London Borough of Havering Pension Fund

Review of Voting & Engagement Activity

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Executive summary

Introduction

- This paper is addressed to the Pensions Committee (“the Committee”) of the London Borough of Havering Pension Fund (“the Fund”).
- The purpose of this paper is to summarise the Fund’s investment managers’ voting and engagement activities over the 12 month period to 30 June 2021.
- This paper should not be released or otherwise disclosed to any third party except as required by law or regulatory obligation without our prior written consent. We accept no liability where this note 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 note may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

Summary of observations

In this paper, we make the following observations:

- JP Morgan and Russell both applied and were unsuccessful to become signatories to the 2020 UK Stewardship Code. CBRE, Stafford, Churchill and Permira decided not to apply to become signatories. All other managers have been accepted as signatories.
- During the year, the Fund had investment through two managers across six mandates with equity exposure. The two managers are LGIM and LCIV although LCIV’s policy is currently to delegate voting implementation to the underlying managers of the funds in which the Fund is invested, Baillie Gifford and Ruffer.
- We note that over the year, the vast majority of votes that were eligible to be exercised were voted. Exercise rates for all six mandates was at least 97%.
- All managers demonstrated a preparedness to vote against company management on occasion. LGIM voted against management most frequently with around 16% of votes, on average, against management. This is consistent with the index-tracking nature of these mandates.
- Climate change was the most frequent reason for engagement for all three managers over the year whilst diversity was one of the top five reasons for both Baillie Gifford and LGIM.
- Similar to last year, there was commonality in the reasons why managers voted against management with Remuneration and Director re-election again being key themes. It should be noted that managers may vote against the re-election of directors for a number of reasons which may be unrelated to the particular director.

We look forward to discussing this paper with the Committee.

UK 2020 Stewardship Code

- The 2020 code reflects the fact that the investment market has changed considerably since the publication of the initial code in 2012. Specifically, there has been a greater need to implement ESG criteria in assets other than listed equity, including fixed income, real estate and infrastructure.
- The new code attempts to reflect the diversity amongst asset groups in terms of investment periods, rights and responsibilities, and signatories to the 2020 Code will need to consider how to exercise stewardship effectively, and report accordingly across asset classes. Assessing a manager's willingness to incorporate the new code and understanding the central principles should be of interest to the Committee.
- The 2020 Code comprises twelve principles for asset owners and asset managers, listed right.
- Becoming a signatory is voluntary and to be listed as a signatory, asset managers and asset owners must report annually against each of the 12 principles, setting out the actions they have taken to meet the principle and the outcomes that have been achieved.
- Reports as published and the FRC evaluates reports to determine whether or not the standards of the Code have been met.
- The first list of signatories was published in September 2021; a second list is expected to be published in January 2022.
- The position of the Fund's managers is shown overleaf.

1. Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society;
2. Signatories' governance, resources and incentives support stewardship;
3. Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first;
4. Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system;
5. Signatories review their policies, assure their processes and assess the effectiveness of their activities; and
6. Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.
7. Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.
8. Signatories monitor and hold to account managers and/or service providers.
9. Signatories engage with issuers to maintain or enhance the value of assets.
10. Signatories, where necessary, participate in collaborative engagement to influence issuers.
11. Signatories, where necessary, escalate stewardship activities to influence issuers.
12. Signatories actively exercise their rights and responsibilities.

Summary of UK Stewardship Code adherence

Manager	Signatory of 2020 Code	Applied for 2020 Code but unsuccessful	Comments
London CIV	Yes	-	
LGIM	Yes	-	
Baillie Gifford	Yes	-	
Ruffer	Yes	-	
JP Morgan	No	Yes	• Feedback from the FRC cited insufficient detail included in the application report, particularly around the approach taken at firm level rather than just the underlying investment funds. • A work group has been established to address the feedback and a subsequent application will be made in the future.
UBS	Yes	-	
CBRE	No	No	• Considering a future application but no decision as yet
Stafford	No	No	• Considering a future application but no decision as yet
Royal London	Yes	-	
Churchill	No	No	• Churchill (and parent company Nuveen) are supportive of the principles of the Code but have no immediate intention of applying to become a signatory.
Permira	No		• Considering a future application but no decision as yet
Russell	No	Yes	• Feedback from the FRC was focused around a lack of supporting examples. • Russell re-applied to become a signatory at the next window (October 2021). We are yet to find out if they have been accepted.

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 over 1700 signatories.
- Following pages set out each of the Fund's investment managers' signatory status and most recent assessment rating.
- Signatories are subject to annual reporting and assessment to demonstrate their compliance with the principles. Assessment is across a range of areas of capability for the signatory (referred to as modules). Signatories demonstrating a core level compliance can gain a score of up to 75% (reflected in scores of B, C, D and E). Higher scores (A+ and A) are available to signatories providing additional information.
- The rating of each of the Fund's managers is shown on the relevant asset class page throughout this report.

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

Equity and multi-asset: Voting and engagement

Delegation of voting

- The Fund has voting rights through its equity investment with LCIV (both directly, and indirectly via the Baillie Gifford Diversified Growth Fund and Ruffer Absolute Return Fund) and with LGIM.
- The Fund has delegated its voting responsibility to its investment managers. The LCIV currently do not have undertake voting and in turn delegate voting to the appointed managers. Therefore, the Fund’s voting is carried out in line with the house voting policy of LGIM, Baillie Gifford and Ruffer for the respective investments.
- LCIV has taken action to evolve its approach to stewardship with the appointment of Hermes EOS as a voting and engagement partner. We expect LCIV to develop and implement its own voting policy although this is not yet in place.

Key topics

- We note that **climate change** and **diversity and inclusion** have been identified as areas of interest for Committee in the past. We have therefore focused on these areas when highlighting key votes and further engagement themes in our report.
- Climate change was the most frequent reason for engagement for all three managers.
- Diversity was in the top five engagement themes for both Baillie Gifford and LGIM.

Equity and multi-asset: Exercise of votes

	LGIM PRI rating for Listed Equity Ownership (LEO): A+			LCIV (Baillie Gifford) LEO: A+		LCIV (Ruffer) LEO: A
	All World	Emerging Markets	RAFI	Global Alpha	DGF	Absolute return
# eligible votes	64,750	35,672	44,767	1,391	1,477	1,259
% votes exercised	99.9	99.8	99.7	96.5	97.1	100.0
% against management	16.2	14.1	18.2	2.6	3.6	6.9
% abstained / withheld	1.1	1.8	0.6	0.5	1.0	2.2
% meetings with at least one vote against management	60.0	47.6	72.6	15.7	17.7	47.3

- The Fund has direct exposure to equities via LGIM and LCIV (Baillie Gifford) mandates, with additional exposure obtained through multi-asset mandates managed by Baillie Gifford and Ruffer
- The table above provides a summary of voting over the 12 month period to 30 June 2021. We can observe the following from this data:
  - The exercise of voting rights was high across most mandates. Ruffer voted at the lowest number of eligible meetings last year but voted at all eligible meetings this year
  - Similar to last year, abstentions/withheld votes were relatively low. Managers continue to exercise voting rights
  - By a considerable margin, LGIM were the most active manager in terms of voting against management. This is to be expected given the index-tracking nature of the LGIM mandates and therefore LGIM do not have an option of disinvestment. Conversely, Baillie Gifford and Ruffer actively select stocks and, should on average, have a greater alignment of interests.
  - The index-tracking LGIM funds have a significantly larger stock listing than Baillie Gifford and Ruffer. Hence the LGIM funds are eligible for a larger number of votes.
- LGIM were generally supportive of management led “Say on Climate” resolutions although notably voted against resolutions at Shell and Glencore, which were broadly supported by others. LGIM were also generally supportive of shareholder resolutions on environmental and diversity themes, voting for around 70% of resolutions on these subjects. Around half the shareholder resolutions that LGIM supported were passed; none of the resolutions that LGIM voted against were passed.

Equity and multi-asset: Significant votes

Manager	Main reasons to vote against management	Significant votes
LGIM PRI rating for equity: A+	1. Director-related 2. Non-salary remuneration 3. Capitalisation 4. Routine 5. Reorgs./Mergers	• Barclays. Vote to approve Barclays' Commitment in Tackling **Climate Change**. LGIM were satisfied that the proposed commitment, which also had the backing of ShareAction, was sufficient in setting out Barclays' long-term plans to tackle climate change. • Olympus Corporation. Vote against director election. Vote to signal that the company needed to take action to increase **diversity and inclusion**. See the engagement section overleaf for further details.
Baillie Gifford PRI rating for equity: A+	1. Remuneration 2. Capitalisation 3. Director elections 4. Routine 5. Reorgs./Mergers	• Moody's. Supported a shareholder resolution to approve the company's 2020 **Decarbonisation Plan**. Moody's has a clear strategy and targets to reduce its carbon footprint which are science-based and aligned with the Paris Agreement. • Booking Holdings. Supported a shareholder resolution relating to the issuance of a **climate transition report.** Better disclosure was believed to be in the shareholders best interests.
Ruffer PRI rating for equity: A (Other asset classes have not received a PRI rating)	1. Director elections 2. Remuneration policies 3. Requests for reports on lobbying and political donations 4. Excessive share issuance authority 5. Shareholder resolutions on climate change.	• Aena. Supported a shareholder resolution relating to the company's **climate transition plan**. This was one of three shareholder resolutions which Ruffer supported requesting that the company submit its climate transition plan to a shareholder advisory vote at is 2021 AGM, with annual updates given from 2022 onwards. (LGIM also voted in favour of this resolution). • Royal Dutch Shell. Vote for management resolution relating to the company's **climate transition plan**. The decision to support the resolution was made in the context of the progress Shell has made as a result of engagement and the commitment of the company leadership to continue to meaningfully engage on the remaining areas of Climate Action 100+. (LGIM voted against this resolution, voting instead in favour of the Shareholder proposal on climate.) • American Express. Supported a shareholder resolution that requires the company to annually publish a report assessing **Diversity, Equity, and Inclusion** Efforts. Whilst American Express is taking meaningful steps to increase its workforce diversity and promote inclusion, Ruffer felt that reporting of its diversity statistics has room for improvement.

Equity and multi-asset: Significant engagements

Manager	Main engagement themes	Significant engagement
LGIM	1. Climate change 2. Remuneration 3. Diversity 4. Board composition 5. Strategy	**Diversity and inclusion** in Japan LGIM feel that companies operating on a global level should have at least one female director on their board and, in particular, that Japanese companies in general have trailed behind European and US companies in ensuring more women are appointed to their boards. In mid-2020, LGIM sent letters to the largest companies in the MSCI Japan which did not have any women on their boards or at executive level, indicating that they expect to see at least one woman on the board. One of the companies targeted was Olympus Corporation. LGIM then announced that they would commence voting against the most senior board member for those companies included in the TOPIX100 which still did not have any women on their boards or at executive level. The vote against director election noted on the previous page for Olympus Corporation is an example of this and is intended to signal that the company needed to take action on this issue.
Baillie Gifford	1. Climate Change 2. Board Matters 3. Remuneration 4. Company Culture and Employee Relations 5. Diversity	Amazon **gender pay gap** reporting Baillie Gifford engaged with Amazon to encourage more granular reporting on the extent of their gender pay gap, including median pay figures across the business. In the engagement, Baillie Gifford cited previous experience with companies reporting these figures and how the were helpful. Following the engagement, Amazon agreed to increase the transparency of reporting around pay and noted this was beneficial when getting a subsequent gender pay proposal approved by shareholders.
Ruffer	1. Climate change 2. Board structure 3. Executive remuneration 4. Cross shareholdings (Japan) and capital structure 5. Environment – tailings dams	ExxonMobil extended engagement on **climate change** action Ruffer has engaged with ExxonMobil both independently and through the Climate Action 100+ working group. To date, the engagement has resulted in greenhouse gas reduction targets being set which are aligned with the Paris Agreement. Ruffer continues to actively engage with ExxonMobil and have noted they expect further progress to be made.

Real assets: Stewardship and engagement

Manager	Main engagement themes
JP Morgan PRI rating for infrastructure : A	• The JP Morgan ESG Leadership Group meets quarterly and includes one ESG Leader from each Infrastructure Investment Fund ("IIF") portfolio company; recent topics include materiality assessments, **physical and transition risk** assessments, **ESG reporting** frameworks, **stakeholder engagement** and **policy implementatio**n. • IIF introduced its **Diversity, Equity and Inclusion** ("DEI") strategy through the Culture Forum with a framework for accountability. One of IIF's holdings, BWC Terminals, created 3 sub-committees to implement DEI initiatives: Employee Education, Community Outreach and Recruitment through Community Engagement. A further holding, Sonnedix, launched its One Team Network to promote DEI and strengthen culture – this includes Connection Groups like The Sonnedix Women Alliance, Returning from Leave and Career Kickstarter Network
UBS PRI rating for property: A+	• UBS established the Group Risk Control (GRC) Climate Risk Program and a three-year work plan to address **climate risk** regulatory expectations emerging globally during the year. • UBS are developing an initiative, The Social Value Portal ("SVP"), to quantify assets' contributions to the **UN's Sustainable Development Goals** (SDGs). SVP uses an independent measurement framework to generate a social, economic and environmental value. In development UBS worked with tenants and property and facilities management teams onsite to understand and measure things like local employment levels, traineeships, jobs for young offenders, community events held at the property and volunteering. • UBS Triton was ranked 1st out of 84 UK core diversified strategies by the Global Real Estate Sustainability Benchmark (GRESB) in November 2020.
CBRE PRI rating for property: A	• CBRE have centred their ESG focus in three main areas: **1. Climate**: commitment to address climate-related risks and opportunities by focusing on delivering net-zero carbon performance and physical resilience; **2. People**: commitment to champion diversity, equity, inclusion and the well-being of our people and other stakeholders. **3. Influence**: commitment to engage with and positively influence key stakeholders where we do not have direct management control. • CBRE grade their ESG performance and improvement ambitions against an ESG Maturity Matrix in order to identify future ESG risks and opportunities and develop a targeted engagement strategy for each investment. Investment team members conduct engagement meetings with senior executives and board members on a frequent basis throughout the year to gain clarity on their performance and initiatives and encourage disclosure.
Stafford PRI rating for infrastructure : A	• Stafford recently implemented the rollout of a **climate change** quantitative and qualitative questionnaire in order to ascertain further information as to the underlying asset contributions to **CO_2 emissions**, any emissions savings that have been achieved, and the approach to climate change implemented by the underlying managers both holistically and in terms of specific investments. • A detailed valuation assessment was performed to gauge the impact of **COVID-19**. The process involved consolidation of underlying manager provided information (investor updates, calls with management, and completion of a questionnaire prepared by the Stafford team), supplemented by market and sector research. A line by line assessment was then performed at the underlying asset level.

Fixed income: Stewardship and engagement

Manager	Main engagement themes
Royal London PRI rating for fixed income corporate financial / non-financial: A/A+	• Royal London have identified climate change as a key risk and in response have made the following commitments: **1. Climate risk policy**: Actively implement the climate risk policy. **2. Low carbon economy**: Advocate and promote the transition to a low carbon economy with industry, policymakers and other influential stakeholders. **3. Managing risk**: Consider climate change risk within the risk management framework and business planning. **4. Reduce carbon footprint**: Consider climate change risks and opportunities internally. **5. Clear reporting**: Report on the progress against these commitments and the wider climate risk strategy in an annual report and on the Royal London website at least once a year, in line with recommendations from the TCFD.
Churchill PRI rating for corporate non-financial: A	• With regards to ESG process enhancements, over the past year, Churchill has implemented a proprietary internal ESG Rating Tool developed by Churchill's parent company's Responsible Investing team. The ESG Rating Tool assesses a company or issuer's **ESG risk exposure and risk management** and has been adapted from MSCI's ESG Rating for publicly listed securities. The Rating Tool automatically integrates ESG materiality research from leading sources such as MSCI, SASB and Verisk Maplecroft to generate an ESG risk exposure score. Analysts then assess a company's risk management practices, resulting in a risk management score that is weighted by risk exposure, and ultimately an ESG rating that compares ESG performance to peers. The approach combines both qualitative and quantitative assessments of risk exposure and risk management to allow for both nuance and analytics when reporting on the ESG characteristics of a portfolio. • One of Churchill's investment, World50, provides virtual and in-person mediums where senior executives from multiple companies in various industries can discuss prevalent topics in the workplace, including **inclusion**, **sustainability**, and other ESG matters. There is a specific Sustainability group within World50 for members that are focused solely on these topics, however these topics are often points of conversation in all other groups. Additionally, 37% of members are female, which outpaces the global percentage of senior executives at 25%.
Permira PRI rating for corporate non-financial: A	• During the year, Permira added a second full-time ESG specialist to their ESG team, with an intern also due to join later in 2021. Permira's Head of ESG and ESG specialists continue to have oversight of ESG initiatives. • Permira has continued to develop its approach to ESG integration, post-investment engagement and ESG-focused reporting to investors over the past 12 months. In 2020/21 Permira Credit completed a pilot ESG KPI data collection exercise of the PCS4 portfolio. In light of the positive response rate, Permira intends to roll this out to other PCS funds to increase engagement. The firm also engaged ERM to carry out a top-down **greenhouse gas emissions** footprint of the portfolio. Starting from the 2021 calendar year, Permira will prepare an annual report for investors detailing the firm's latest activity with regard to ESG, including further details of these exercises, and providing certain key ESG metrics for PCS4.

Summary and Recommendations

- The Fund's managers have exercised voting policies and undertaken engagement activity in line with expectations and we have no significant concern with the extent to which stewardship activity has been exercised over the last year.
- It has been noted that certain managers are not signatories to the 2020 UK Stewardship Code. The Code has been designed to be applicable to managers across all asset classes and therefore we would expect all of the Fund's managers to have an aspiration to eventually become a signatory. We suggest revisiting this point in 12 months and exploring in greater detail the rationale of any managers which have not yet attempted to become a signatory.
- In line with the Committee's stewardship policy, the practices of the Fund's managers should continue to be monitored. We recommend that at future Committee meetings where LGIM or LCIV present that some focus be given to voting practices. We propose to identify appropriate case studies to facilitate discussion.
- LCIV continue to delegate voting to the appointed managers, though we understand this may change with LCIV developing their own voting policy. We suggest the Committee monitor LCIV's progress in developing their voting policy, and proactively engage on the development of this policy. In particular, we suggest working with LCIV to ensure that greater consistency can be achieved in the exercise of voting.
- Committee is scheduled to undertake a deeper dive on climate change issues later in 2021. We propose revisiting stewardship activity as part of this session and consider how Committee could develop its approach to demanding accountability and scrutiny.

Thank you

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.