

Non-Executive Report of the: Pensions Committee Monday, 3 July 2023	 TOWER HAMLETS
Report of: Caroline Holland, 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 March 2023.

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 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.

Collaborative Engagements

3.6 Amazon

LAPFF signed an investor letter to Amazon that the company take better steps to demonstrate that it upholds the rights to freedom of association bargaining. Concerns around staff unionising.

United Overseas Bank

LAPFF joined a collaborative call hosted by Asia Research and Engagement last week with United Overseas Bank (UOB). The call focused on the bank's approach to climate change and its current transition risk infrastructure.

Long Term Investors for Public Health (LIPH)

LAPFF also joined a 2nd collaborative call hosted by ShareAction with Britvic focusing on the company's approach to nutrition and healthier products in its range. This follows on from the company stating in its 2022 annual report that by the end of 2022, 78% of its products in Great Britain will be non-high in fat, salt and sugar.

Consultations

- 3.7 Transition Pathway Taskforce was launched in 2022 by HM Treasury to develop a 'gold standard' for climate transition plans. The initiative is intended to help shape how companies and financial institutions are disclosing their approaches to decarbonising their business models.

Shareholder Resolutions

Co-Filing Opportunities on lobbying for 2023 for Glencore and Amazon are expected.

Voting Activities

- 3.8 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.
- 3.9 London CIV (BG) Global Alpha Growth Paris Aligned fund– Voting activity and company engagement over the quarter. A total of 71 resolutions across 4 countries and 5 companies was cast. The manager cast 55 votes FOR, 11 votes cast Against, 2 votes Abstained, 2 Withheld votes and 1 vote was cast for One Year.
- 3.10 LCIV (Ruffer) Absolute Return fund – Votes were cast in 3 companies in 3 Countries. The manager cast votes in 67 resolutions, 65 of which were FOR, 1 vote was cast Against and 1 no vote.
- 3.11 LCIV (RBC) Sustainable Equity Fund – there was no voting activity during the quarter.
- 3.12 LCIV (BG) Diversified Growth fund – Stewardship voting activities during the quarter involved 6 companies across 5 countries. A total of 50 resolutions were voted on. All 50 of the votes cast was in support of all resolutions. Meeting types included AGM and Extraordinary GM meetings. Resolutions included election of directors, statutory auditor appointment, share repurchase, annual report, election of directors and discharge of board.

London CIV Engagement

- 3.13 LCIV employs the services of Federated Hermes to report on its engagement and voting functions. The CIV along with other Federated Hermes clients access voting and engagement data via the EOS portal.

Hermes EOS engaged with seven companies held in the LCIV Sustainable Equity Fund portfolio this quarter on a range of 32 environmental, social and governance issues and objectives.

During the quarter the manager engaged with several companies regarding this key theme including Microsoft and Amazon. RBC states that the companies are confident that they will meet their short-term emissions reduction targets; however, for longer term targets they are dependent on the advent and scaling of climate technology.

- 3.14 RBC states that Microsoft and Amazon are investing into emerging technologies in order to bridge this gap. For example, for Microsoft they are investing in direct air capture to help facilitate their carbon negative ambition. The second key theme RBC engaged on was human capital, primarily to understand how their holding companies are working to ensure good working conditions and support for their wider employee base. This quarter RBC engaged with Amazon and Deutsche Post DHL on how they are supporting their employees.

- 3.15 LGIM Low Carbon funds – Stewardship voting activities during the quarter Involved 107 companies across 18 countries. A total of 1,730 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 takeover related matters, compensation, capitalisation, environmental and climate change, routine business, corporate governance, director elections and other director related matters. The manager cast 321 votes Against the resolution, 1,252 For, 26 Votes allowing only one year for the resolution, 23 Withheld resolutions, 18 Abstain, 2 do not vote instructions and 88 blanks in respect of non-voting resolutions.

LGIM Capricorn Energy PLC voting reasons

- 3.16 General meeting of 1 February 2023. The manager voted to approve the NewMed Acquisition as well resolutions relating to directors. The manager undertook numerous engagements with the Capricorn board over the past nine months to express our widespread concerns with the transactions the board has proposed, including the NewMed transaction that was put forward to shareholders at the General Meeting on 1 February. These concerns include governance, process, conflicts, future strategy, executive compensation, environmental risks and valuation. Rather than attempt to address these concerns constructively, the Capricorn board has suggested that the manager sell the shares in the company if we are not satisfied with the board's decision-making process and proposals. The manager also raised a number of concerns with the company including timing of the GM meeting.

LCIV MAC fund (fixed income fund)

- 3.17 CQS engagement – during the quarter, the investment manager engaged with Jadex as part of their Climate Targeted Engagement Programme. The company indicated that they would continue to make progress by committing to net zero towards calculating baseline greenhouse emissions before establishing any targets. In February 2023, the company released its first ESG report in February 2023 providing scope 1 and 2 carbon emissions disclosures and announced a target of 10% reduction by 2025.

The manager also engaged with Unicaja following their 2023 results to understand the company's governance changes following the Liberbank merger and their progress on climate. CQS reported that Unicaja has introduced a new Sustainability Committee and is encouraged by the progress. The manager reported that Unicaja confirmed that they recently measured their scope 3 carbon emissions and they will publish their decarbonisation targets in the coming months.

- 3.18 PIMCO the second manager in the LCIV MAC fund engaged with Deutsche Bank over the quarter to discuss the issuer's governance / balance sheet and their green credentials. Regarding governance/ balance sheet. On green credentials, PIMCO has focused on the issuer's green bond program including expected allocation details, deforestation and ways of factoring in biodiversity, as well as their current practices on climate.

Schroders Real Estate Fund

- 3.19 The Schroders Real Estate Fund is a Sustainable Finance Disclosure Regulation (SFDR) Article 8 equivalent fund, with three binding commitments to sustainability incorporated within its stated investment objective. All 'in-scope' assets across the Fund now have either a compliant EPC lodged, or a certification in progress. No units with SCREF have had an 'F' or 'G' rated EPC lodged, therefore there is 100% compliance with the House benchmark standard.

The improved score means the Fund has achieved one of its target sustainability KPIs set out in the RCF agreement. The Fund Management team is now working on the 2023 GRESB submission alongside its property management teams.

Voting Alerts

- 3.20 During the quarter ending March 23, LAPFF issued two voting alerts in respect of Starbucks and Rio Tinto. The LGIM Low Carbon equity fund had holdings in Starbucks.
- Starbucks Corporation (AGM on 28 March 2023) with LAPFF recommending voting in favour of 6 resolutions:

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 2023 report (Appendix 1)
- LGIM ESG Impact report March 23 (Appendix 2)

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:

Miriam Adams Interim Head of Pensions & Treasury Ext 4248

Email: miriam.adams@towerhamlets.gov.uk