London Borough of Havering Pension Fund

Review of Voting & Engagement Activity

- Simon Jones, Partner
- Mark Tighe, Associate Investment Consultant
- Jaid Longmore, Responsible Investment Associate Consultant

February 2023

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 2022.
- 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 re-applied and were successful in their subsequent submissions to become signatories to the 2020 UK Stewardship Code. While Russel became a signatory in March 2022, JP Morgan only became a signatory in September 2022.
- 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 seven 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, Ruffer and State Street (SSGA)
- We note that over the year, the vast majority of votes that were eligible to be exercised were voted. Exercise rates for managers including LGIM, across mandate, and Ruffer was at least 99.6%. Baillie Gifford had a lower rate across their two mandates with at least 88.1% of votes exercised.
- All managers demonstrated a preparedness to vote against company management on occasion. LGIM voted against management most frequently with around 19% of votes, on average, against management. This was higher than the previous reporting period of 16%. This is consistent with the index-tracking nature of these mandates.
- Similar to last year, there was commonality in the reasons why managers voted against management with non-salary compensation and director-related resolutions 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 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 as at 30 June 2022	Applied for 2020 Code but unsuccessful	Comments
London CIV	Yes	-	
LGIM	Yes	-	
Baillie Gifford	Yes	-	
Ruffer	Yes	-	
JP Morgan	**No**	No, successful in the September 2022 submission intake	• While unsuccessful in their original submission to the new code, JP Morgan made a subsequent submission and became a signatory of the UK Stewardship Code in September 2022. • They made a number of changes to ensure a successful submission for their subsequent application. These include establishing a clearer governance structure with senior level oversight of stewardship and clearer reporting lines of stewardship activity; enhancing their Conflicts of Interest Policy; and increasing disclosure around engagement, collaboration and escalation
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	**Yes**	-	• While unsuccessful in their first attempt under the new code, Russell re-applied in October 2021 and were successful in their application.

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 4000 signatories from over 60 countries
- 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. There was a change in the grading system from alphabetical (A+ to E) to numerical (1 to 5 stars) from the 2021 assessment onwards
- At the time of writing, the 2021 assessment had not been made available by all managers so the 2020 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 LGIM and with LCIV (both directly, and indirectly via the Baillie Gifford Diversified Growth Fund, Ruffer Absolute Return Fund and SSGA Passive Equity Progressive Paris Aligned Fund ('PEPPA')).
- The Fund has delegated its voting responsibility to its investment managers. The LCIV currently 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, Ruffer and SSGA 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.
- Over the course of the year, LCIV have also developed their own Voting Policy, which is a set of guidelines based on 8 voting principles.

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 a consistent engagement topic across all of the managers.
- Diversity was in the top five engagement themes for LGIM.

Equity and multi-asset: Exercise of votes

	LGIM 12 month period to 30 June 2022			LCIV (Baillie Gifford) 12 month period to 31 March 2022		LCIV (Ruffer) 12 month period to 31 March 2022
	All World	Emerging Markets	RAFI	Global Alpha	DGF	Absolute return
# eligible votes	66,610	35,160	39,277	1307	1537	565
% votes exercised	99.9	99.9	99.7	96.6	88.1	99.7
% against management	19.86	18.9	19.4	2.1	3.4	5.0
% abstained / withheld	1.3	2.28	1.0	0.6	0.60	0.7
% meetings with at least one vote against management	62.1	51.9	69.9	16.2	18.1	32

- The Fund has direct exposure to equities via LGIM and LCIV (Baillie Gifford and SSGA) 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 respective 12 month period (as the fund has not yet been invested in the LCIV PEPPA fund for 12 months, we have not included this fund in the table). We can observe the following from this data:
  - The exercise of voting rights was high across both LGIM and Ruffer eligible mandates. Baillie Gifford exercised less votes than the other managers, on average, particularly in the Diversified Growth Fund.
  - Similar to last year, abstentions/withheld votes were relatively low. Managers continue to exercise voting rights
  - LGIM were the most active manager in terms of voting against management by a considerable margin and compared to last year. 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.

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	• **Apple: Diversity & Inclusion (Report on Civil Rights Audit).** LGIM voted in favour of this shareholder resolution, and against management recommendation, which requested Apple to review their practices related to issues such as recruitment, hiring, promotions, discipline, benefits and wages commenting that they support proposals related to diversity and inclusion policies as they consider these issues to be material risk to companies. • **Total Energies: Climate Change (Approve the Company's Sustainability and Climate Transition Plan).** LGIM voted against this resolution, noting that while they recognised the progress the company has made with respect to its net zero commitment, specifically around the level of investments in low carbon solutions and by strengthening it's disclosure, that they remain concerned with the company's planned upstream production growth in the short term, and absence of further details on how such plans are consistent with the 1.5C trajectory.
Baillie Gifford PRI rating for equity: A+	1. Non-Salary Compensation 2. Antitakeover related 3. Capitalisation 4. Director related 5. Routine/ Business	• **Rio Tinto: Climate Change (Climate Action Plan).** Baillie Gifford voted against the management's climate action plan, commenting that they believe Rio Tinto should make more ambitious commitments, including on its scope 3 emissions.
Ruffer PRI rating for equity: A (Other asset classes have not received a PRI rating)	1. Director-related 2. Remuneration policies 3. Political Lobbying Disclosure 4. Shareholder resolutions on human rights 5. Resolutions on climate change	• **Alphabet: Climate Change (Report on Climate Lobbying & Report on Physical Risks of Climate Change).** Ruffer voted against company management recommendation and in favour of two shareholder resolutions related to climate change. With regards to climate related lobbying, Ruffer commented that the company and it's shareholders are likely to benefit from a review of how the company and it's trade associations' lobbying positions align with the Paris Agreement, in light of the risks to the company caused by climate change and the company's public position. They also supported increased reporting regarding how Alphabet is assessing and managing climate change risks given the benefit of such enhanced disclosures.

Equity and multi-asset: Significant votes

Manager	Main reasons to vote against management	Significant votes
State Street	1. Non- Salary Compensation 2. Anti-takeover related 3. Director Related 4. Reorgs/ Mergers 5. Capitalisation	• **Apple: Diversity & Inclusion (Report on Civil Rights Audit)** SSGA voted for this shareholder resolution for Apple to report on racial equity/ Civil Rights Audit, noting that diversity promotes better management of ESG opportunities and risks.

Equity and multi-asset: Significant engagements

Manager	Main engagement themes	Significant engagement
LGIM	1. Climate change 2. Remuneration 3. LGIM ESG Score 4. Company disclosure and transparency 5. Diversity	**Ethnicity Campaign: Diversity & Inclusion** LGIM launched an ethnicity engagement campaign focussed on engaging with the largest US and UK companies with no ethnic diversity on the board, with a commitment to taking action on a lack of improvement by placing a negative vote at their 2022 AGM. As part of the campaign, they wrote to an initial 79 companies across S&P 500 and FTSE 100 indices to alert them of their expectations. In October 2021, they revisited the boards ethnic representation of the companies in these indices, with the intention of engaging further with those still in breach of their expectation of at least one person of diverse ethnicity on the board. This review resulted in LGIM engaging with 37 companies in total, meaning that their target list halved. The 2022 voting season was the first season LGIM started to place votes on the lack of ethnic diversity in boards following unsuccessful engagement. As part of the escalation strategy, LGIM voted against a director election at **Universal Health Services** for lack of ethnic diversity. Two of the companies on LGIM's original list, **IPG Photonics Corp** and **Mohawk Industries**, met their expectations prior to the AGMs, signs that their engagement efforts have started to show improvements to ethnic diversity on boards.
Baillie Gifford	1. Remuneration 2. Climate Change 3. Strategy/ Purpose 4. Sustainability Reporting 5. Board effectiveness – independence/ oversight	**Lynas Rare Earths: Climate Change** Baillie Gifford engaged with Lynas Rare Earths (Lynas), a miner of neodymium which is a critical input to the powering of electric vehicles, wind turbines and other technologies, on the firm's climate commitments. Through this dialogue, Lynas informed Baillie Gifford that the board were closely involved in the recent operational materiality mapping exercise and that the development of the company's near-term GHG emissions reduction goal into an SBTi-approved net zero commitment (to be disclosed in FY22) was approved by all members of the board, senior leadership, and general managers. **BBGI: Climate Change** Baillie Gifford meet with BBGI Global infrastructure to understand their portfolio's modelled climate risks. BBGI announced its commitment to reduce carbon emissions in line with Net Zero by 2040 and that they will monitor scope 1 and 2 emissions (and material scope 3 emissions) for the underlying assets, and plan to develop Net Zero alignment plans for each asset and work with end-users to advise on climate action.

Equity and multi-asset: Significant engagements

Manager	Main engagement themes	Significant engagement
Ruffer	1. Climate change 2. Business Practices 3. Strategy and Capital Allocation 4. Corporate Governance in Japan 5. Data Security	**Shell: Climate Change (Energy Transition)** Ruffer has engaged in active dialogue with Shell management on the company's strategy, capital programme, and shareholder returns programme. During these meetings, Ruffer informed Shell that they are not satisfied with the coherence of their energy transition spending plan and will continue to monitor its progress. Ruffer stated that while they have long supported Shell's differentiated approach to the energy transition by targeting electric vehicle charging, the company has recently announced a move into the commoditised renewable power space and Ruffer is concerned that the company may face challenges in finding genuine differentiation in this area.
State Street	1. Human Capital 2. Racial Equity 3. COVID-19 4. Climate –related reporting 5. Compensation	**Regions Financials: Diversity & Inclusion** SSGA engaged with Regions Financial Corporation to discuss racial equity and workplace diversity disclosure. In SSGA's proxy voting policy, if a company in the S&P 500 does not disclose EEO-1 data, mandatory annual demographic workforce data in the US, SSGA will vote against the Chair of the Compensation Committee. As such, SSGA sent a letter to the company's board informing them of the need for disclosure. Post this letter and further engagement with Regions Financials, the company informed SSFA that they have published EEO-1 data. SSGA believed further improvement could be made on this initial disclosure and continued to engage with the company to produce a better data set that articulates the diversity of their workforce.

Real assets: Stewardship and engagement

Manager	Main engagement themes
JP Morgan PRI rating for infrastructure: A (Old rating assessment)	• JP Morgan view infrastructure investments as providing diversification while improving sustainability. The core theme's underlying their outlook for infrastructure include **strong governance**, **carbon disclosure** and **improving sustainability**. • They view **strong corporate governance**, including talented, aligned management teams, as key to reducing carbon footprints. • They also note that preparing for **climate risks** to become part of financial statements is imperative and best practice will be measuring and auditing portfolio companies' carbon footprint, in accordance with the most widely used international accounting tool, the Greenhouse Gas Protocol. • Lastly, a core focus will be on **improving sustainability** with social impact a priority across the portfolio companies. This will be achieved through initiatives such as promoting health, safety, diversity, equity and inclusion.
UBS PRI rating for property: A+ (Old rating assessment)	• UBS believe there is a direct link between responsible property investing and long-term returns and that 'greener' buildings (in terms of both environmental and social impacts) perform better than less 'green' buildings across indexes ranging from void periods, tenant retention and rental levels. • Their Real Estate and Private Markets' (REPM) responsible investment strategy has been developed by the REPM Sustainability Workgroup and comprises professionals from multiple countries and disciples, ranging from engineering and construction, through to investment and business management and it sets strategies and objectives at a global level to ensure that sustainability objectives are appropriately integrated into REPM's investment strategies and property operations. The responsible investment strategy is implemented by all operational functions during the entire ownership cycle of an underlying project. • REPM's sustainability efforts continued to be recognised by the industry in 2022, with strong results in the 2022 Global Real Estate Sustainability Benchmark (GRESB) Real Estate and Infrastructure Assessments, including for UBS Triton.
CBRE PRI rating for property: A (Old rating assessment)	• With real assets representing roughly half of today's global carbon emissions, CBRE believe that active engagement is essential to supporting environmental stewardship. • Their engagement priorities around climate change centre around carbon emissions reductions, energy efficiency and climate resilience. • In particular a core focus has been engaging with companies to encourage disclosure of GHG emissions reduction targets and to understand their strategies for achieving these targets. Further engagement topics have included renewable investments, green buildings, community & diversity and governance disclosures.
Stafford PRI rating for infrastructure: A (Old rating assessment)	• Stafford has continued to focus their ESG engagements with infrastructure managers on climate change risks, with a focus over the year on climate disclosures and decarbonisation plans of these managers. To better understand, track, improve and manage the exposure of their infrastructure products to climate change risk, they completed an Emissions and Adverse Impacts Survey (survey) for the second time. Managers were asked to provide data on their fund portfolios' CO2 Scope 1, 2 and 3 emissions, carbon footprint/intensity, exposure to fossil fuels sectors and other potentially adverse impacts. They saw progress in the response rates of the survey, with a 60% response rate compared to the inaugural survey response rate of 36%. The survey found that a significant percentage of managers and industry participants have not yet developed their GHG emissions reporting capabilities and Stafford will continue to engage with managers on this.

Fixed income: Stewardship and engagement

Manager	Main engagement themes
Royal London (RLAM) PRI rating for fixed income corporate financial / non-financial: A/A+ (Old rating assessment)	• A core engagement project for RLAM over the year was net zero, having defined three key things they want to see companies do, including: 1. Set targets aligned with the 1.5C ambition. 2. Bring others to net zero 3. Demonstrate action now • In fixed income specifically, they undertook a project engaging with rolling stock owners to understand the potential impact of decarbonisation targets on the UK rail sector. This allowed RPLAM to engage with portfolio companies on their preparedness and re-evaluate the lending case. Integrating this bespoke ESG analysis into their credit analysis forms part of their direct engagement with credit issuers and the project also provided a critical framework for future engagement.
Churchill PRI rating for corporate non-financial: A (Old rating assessment)	• As part of Churchill's approach to stewardship in the investment process, they conduct ESG Monitoring and Engagement. The investment teams monitor material ESG risks throughout the life of an investment and conduct frequent reviews with management teams and investment partners to address any issues or incidents that may arise • Churchill's engagement activities include dialogue, targeted initiatives, market initiatives and policy influence. Dialogue involves engaging in direct and constructive communication with CEO's, senior management, boards of directors and appropriate stakeholders of investee companies to encourage further ESG disclosure and adoption of best practices. Targeted initiatives aim to drive measurable outcomes with company, industry, thematic and country-specific initiatives. Market initiatives involve collaboration with peers, interdisciplinary experts and industry stakeholders to create best practices and drive more effective outcomes and lastly policy influence activities include actively helping to shape legislation, public policy and global standards related to RI best practices.
Permira PRI rating for corporate non-financial: A (Old rating assessment)	• During the year a core focus for Permira was enhanced disclosure and visibility of climate and other environmental risks. In order to identify, monitor and build resilience to climate change among portfolio companies, they refined their ESG approach and annual request for information to reflect current trends and regulatory developments. Permira noted that they saw an improvement in the reporting of greenhouse has (GHG) emissions compared to 2020, particularly for Scope 1 emissions. • Having piloted an initial request for ESG information from PCS4 portfolio companies in 2020/21, in 2021/22 they extended the request across PCS2, PCS3 and PCS4 portfolios and were pleased to see a 98% disclosure rate. The request included 19 key performance indicators (KPIs) – more than double the number requested in 2020/21.

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.
- Since the previous report, a further two managers, namely Russell Investments and JP Morgan, became signatories to the 2020 UK Stewardship Code. There are now only three managers which are not signatories to the 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 have now developed their own Voting Policy. We suggest the Committee review LCIV's voting policy to determine if it aligns with the Fund's responsible investment beliefs and determine whether they would like to adopt the policy across mandates. Adopting a single, coherent policy will allow consistency in voting across the Fund's mandates.
- Committee is scheduled to develop their climate risk plan over 2023. We suggest revisiting stewardship activity as part of this session and consider how Committee could develop its approach to demanding accountability and scrutiny and integrate this as part of the climate risk plan.

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.