

Responsible investment: Review for year to 30 June 2017

This paper is addressed to the Pension Committee (“the Committee”) of the London Borough of Havering Pension Fund (“the Fund”). The purpose of this paper is to provide a summary of responsible investment activities, focusing primarily on reported voting and engagement activity, of the Fund’s investment managers in support of the Committee’s ongoing monitoring requirement.

The paper should not be released or otherwise disclosed to any third party except as required by law or regulatory obligation or without our prior written consent. We accept no liability where the report is used by, or released or otherwise disclosed to, a third party unless we have expressly accepted such liability in writing. Where this is permitted, the report may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

Background

The Fund’s current policy with regard to the responsible investment issues is set out in the Investment Strategy Statement (“ISS”) and reproduced as an Appendix to this note. Recognising the need to collaborate with other investors to promote best practice on responsible investment and effectively engage with companies, the Committee has recently also agreed to join the Local Authority Pension Fund Forum (“LAPFF”).

Engagement and voting activity is delegated to the Fund’s investment managers. This approach is consistent with an investment strategy that is predominantly implemented through investment in pooled funds. In relation to funds accessed via the London Common Investment Vehicle (LCIV), the LCIV operator has responsibility for engaging directly with investment managers although Committee should ensure that it engages with LCIV on the development of policy.

Shareholder voting rights are typically only available to the Fund’s investment managers that have equity holdings: this includes the Fund’s investments with Baillie Gifford and SSGA together with the multi-asset mandates managed by Ruffer, GMO and Baillie Gifford, all of which incorporate some level of equity investment.

Managers can also be assessed in respect of their compliance with industry standards. We have provided some comment on this and, for completeness, we have also included comment on the Fund’s bond investment managed by RLAM and the investment in the UBS Triton Property Fund, although different considerations are relevant in each case.

Summary

This paper summarises the voting and engagement activities of the Fund’s investment managers over the 12 month period to 30 June 2017.

The responsibility for voting shares is delegated to the investment managers. In the case of funds accessed via the LCIV, the LCIV operator has responsibility for engaging directly with investment managers. Currently, c.42.5% of the Fund’s assets are invested in funds accessed via LCIV. We have provided an outline below of potential future developments for the monitoring of responsible investment activities:

- Develop a formal policy on voting and engagement and consider sharing with the investment managers LGIM, GMO and LCIV;
- Continue to address voting and engagement activities as part of meetings with the above parties;
- Further to the above, consider testing examples of voting and engagement activities by managers against the Committee’s own policies, with the findings used to feed into further engagement;
- Consider including details of engagements undertaken by LAPFF.

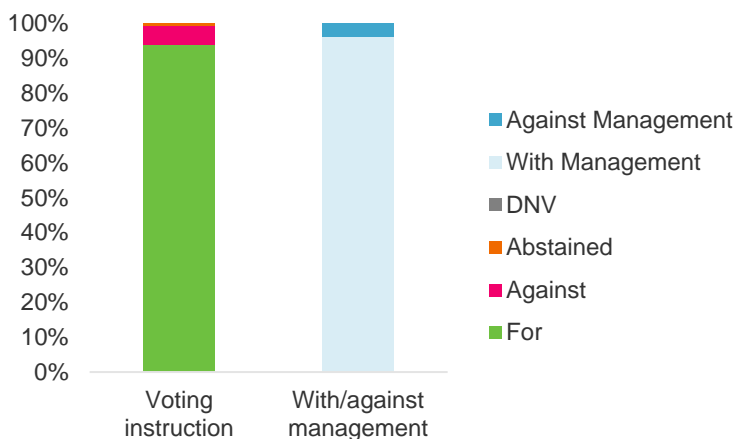
More broadly, the following could also be considered:

- Developing a set of investment beliefs, including beliefs on responsible investment matters for the Committee to frame its long-term approach to investment;
- Identifying particular engagement issues, for example, board diversity, executive remuneration, modern slavery, that could form the basis of future engagement by LAPFF and communicate these issues to LAPFF;
- Monitoring of a broader range of ESG risks, for example, carbon risk.

Baillie Gifford: Global Alpha Fund (accessed via LCIV)

The voting and engagement policy relating to this investment is determined by the CIV.

Baillie Gifford is a long-term investor with a process that is focused on understanding long-term company fundamentals. The firm monitors all companies in which they invest, votes at company meetings on a global basis and engage with companies where they have significant holdings, have experienced poor ESG practices, have a lack of disclosure or which are considered to be high-impact sectors.

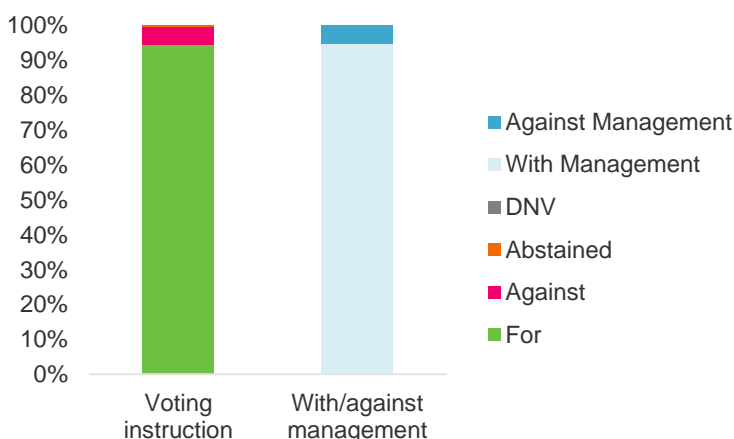


Baillie Gifford incorporates details of its voting and engagement activity within its quarterly reporting. During the 12 month period to 30 June 2017, the firm voted on 1,275 separate resolutions of which 68 (5%) were votes against the resolution. We have requested details of votes for and against management proposals but this was not provided at the time of writing.

Baillie Gifford voted shares for the Global Alpha Fund against management proposals on 51 (4%) of occasions.

Baillie Gifford: Diversified Growth Fund (accessed via LCIV)

Investment in the Baillie Gifford DGF is achieved via the London CIV. Accordingly, the voting and engagement policy relating to this investment is determined by the CIV. The DGF includes both a number of direct holdings together with investments in a number of Baillie Gifford pooled funds. Reporting reflects the direct investments made within the DGF rather than on a look through basis.



Baillie Gifford incorporates details of its voting and engagement activity within its quarterly reporting. During the 12 month period to 30 June 2017, the firm voted on 1,008 separate resolutions of which 51 (5%) were votes against the resolution. We have requested details of votes for and against management proposals but this was not provided at the time of writing.

Baillie Gifford voted shares for the Diversified Growth Fund against management proposals on 52 (5%) of occasions.

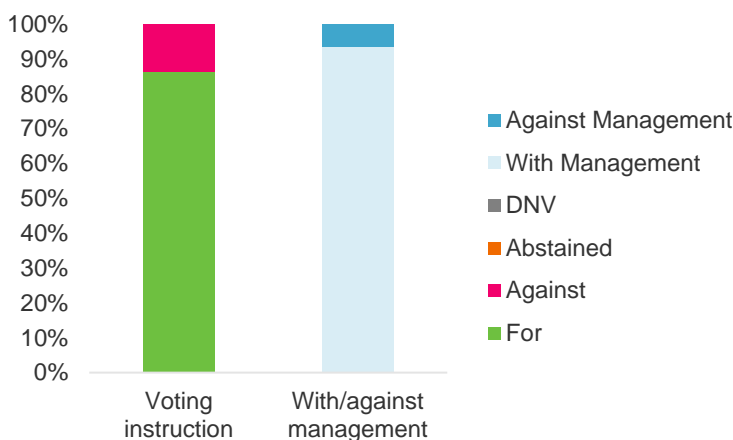
Baillie Gifford: Engagement themes

Baillie Gifford have provided details of their engagement activity for the 12 month period ending 30 June 2017. Over the period, corporate governance appeared to be a key theme of Baillie Gifford’s engagement, including notable engagements with Amazon (corporate culture, data privacy and working conditions), Rolls-Royce (Board re-structuring) and Tesla (Board de-classification, strategic acquisitions).

State Street Global Advisors (“SSGA”)

The Fund has two global equity mandates with SSGA. These are due to transfer to Legal & General Investment Management following a competitive tender exercise. The investments are in index tracking funds and, as such, the manager holds positions in a far greater number of investee companies than any of the Fund’s other managers and has significantly more votes to exercise.

We have been provided with statistics relating to SSGA’s global voting activities.



During the year to 30 June 2017, SSGA was eligible to vote on 174,586 resolutions of which they voted against proposals on 23,834 (14%) of occasions. In addition, SSGA voted against management proposals on 11,409 (7%) of occasions.

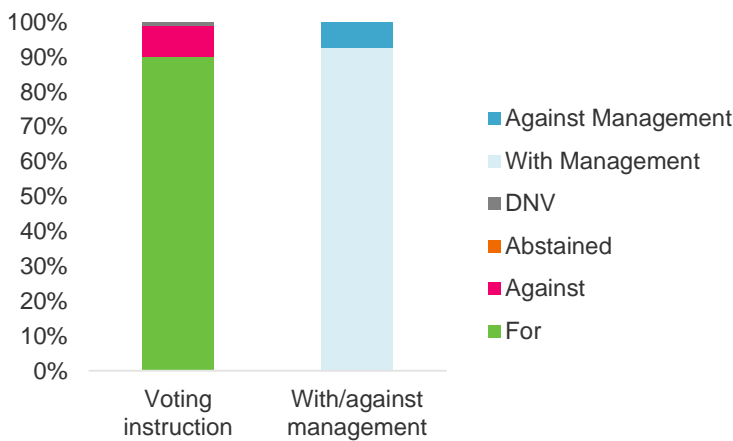
SSGA launched its Fearless Girl campaign in Q1 2017 to encourage companies to improve Board quality by enhancing diversity. In the first half of 2017 SSGA voted against Director Appointments where they believed Boards were not sufficiently diverse.

SSGA provides summary reporting on its voting and engagement activities on a global basis through its website.

GMO

GMO manage a multi-asset mandate for the Fund through investment in a pooled fund which is invested principally across equity and bond markets with the objective of delivering superior risk adjusted returns. GMO maintains a statement regarding the inclusion of ESG principles within its investment process, noting that ESG considerations are not an integral element of their philosophy or process. GMO do however note that certain measures of good governance and sustainable business correlate with their own evaluation of a company’s “quality” and that ESG issues will be included where they are believed to have a material impact on potential risk or return.

GMO does vote on the equity investment that it manages within pooled funds and has engaged Institutional Shareholder Services (ISS) to act as its proxy voting agent. GMO does not, as a matter of practice, engage or intervene with investee companies.



GMO have provided details of their voting activity for the 12 month period to 30 June 2017.

GMO was eligible to vote shares on 10,479 resolutions of which they voted against on 931 (9%) of occasions.

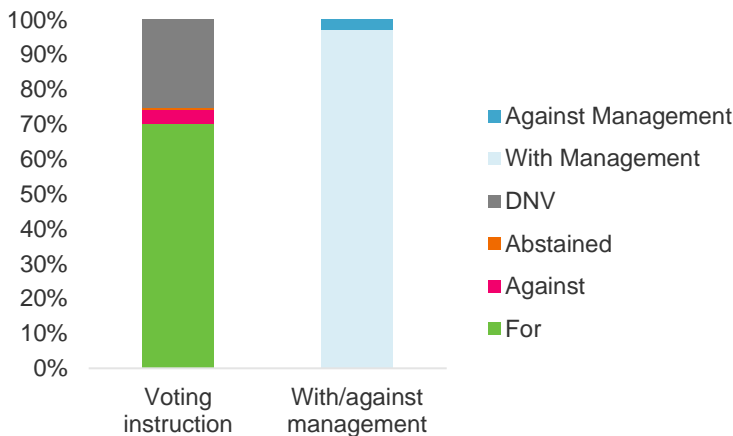
GMO voted against management proposals on 775 (7%) resolutions. The majority of these votes were in relation to Corporate Governance matters and Remuneration Policy.

Ruffer (accessed via LCIV)

Ruffer manage a multi-asset mandate for the Fund which is invested primarily across equity and bond markets with the objective of delivering positive absolute returns. Through this mandate, the Fund has share ownership rights which Ruffer exercise through a process of monitoring and engagement to the extent that issues will impact the economic interest of their clients. Ruffer maintain a responsible investment policy detailing this process.

With specific regard to voting, Ruffer vote on resolutions where a materiality test is met; this being defined as clients having a material interest in the company or where the value of the holding is material to clients.

Ruffer can provide voting information on a quarterly basis along with a summary annual report detailing their ESG activity. The most recent report has been provided for the year ending 31 December 2016.



During the 12 month period ending 30 June 2017, Ruffer voted on 875 resolutions of which they voted against 47 (5%) of occasions.

Ruffer did not vote on 285 of ballot items in total (25% of votable ballots). Ruffer voted against management on 25 (3%) of occasions.

In their Environmental, Social and Governance Report for the year ended 31 December 2016 Ruffer noted that remuneration was their main theme over the year. In particular, the link between performance and pay was a key area of focus.

Royal London Asset Management

RLAM manage a bond mandate, investing across government bonds and corporate credit issues. As such there are no voting rights attached to these investments.

RLAM has however developed a responsible investment policy that includes reference to bond investments, noting that ESG issues have historically been overlooked by markets. RLAM note that their aim is to deliver ESG analysis and a programme of engagement that is useful to pricing risk in fixed interest investments, particularly as issues relate to covenant strength.

RLAM include a generic comment on their policies within their quarterly reporting.

UBS Triton Property Fund

The Fund invests in the UBS Triton Property Fund. This vehicle invests directly in real estate and accordingly, there are no attaching voting issues. UBS maintain a global responsible investment policy covering investment in all asset classes, with issues specific to real estate being reflected in a separate Responsible Property Investment (RPI) policy. Within its RPI policy, UBS has quantitative goals to reduce energy consumption by 10%; reduce GHG emissions by 20% and increase recycling by 50% over a five-year period from 2015.

UBS have include a report on sustainability within their annual report (year ending 31 December 2016) incorporating details on key environmental figures relating to energy, water and waste usage within properties held by the Fund. These figures are detailed below:

	2014	2015	2016
Total energy consumed (kWh)	9,626,026	8,197,425	9,048,368
Total waste produced (tonnes)	361	399	502
Total water usage (m ³)	41,962	37,692	34,015
Number of properties	28	29	30

The Triton Property Fund also participates in the Global Real Estate Sustainability benchmark (GRESB) survey. This is an annual assessment of the sustainability performance of both property companies and funds, including indicators such as energy use, as well as broader sustainability topics such as engagement with tenants and suppliers. UBS Triton ranked fourth (2014: first, 2015: third) out of 18 balanced funds within the AREF/IPD UK Quarterly Property Fund Index, retaining “Green Star” status and achieving a four-star rating.

Compliance with industry governance codes

Managers can demonstrate their commitment to responsible investment through their adherence to industry standards. Whilst such standards can be viewed to some degree as “box ticking” exercises, reporting and assessment of managers against these standards is increasing. There are to standards directly relevant to the Fund’s investment managers; the Principles for Responsible Investment and the FRC UK Stewardship Code. We set out comments on each below and the position of each of the Fund’s managers with regard to these standards.

Principles for Responsible Investment

The six Principles for Responsible Investment are a voluntary set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The principles were established in 2006 and are now supported by 1700 signatories. Signatories are subject to annual reporting and assessment to demonstrate their compliance with the principles and the table below sets out each of the Fund’s investment managers’ signatory status and most recent assessment rating.

Manager	Signatory	Strategy & Governance	Listed Equity Incorporation	Listed Equity Active Ownership
LGIM*	Yes	A+	A+	A
Baillie Gifford	Yes	A+	A	A
Ruffer	Yes	A	A+	A
GMO	Yes	n/a	n/a	n/a
RLAM	Yes	A+	n/a	n/a

Manager	Signatory	Strategy & Governance	Listed Equity Incorporation	Listed Equity Active Ownership
UBS	Yes	A	n/a	n/a

**We have shown the rating for LGIM given their ongoing appointment to the Fund.*

All managers are signatories to the PRI with GMO having only become a signatory during 2017 and therefore not yet subject to assessment. Ratings of A indicate a score of over 75% in the assessment process; A+ indicates a score of over 95% with the fund's dedicated equity managers both achieving ratings of A or A+.

UK Stewardship Code

In July 2010, the Financial Reporting Council ("FRC") published its UK Stewardship Code (the "Code"), with an update released in October 2012. The Code aims to encourage good governance and increased engagement between investors and investee companies.

During 2016, the FRC undertook an assessment of the disclosures made by all signatories in order to improve the quality of reporting against the Code, encourage transparency and maintain credibility in the Code. Signatories have been tiered between those who report well and display their commitment to stewardship and those where reporting improvements are necessary. LGIM, Ruffer and Baillie Gifford are all Tier One signatories. GMO is not a signatory to the Code.

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November 2017

For and on behalf of Hymans Robertson LLP

Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

Appendix: Current fund policy

How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

It is recognised that a range of factors, including Environmental, Social and Governance (ESG) factors, can influence the return from investments. The Fund will therefore invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including ESG factors to the extent these directly or indirectly impact on financial risk and return. In making investment decisions, the Fund seeks and receives proper advice from internal officers and external advisers with the requisite knowledge and skills.

The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

The Fund expects its external investment managers (and specifically the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

The Committee recognises the need to collaborate with other investors to promote best practice on responsible investment and effectively engage with companies. The Committee is a member of the Local Authority Pension Fund Forum ("LAPFF") and participates in this to promote its views.

The Fund monitors the activity of its investment managers on an ongoing basis and will review the approach taken annually.

At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments. The Committee will review its approach to non-financial factors periodically, taking into account relevant legislation and the Law Commission's guidance on when such factors may be considered. Additionally, the Committee monitors legislative and other developments with regards to this subject and will review its approach in the event of material changes.

The Committee understands the Fund is not able to exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

The Fund does not at the time of preparing this statement hold any assets which it deems to be social investments; however, this ISS places no specific restrictions on the Fund in respect of such investments beyond those of suitability within the Investment Strategy as a whole and compatibility with the Committee's fiduciary duties. In considering any such investment in the future, the Committee will have regard to the Guidance issued by the Secretary of State and to the Law Commission's guidance on financial and non-financial factors.

The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund.

The exercise of rights (including voting rights) attaching to investments

The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

The Fund's investments through the London CIV are covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

In respect of the Fund's investments outside the London CIV, the Committee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Committee monitor the voting decisions made by all its investment managers and receive reporting from their advisers to support this on an annual basis.

The Fund will incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Council website.

At the time of production of the ISS the Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the seven Principles of the Stewardship Code.

In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests.