

HYMANS ROBERTSON LLP

## Responsible investment: Manager review

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 the 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 Statement of Investment Principles and reproduced as an Appendix to this note. Through this policy, engagement and voting activity is largely delegated to the Fund’s investment managers. This approach is consistent with an investment strategy that is predominantly implemented through investment in pooled funds.

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.

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.

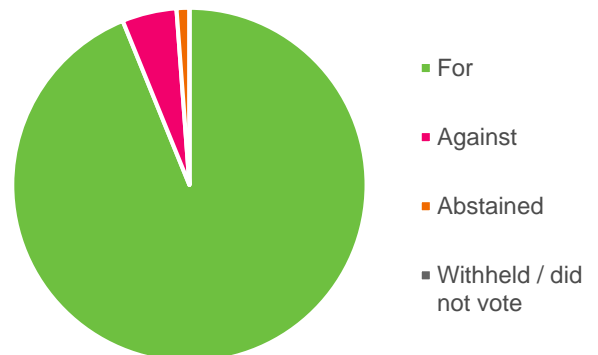
### Baillie Gifford: Global Alpha Fund

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.

Considering the global alpha fund specifically, during Q2 2016, the firm voted on 1,025 separate resolutions of which 51 (5%) were votes against the resolution. Examples of votes cast against management resolutions are as follows:

- **American Express:** Voted against resolutions relating to the executive compensation policy due to granting of one-off equity awards during the year;
- **Deutsche Boerse:** Baillie Gifford opposed the remuneration report, due to a lack of alignment between pay and performance in relation to annual bonus and long term incentive plans;
- **Various (Qiagen, Sands China, Yandex):** Voted against proposals to issue equity due to potential dilution levels.



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Baillie Gifford also engaged with a number of companies in relation to Corporate Governance, Environmental/Social and AGM or EGM proposals during the quarter.

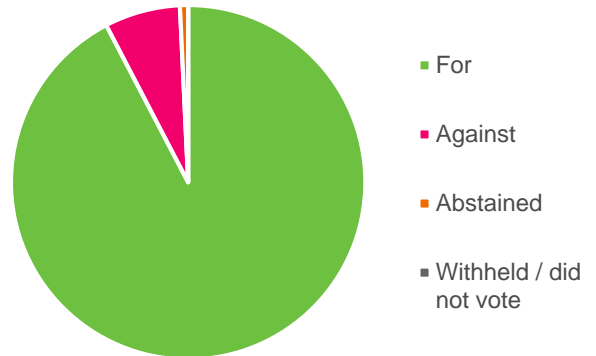
During the quarter, the Fund’s investment was transferred to the London CIV. Accordingly, the voting and engagement policy relating to this investment will in future be determined by the CIV.

**Baillie Gifford: Diversified Growth Fund**

Investment in the Baillie Gifford DGF was transferred to the London CIV during Q1 2016. Accordingly, the voting and engagement policy relating to this investment will in future be 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.

During Q2 2016, Baillie Gifford voted on 536 separate resolutions of which 37 (7%) were votes against the resolution. Examples of votes cast against management resolutions are as follows:

- **Various (including Alstria Office, Axiare Patrimonio Socimi REIT, Icade and Vonovia SE):** Voted against proposals to issue equity due to potential dilution levels.
- **Axiare Patrimonio Socimi REIT:** Baillie Gifford voted against two resolutions relating to remuneration due to a lack of disclosure;
- **Gecina:** Voted against resolutions relating to remuneration due to a lack of alignment between pay and performance.



**State Street Global Advisors**

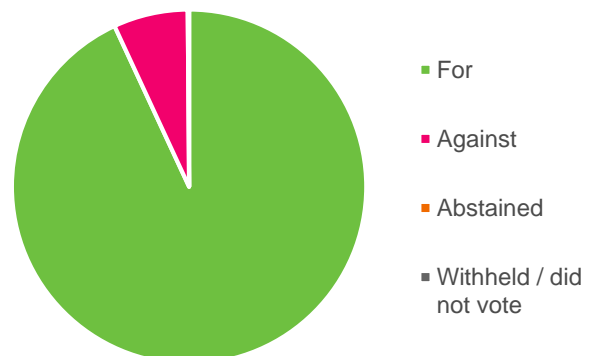
The Fund has two global equity mandates with SSGA. The investments are in index tracking funds and, as such, the manager holds positions in a far greater number of investee companies than any of the Fund’s other managers and has significantly more votes to exercise.

Although the Fund invests across all regions, SSGA only incorporated detail of its UK corporate governance activity within its quarterly reporting.

During the quarter ending 30 June 2016, SSGA were eligible to vote on 5,612 resolutions of which they voted against on 381 (7%) of occasions.

SSGA voted against resolutions involving potential dilution of shareholder value, excessive increases in leveraging and remuneration-related proposals. Specific concerns which led to votes against included:

- Management proposals to issue contingent capital (Barclays, HSBC and Lloyds Banking Group);
- Proposal to increase borrowing powers (Centrica);
- Remuneration-related proposals, including a vote against BP’s proposed remuneration policy



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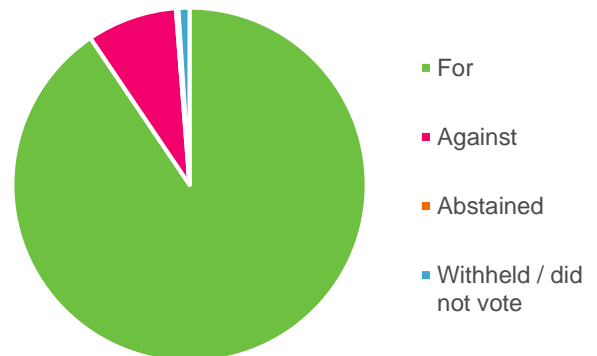
SSGA provides summary reporting on its voting and engagement activities on a global basis through its website.

**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 second quarter of 2016. During the quarter ending 30 June 2016, GMO was eligible to vote shares on 8,910 resolutions of which they voted against on 733 (8%) of occasions.



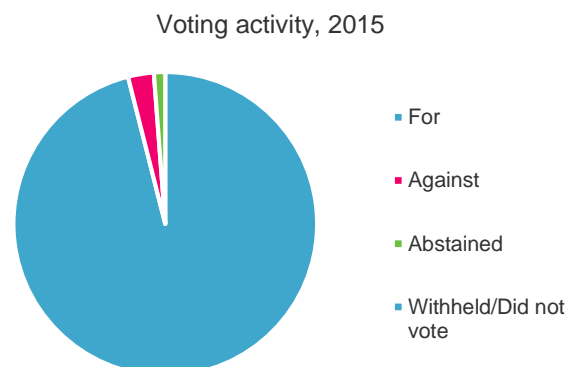
GMO voted against management proposals on 630 (7%) resolutions. The majority of these votes were in relation to Corporate Governance matters and Remuneration Policy.

**Ruffer**

Ruffer manage a multi-asset mandate for the Fund which is invested principally 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; materiality 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, however, Q2 2016 reporting is not yet available due to issues identified with their third party provider and transfer of the holdings in the Absolute Return Fund into the CIV. Ruffer do however produce a summary annual report detailing their ESG activity. The most recent report has been provided for the year ending 31 December 2015.



During 2015, Ruffer voted on 1165 resolutions of which they voted against or abstained on 46 (3.9%) of occasions. However, Ruffer note that they voted against management on 52 (4.5%) of occasions and for shareholder proposals on a further 18 (1.6%) of occasions.

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Ruffer also notes that over the course of 2015, their engagement activity addressed a number of issues including board structure, remuneration, capital structure, M&A activity and social & environmental issues. The firm also became a signatory to CDP during the year and to the UN Principles for Responsible Investment in January 2016.

**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 included a report on sustainability within their annual report (year ending 31 December 2015) incorporating details on key environmental figures relating to energy, water and waste usage within properties held by the Fund.

	2014	2015
Total energy consumed (kWh)	9,626,026	8,197,425
Total waste produced (tonnes)	361	399
Total water usage (m3)	41,962	37,692
Number of properties	28	29

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 third (2014: first) out of 19 balanced funds within the AREF/IPD UK Quarterly Property Fund Index, retaining "Green Star" status.

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September 2016

For and on behalf of Hymans Robertson LLP

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**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.

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## Appendix: Current fund policy

### Social, Environmental and Ethical Considerations

The Pensions Committee has carefully considered socially responsible investment in the context of its legal and fiduciary duties and obligations. In view of the objectives set out in this statement, the Pensions Committee takes the view that, non-financial factors should not drive the investment process to the detriment of the financial return of the Fund.

Whilst at this time the Pensions Committee has determined not to place any restrictions on Investment Managers for ethical, social and environmental reasons the Pensions Committee considers it appropriate for the Investment Managers to take such factors into account when considering particular investments.

The Pensions Committee also believes that it does not have the relevant expertise to make frequent assessment of the financial impact of companies' activities. To that extent, the Pensions Committee has a policy of non-interference and the Investment Managers have full discretion over day to day decision making.

### Corporate Governance Policy

The policy of the Havering Pension Fund is to accept the principles laid down in the Combined Code as interpreted by the Institutional Shareholders Committee 'Statement of Principles'.

In making investment decisions the Council will, through its Pension Fund Investment Managers, have regard to the economic interests of the Pension Fund as paramount and as such:

- 1 Will vote at all general meetings of UK companies in which the Fund is directly invested.
- 2 Will vote in favour of proposals that enhance shareholder value.
- 3 Will enter into timely discussions with management on issues which may damage shareholders' rights or economic interests and if necessary to vote against the proposal.
- 4 Will take a view on the appropriateness of the structure of the boards of companies in which the Fund invests.
- 5 Will take a view on the appropriateness of the remuneration scheme in place for the directors of the company in which the Fund invests

Beyond this, the Council will allow its Investment Managers full freedom with the day to day decision making.

The Pensions Committee will, where appropriate,

- 6 Receive quarterly information from the Investment Manager, detailing the voting history of the Investment Manager on contentious issues.
- 7 Consider a sample of all votes cast to ensure they are in accordance with the policy and determine any Corporate Governance issues arising.
- 8 Receive quarterly information from the Investment Manager, detailing new investments made.