plc (LSEG)
- LAPFF Executive members met with Jane Goodland Head of Sustainability at the London Stock Exchange. Discussions sought to gain a better perspective of how LSEG can shape and promote the adoption of best practice Climate Transition Plans as well as to challenge the company on setting 'real zero' targets for the group and for companies in its influence. The meeting was a follow-up to the 'Say on Climate' collaborative letter LAPFF sent to all listed

companies last year asking them to put their transition plan to the vote. LSEG put its transition plan to the 2022 AGM and received 98.6% support.

Unilever

- 3.7 After Share Action had success in engagement with Unilever earlier this year, with the company agreeing to publish annual assessments of the healthiness of its products, LAPFF joined Share Action and a host of investors to hear about the company's progress towards reporting on these assessments in October 2022. The company appears to be confident in hitting this reporting target. The company also discussed a number of other issues, including current strategic decisions on how it is managing supply chain issues and how this is affecting certain areas like reformulation.

Nestlé

- 3.8 LAPFF joins a collaborative engagement alongside As You Sow and other members of the Plastic Solutions Investor Alliance to meet with Nestlé. The conversation will focus on the company's approach to plastic packaging, with questions on how it is bringing in a circular economy in the form of recyclable packaging and also how it is looking to remove single use plastics entirely. LAPFF is keen to see what research the company is using in looking at alternatives to plastic.

Responsible Minerals Sourcing - Mercedes and Ford

- 3.9 LAPFF has received responses from Volkswagen, Mercedes, Ford and now BMW. VW provided materials on its mineral sourcing and has noted that it will be 'publishing a beefed-up report' in the next few months. LAPFF will be reviewing this report when it is issued and will potentially seek engagement after this, depending on what the report says.

Mining Company Engagements during the quarter

- 3.10 The mining company engagement – update on how the five mining companies covered in the LAPFF mining and human rights report.

Vale and Rio Tinto have confirmed that both companies have actively sought further engagement in the wake of the report.

Anglo American company asked to join a community webinar covering its Minas Rio and (formerly) Cerrejón projects. The affected community members asked that no companies join, so Anglo asked for an anonymous summary of the event which was provided to them.

Glencore has been largely silent but did engage respectfully during the process. BHP engagement is still evolving, and further updates is expected from LAPFF.

Collaborative Engagements

Client Earth – Shell

- 3.11 LAPFF met with environmental law charity Client Earth, which is in the process of seeking permission to bring litigation against the directors of Shell plc. The

impetus for the case is that the board is not meeting its duties under the UK's Company Act due to its failing to prepare the oil and gas company for the transition to net zero. This is a new approach to holding a company to account, as the custodians of the company (i.e., we as asset owners) challenge the directors directly.

Investor Policy Dialogue on Deforestation (IPDD)

ShareAction – Healthy Markets

- 3.12 LAPFF will be joining ShareAction on a number of calls this month to discuss company approaches to nutrition through the organisation's healthy markets initiative. This initiative is aiming to improve health by increasing access to affordable, healthy food.

Making Transition Plans Just – Investor Roundtable

- 3.13 LAPFF was represented at a roundtable focusing on how financial institutions can integrate a just transition into their net-zero transition plans. This was part of LAPFF's ongoing participation in the work programme of the UK's 'Financing a Just Transition Alliance' organised by the Grantham Research Institute at the London School of Economics. Participants discussed emerging practice including the Alliance's Just Zero report. The results of the roundtable will feed into a broader set of guidance for the financial sector in the run-up to COP27.

Toyota and Electric Vehicles

- 3.14 There have been concerns about Toyota's approach to zero emission vehicles. Although the company has been a large producer of hybrid vehicles, plans and capital expenditure on battery electric and other zero emission vehicles has been less developed than some of their peers. Lead investors of the CA100+ Transport Group had an initial meeting with US company representatives in April and arrangements are in place for a follow up meeting with Japan-based executives in the coming weeks.

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 meeting (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 919 resolutions across 17 countries and 64 companies was cast. The manager cast 739 votes FOR, 122 votes cast Against, 2 votes Abstain, One Year 4, Withheld votes 30 and No votes cast for 22 resolutions all of which were non votable resolutions

3.18 LCIV (Ruffer) Absolute Return fund – Votes were cast in 65 companies across 15 countries. The manager cast votes in 1158 resolutions, 1,052 of which all were votes cast FOR while 86 votes were cast Against. The manager Abstained from voting on 1 resolution, Withheld 4 votes, voted for One Year on 3 resolutions. 12 resolutions were not votable. Meetings consisted of annual, special and annual/special.

3.19 LCIV (RBC) Sustainable Equity fund – The manager participated in 517 resolutions in 29 companies during the quarter. 444 votes cast For, 53 votes cast Against, 4 votes withheld and 16 No Votes, 5 of which were nonvoting resolutions. The table below shows the details of resolutions cast as No votes.

Company Nam	Meeting Type	Meeting Date	Proposal Code Description	Votable Propos	Proposal Number	Proposal Text
Orsted A/S	Annual	08/04/2022	Receive Financial Statements and Statutory Reports (Non-Voting)	No	1	Receive Report of Board
Orsted A/S	Annual	08/04/2022	Authorize Share Repurchase Program	No	6	Authorize Share Repurchase Program (No Proposal Submitted)
Orsted A/S	Annual	08/04/2022	Transact Other Business (Non-Voting)	No	8	Other Proposals from Shareholders (None Submitted)
Orsted A/S	Annual	08/04/2022	Transact Other Business (Non-Voting)	No	12	Other Business
Adyen NV	Annual	01/06/2022	Close Meeting	No	11	Close Meeting
Adyen NV	Annual	01/06/2022	Miscellaneous Proposal: Company-Specific	No	2.d	Receive Explanation on Company's Reserves and Dividend Policy
Adyen NV	Annual	01/06/2022	Open Meeting	No	1	Open Meeting
Amazon.com, Inc.	Annual	25/05/2022	Racial Equity and/or Civil Rights Audit	No	18	Oversee and Report a Racial Equity Audit *Withdrawn Resolution*
Equinor ASA	Annual	11/05/2022	Prepare and Approve List of Shareholders	No	2	Registration of Attending Shareholders and Proxies
Equinor ASA	Annual	11/05/2022	Open Meeting	No	1	Open Meeting
Anheuser-Busch In	Annual/Sr	27/04/2022	Receive/Approve Special Report	No	A.1.a	Receive Special Board Report Re: Authorized Capital

3.20 LCIV (BG) Diversified Growth fund – Stewardship voting activities during the quarter involved 64 companies across 15 countries. A total of 824 resolutions were voted on. 766 were voted For and 22 were voted NO votes, 27 votes Against, 7 votes Abstained and 2 votes for 1 year duration. Meeting types included AGM, Extraordinary GM, Ordinary GM and scheme meetings.

3.21 The manager did not cast votes in the following companies due to various reasons listed below:

Ashmore Asian High Yield Bond Fund Acc – the casting of No votes was due to the practice known as “bloking” – the rules in some markets which restrict from selling shares during the period between the votes being cast and the date of the meeting.

BG Worldwide Global Strategic Bond Fun C USD Acc and BG Worldwide Sustainable EM Bond C USD ACC – no votes cast due to adherence with the manager’s Conflict of Interest Policy.

No votes were cast for FirstCash Holdings Inc due to the manager selling out of stocks.

Italgas S.p.A and Prysmian – Italian governance allows shareholders to submit ‘slates’ of directors for election at the annual general meeting. Baillie Gifford voted in favour of the ‘slate’ where the majority of directors currently sit on the board. This is routine and non-contentious.

- 3.22 LGIM Low Carbon funds – Stewardship voting activities during the quarter involved 933 companies across 29 countries. A total of 11,121 resolutions were voted on across a combination of annual, annual/special, extraordinary, ordinary, court, special, and other meetings. Resolutions covered a very wide range of categories including antitakeover related matters, compensation, capitalisation, Health and safety, climate change Human rights, reorganisations and mergers, director elections and other director related matters, corporate governance, preferential bond holders and social proposals. The manager cast 2,646 votes Against the resolution, 10,608 For, 22 Votes allowing only one year for the resolution, 25 Withheld resolutions 419, Abstain 9 and 50 non-voting items. LGIM ESG Impact report for the quarter is attached as appendix 2 to this report.

Voting Alert Variances

- 3.23 Table below shows voting alert variances during the quarter.

LAPFF Voting Alerts Quarter Ending June 22

Company / Resolutions /LAPFF RECOMMENDATION	LCIV DGF	LCIV Ruffer	LCIV Paris	LCIV RBC	LGIM
Barclays AGM 4th May					
26. Approve Barclays’ Climate Strategy, Targets and Progress 2022 OPPOSE	n/a	FOR	n/a	n/a	Against
Standard Chartered 4th May AGM					
31. Endorse the Company’s pathway to net zero by 2050 OPPOSE	n/a	n/a	n/a	n/a	Against
BP 12th May AGM					
3. ‘Net Zero – from ambition to action’ report OPPOSE	n/a	FOR	n/a	n/a	n/a
23.Follow This shareholder resolution on climate change targets. FOR	n/a	FOR	n/a	n/a	n/a
Shell (formerly Royal Dutch Shell) 24 May AGM					
20 Advisory Vote on Energy Transition OPPOSE	n/a	FOR	n/a	n/a	n/a
24 Request for climate targets aligned with Paris Agreement (‘Follow This’) FOR	n/a	FOR	n/a	n/a	n/a

Company / Resolutions /LAPFF RECOMMENDATION	LCIV DGF	LCIV Ruffer	LCIV Paris	LCIV RBC	LGIM
Amazon.com 25 May AGM					
6. Human rights due diligence on customer use of products and services FOR	n/a	n/a	FOR	FOR	FOR
7. Alternative director candidate policy FOR	n/a	n/a	FOR	FOR	FOR
8. Report on packaging materials FOR	n/a	n/a	FOR	FOR	FOR
9. Report on worker health and safety differences FOR	n/a	n/a	FOR	FOR	FOR
10. Additional reporting on use of certain contract clauses FOR	n/a	n/a	FOR	FOR	FOR
12. Alternative tax reporting FOR	n/a	n/a	FOR	FOR	FOR
13. Additional reporting on freedom of association FOR	n/a	n/a	FOR	FOR	FOR
14. Additional reporting on lobbying FOR	n/a	n/a	FOR	FOR	FOR
16. Report on warehouse working conditions FOR	n/a	n/a	FOR	FOR	FOR
17. Additional reporting on gender/racial pay FOR	n/a	n/a	FOR	FOR	FOR
19. Report on customer use of certain technologies FOR	n/a	n/a	FOR	FOR	FOR
META Platforms, INC. 25 May AGM					
4. Dual class capital structure FOR	n/a	FOR	FOR	n/a	FOR
5. Independent chair FOR	n/a	FOR	FOR	n/a	FOR
6. Concealment clauses FOR	n/a	FOR	FOR	n/a	FOR
7. Report on external costs of misinformation FOR	n/a	FOR	Against	n/a	Against
8. Report on community standards enforcement FOR	n/a	FOR	FOR	n/a	FOR
9. Report and advisory vote on the metaverse FOR	n/a	Against	Against	n/a	Against
10. Human rights impact assessment FOR	n/a	FOR	FOR	n/a	FOR
11. Child sexual exploitation online FOR	n/a	FOR	FOR	n/a	FOR
13. Report on lobbying FOR	n/a	FOR	FOR	n/a	FOR
14. Assessment of audit & risk oversight committee FOR	n/a	Against	FOR	n/a	FOR
Alphabeth, INC 1 June AGM					
5. Lobbying Report FOR	n/a	FOR	n/a	FOR	FOR
6. Climate Lobbying Report FOR	n/a	FOR	n/a	FOR	FOR
7. Report on Physical Risks of Climate Change FOR	n/a	FOR	n/a	FOR	FOR
8. Report on Water Management Risks FOR	n/a	FOR	n/a	FOR	FOR
9. Racial Equity Audit FOR	n/a	FOR	n/a	FOR	FOR
10. Report on Concealment Clauses FOR	n/a	Against	n/a	FOR	FOR
11. Equal Shareholder Voting FOR	n/a	FOR	n/a	FOR	FOR
13. Human Rights Assessment of Data Centre Siting FOR	n/a	FOR	n/a	FOR	FOR
14. Report on Data Collection, Privacy, and Security FOR	n/a	Against	n/a	Against	FOR
15. Algorithm Disclosures FOR	n/a	FOR	n/a	FOR	FOR
16. Misinformation and Disinformation FOR	n/a	FOR	n/a	FOR	FOR
17. Report on External Costs of Disinformation FOR	n/a	Against	n/a	Against	Against
18. Report on Board Diversity FOR	n/a	Against	n/a	FOR	FOR
19. Establishment of Environmental Sustainability Board Committee FOR	n/a	Against	n/a	Against	FOR
20. Policy on Non-Employee Representative Director FOR	n/a	Against	n/a	FOR	Against
21. Report on Policies Regarding Military and Militarized Policing Agencies FOR	n/a	Against	n/a	FOR	FOR
Monster Beverage Corporation 14 June AGM					
4. A report on the company's plans to reduce GHG emissions FOR	n/a	n/a	n/a	n/a	FOR
Electric Power Development Co Ltd (J-POWER) 28 June AGM					
8. Partial Amendments to the Articles of Incorporation FOR					
Sumitomo Mitsui Financial Group, INC 29 June AGM					
4. Partial Amendments to the Articles of Incorporation (Setting and disclosing short and medium-term greenhouse gas emissions reduction targets consistent with the goals of the Paris Agreement) FOR	n/a	FOR	n/a	FOR	FOR
5. Partial Amendments to the Articles of Incorporation (Financing consistent with the IEA's Net Zero Emissions Scenario) FOR	n/a	FOR	n/a	FOR	FOR
Dollar Tree INC 30th June AGM					
5. Shareholder Proposal Regarding Climate Transition Planning FOR	n/a	n/a	n/a	n/a	FOR

Voting Alerts

Climate Voting Alerts

- 3.24 This week LAPFF issued three voting alerts as part of its initiative focusing on climate resolutions. These alerts were for:
- Dollar Tree Inc. (AGM on 30 June 2022) with LAPFF recommending voting in favour of resolution 5 regarding climate transition planning.
 - Sumitomo Mitsui Financial Group, Inc. (AGM on 29 June 2022) with LAPFF recommending voting in favour of resolution 4 regarding partial amendments to the articles of incorporation (setting and disclosing short- and medium-term greenhouse gas emissions reduction targets consistent with the goals of the Paris Agreement) and resolution 5 regarding partial amendments to the articles of incorporation (Financing consistent with the IEA's Net Zero Emissions Scenario).

Technology Companies

- 3.25 LAPFF issued a press release noting its support for various shareholder resolutions at Amazon, Meta Platforms, and Alphabet. The release expressed concern that the companies report poorly on their social and environmental impacts. For this reason, LAPFF supported the shareholder resolutions that called for this reporting – most of them did.

Amazon Tax Resolution

On a related note, the Amazon tax resolution filed by Greater Manchester Pension Fund received 21 percent of the independent shareholder vote. This share of the vote is very high for a shareholder resolution, although for the past few years, climate resolutions have seen much higher shareholder support which appears to have boosted support for other shareholder resolutions. LAPFF recommended a vote in favour of this resolution.

Policy

- 3.26 The US State Department has sent a thank you email for LAPFF's submission to its consultation on the US National Action Plan on Responsible Business Conduct, stating that the LAPFF contribution was very insightful and well received.

Alphabet

LAPFF issued a voting alert for Alphabet this week recommending votes in favour of shareholder resolutions on governance and human rights issues. As with Amazon and Meta, there is a concern that this technology company is extremely insular in its approach to understanding its governance and social risks. There is a lot of discussion in its response to proponents' resolutions about commitments and activities the company is undertaking, and very little recognition of the social and environmental impact the company is causing. Two concerns arise from this approach. First, if the companies do not understand their social and environmental impacts, how can they understand

their business risks? Second, if they don't assess the impacts of their commitments and activities, how do shareholders know that their money is not being wasted?

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 Q1 2022 report (Appendix 1)
- LGIM ESG Impact report June 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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