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 2024.
- 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 and recommendations

- During the year, the Fund had equity exposure across six mandates, with two managers (LGIM and LCIV). LCIV's policy is currently to delegate voting implementation to EOS at Federated Hermes ("EOS") for global equity funds and to the underlying manager (Ruffer) for the multi-asset fund.
- As expected, the proportion of votes exercised by these managers was high. Exercise rates for LCIV were above 98.4%, and LGIM above 99.6%.
- The proportion of votes cast against management was broadly in line with previous years for LGIM mandates, albeit this proportion increased materially for the Baillie Gifford and Ruffer funds.
- The majority of engagements undertaken by each of the managers were in relation to 'environment' themes (over 'social' and 'governance').
- As an evolution of this analysis, we note the following exercises could be undertaken in future to provide greater insight and understanding on managers' stewardship and engagement activities:
  - Comparison of the managers' voting activity against LAPFF voting alerts
  - Assessment of alignment of managers' voting activity against their stated policies, particularly in relation to climate change.
- We look forward to discussing this paper with the Committee.

Background – Voting and Engagement

Delegation of Voting

- The Fund has voting rights through its equity investment with LGIM and with LCIV (both directly via LGIM and indirectly via the LCIV).
- The Fund has delegated its voting responsibility to its investment managers.
- The LCIV currently delegate voting to EOS, a stewardship services provider, to conduct proxy voting activities for all LCIV's global equity funds. The LCIV has also taken action to evolve its approach to stewardship with EOS as a voting and engagement partner, examples of which are outlined within this paper.
- The LCIV also currently delegate voting to the respective investment managers appointed for all LCIV's multi-asset funds.
- The Fund has also delegated engagement with underlying companies, within the Fund's mandates, to its underlying investment managers. Therefore, the Fund's engagement in this respect is carried out in line with the house engagement policy of LGIM, Baillie Gifford, State Street ("SSGA") and Ruffer for the respective investments.

Key Topics

- This paper specifically focusses on the voting and engagement activity of the Fund's equity investment managers (LGIM and LCIV).
- We note that 'climate change' and 'diversity and inclusion' have been identified as areas of interest for Committee in the past. Therefore, where possible, we have highlighted examples of these in our review of key votes and engagement themes to aid in further discussions with investment managers.

Voting Activity

Year to 30 June 2024	LGIM			LCIV (Baillie Gifford)	LCIV (SSGA)	LCIV (Ruffer)
	Global	Emerging Markets	Future World	GAGPA	PEPPA	Absolute Return
# eligible resolution votes	65,037	35,796	22,184	860	9,000	473
% votes exercised	99.8	99.9	99.6	100.0	98.4	100.0
% against management	20.1	19.4	19.4	19.8	13.1	8.0
% abstained / withheld	0.9	1.3	0.3	2.0	0.9	0.0
% meetings with at least one vote against management	63.8	56.4	70.8	38.0	49.0	71.0

- The Fund has direct exposure to equities via LGIM and LCIV (SSGA and Baillie Gifford) mandates, with additional exposure obtained through the multi-asset mandate managed by Ruffer.
- The table above provides a summary of voting over the respective 12-month period to 30 June 2024. We can observe the following from this data:
    - The exercise of voting rights was high across both LGIM and SSGA mandates. Baillie Gifford and Ruffer voted on all eligible resolutions.
    - Similar to last year, the percentage of abstentions/withheld votes was relatively low.
    - LGIM was the most active managers in terms of voting against management, however the proportion of votes cast against management increased materially relative to last year's analysis for both Baillie Gifford (11.0% previously) and Ruffer (1.0% previously).
    - 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.

Significant Votes

Mandate	Date	Company	Subject Summary	Manager's Vote and Rationale
LGIM Global Equity PRI rating for equity: 5 out of 5	01/05/24	Shell Plc	Approval of Energy Transition Strategy.	LGIM voted **against** this resolution – which requested the approval of Shell PLC's Energy Transition Strategy. LGIM acknowledge the substantive progress Shell Plc has made in climate related disclosures and commitments to reduce emissions and not pursue frontier exploration activities beyond 2025. However, in light of revisions to Shell Plc's Net Carbon Intensity ("NCI") targets, coupled with Shell Plc's ambition to grow its gas and liquefied natural gas business – LGIM expect Shall Plc to better demonstrate how these plans are consistent with the transition to Net Zero emissions by 2050. LGIM also seek additional clarity on Shell Plc's developing assets, and transparency on lobbying activities and capital expenditure allocated to low carbon as these form a material lever in Shell Plc's decarbonisation strategy.
LGIM Emerging Markets PRI rating for equity: 5 out of 5	27/06/24	Uni-President Enterprises Corp	Approval of Financial Statements.	LGIM voted **against** this shareholder resolution – which requested approval on the financial statements of Uni-President Enterprises Corp. LGIM believe Uni-President Enterprises Corp do not meet the minimum standards with regards to LGIM's deforestation policy.
LGIM Future World PRI rating for equity: 5 out of 5	20/07/23	SSE Plc	Approval of Net Zero Transition Report.	LGIM voted **for** this shareholder resolution – which requests the approval of a Net Zero Transition Report. LGIM expects companies to introduce credible carbon transition plans, consistent with the goals of the Paris Agreement (i.e. limiting the global average temperature increase to 1.5°C). This also includes disclosures of Scope 1, 2 and Material Scope 3 greenhouse gas ("GHG") emissions and short/medium/long-term GHG emissions reduction targets consistent with the 1.5°C goal.

Significant Votes Cont.

Manager	Date	Company	Subject Summary	Manager's Vote and Rationale
LCIV GAGPA (Baillie Gifford) PRI rating for equity: 5 out of 5	15/05/24	Elevance Health Inc	Adoption of policy to report political expenditures	EOS recommended a vote **against** this shareholder proposal – which requested Elevance Health Inc adopt a new policy to report on political expenditures made by third-party groups (e.g. trade associations and political organisations) Elevance Health Inc has contributed to. EOS believe Elevance Health third-party sufficiently annually disclose political contributions in Elevance Health Inc's Political Action Committee Political Contributions & Related Activity Report and already discloses a list of national and state trade associations to which it has paid membership dues of $50,000 or more in 2023. Additionally, that Elevance Health Inc would have little control of the disclosure practices of the third-party groups it has contributed to.
LCIV PEPPA (SSGA) PRI rating for equity: 4 out of 5	03/04/24	The Walt Disney Company	Director election	EOS recommended a vote **against** this proposal – which requested the election of dissident Director Nelson Peltz for a seat on The Walt Disney Company's Board. EOS believe that sufficient credible groundwork has been laid to warrant support for incumbent Chief Executive, Bob Iger, and appointment of Peltz would not bring additional value to shareholders – despite Trian Group's (i.e. the asset management firm founded by Peltz) deep interest in The Walt Disney Company, as EOS believe Peltz lacks substantive experience in areas critical to the stated goals and core business strategy of The Walt Disney Company.
LCIV Absolute Return (Ruffer) PRI rating for equity: 5 out of 5	25/04/24	BP Plc	Ratification of Executive Officers' compensation	EOS recommended a vote **against** this proposal – which requested ratification on BP Plc's Remuneration Report. EOS believe, as per previous years, there were concerns regarding the high variable pay award for the CEO – noting the variable pay exceeded 600%. EOS recommend higher fixed pay awards and lower variable elements, with substantial portions deferred into long-term, time-restricted stock. EOS also had concerns around the discretion applied to bonuses, in relation to fatalities over the year.

Engagements

Manager	Company	Subject	Engagement Detail	Summary Fund Engagement
LGIM Global Equity	Nippon Steel Corporation	Climate action	**Background** : Nippon Steel Corporation, the largest steelmaker in Japan, is a key player in the global steel industry but has been criticized for lagging in climate policy engagement and is seen as blocking climate policy action. Since early 2022, Nippon Steel Corporation has been engaged through LGIM's Climate Impact Pledge, with a focus on its climate-related lobbying, though the disclosures provided have not met expectations. **Action**: In 2023, a shareholder proposal was co-filed with the Australasian Centre for Corporate Responsibility, urging Nippon Steel Corporation to disclose its climate-related policy positions and align them with its carbon neutrality goal by 2050. **Outcome and next steps**: The shareholder proposal received significant support, signalling investor demands for greater transparency. LGIM will continue to engage as Japan updates its climate policies in 2024.	• Environment, 78% • Social, 6% • Governance, 12% • Other, 4%
LGIM Emerging Markets	*Approx. 400 companies across developed and emerging markets.*	Human rights.	**Background**: LGIM believe human rights are financially material for investors and that managing the business elements of human rights within operations is vital for companies to minimise risks to their business from human rights violations. The aim of LGIM's human rights letter campaign is to communicate expectations to companies in high-risk sectors (i.e. utilities, energy, mining, apparel, technology and automotives) and gather information on their human rights practices through a survey. **Action**: LGIM have sent a letter to the Chair of each company, outlining the importance of human rights in their respective sector and sharing LGIM's expectations, alongside a request for feedback via a questionnaire. **Outcome and next steps**: LGIM plans to engage directly with these companies based on the survey results, publish findings and potentially update its human rights policy based on the feedback, focusing on key human rights topics identified.	• Environment, 92% • Social, 2% • Governance, 4% • Other, 2%

Engagements Cont.

Manager	Company	Subject	Engagement Detail	Summary Fund Engagement
LGIM Future World	Anglo American Plc	Energy transition.	**Background**: The aim was to help Anglo American restructure its portfolio by focusing on copper and high-grade iron ore – i.e. emphasizing the commodities that benefit from the energy transition and also reducing exposure to sectors with uncertain long-term demand. **Action**: LGIM initially proposed portfolio restructuring to Anglo American in April 2024. However, days later and before the proposal could be circulated to the Anglo American Management Team, BHP Ltd made an offer to buy the company. LGIM argued BHP LTD's offer undervalued Anglo American and could slow copper growth globally. LGIM was later consulted by Anglo American on its defence strategy and had several meetings with senior management and the Board. **Outcome and next steps**: As a result of the engagement, Anglo American decided to restructure its portfolio by exiting certain businesses and rejecting BHP Ltd's offer, with the restructuring expected to take 18 to 24 months. LGIM will continue to monitor Anglo American's restructure and engage on operational excellence, decarbonisation and low-carbon ventures.	• Environment, 66% • Social, 10% • Governance, 18% • Other, 6%
LCIV GAGPA (Baillie Gifford)	UnitedHealth Group	Governance – Succession plan for Board members.	**Background**: EOS raised concerns in 2020 regarding the long tenure of the Lead Independent Director ("LID") of UnitedHealth Group. UnitedHealth Group acknowledged the concern and assured EOS that a Board succession plan was in place, though EOS believed this disclosure/plan was initially insufficient. **Action**: Over the next few years, UnitedHealth Group provided updates on Board changes, including new appointments and improvements in diversity – with EOS continuing to request for more robust disclosures on succession planning. **Outcome and next steps**: By 2023, the UnitedHealth Group had increased board diversity to 44% and addressed board independence concerns. Though EOS remain concerned with the LID's 16-year tenure, despite improvements in average director tenure and enhanced disclosures on succession planning.	• Environment, 18% • Social, 39% • Governance, 33% • Other, 10%

Engagements Cont.

Manager	Company	Subject	Engagement Detail	Summary Fund Engagement
LCIV PEPPA (SSGA)	CNH Industrial	Governance – Board gender diversity.	**Background**: In 2021, CNH Industrial had only one female director. This prompted EOS to advocate for increased female representation on the Boards to at least 30%. EOS also recommended voting against the Chair of the Governance Committee due to lack of progress on this. **Action**: By 2022, CNH Industrial had appointed two additional female directors, surpassing the 30% threshold with women making up 40% of the Board, and in 2023, EOS appointed another female director. **Outcome and next steps:** As at September 2023, there are 4 female directors (making up 44% of the Board). EOS will continue to engage with CNH Industrial on Board composition, effectiveness, and sustainability matters.	• Environment, 36% • Social, 24% • Governance, 24% • Other, 15%
LCIV Absolute Return (Ruffer)	Bank of Ireland Group PLC	Sustainable Finance strategy and policy.	**Objective**: Ruffer's goal for the bank is to articulate a clear sustainable and inclusive investment strategy, disclosing its activities relative to total business, setting medium-term financing targets and identifying activities it will no longer finance due to sustainability risks. **Action**: Through engagement, the bank has increased its sustainable finance commitments, from €5bn for 2021-2024 to €30bn by 2030, and launched innovative sustainability products like the EcoSaver mortgage and an Enviroflex sustainability-linked loan. **Outcome and next steps**: By Q2 2024, the bank was working on granular social impact reporting and is open to expressing future targets relative to total banking activity. With this progress, Ruffer believe the engagement to have been effective and the goal to be completed, given the bank's leadership in sustainable finance.	• Environment, 42% • Social, 27% • Governance, 18% • Other, 12%

Next Steps

- Ensuring stewardship is undertaken in line with the Committee's expectations is a core part of the Climate Action Plan/Risk Policy and the Committee should ensure it is able to effectively scrutinise the actions of its managers at quarterly Committee meetings.
- We continue to recommend that at future Committee meetings where LGIM or LCIV present, focus should be given to voting practices and progress against climate ambitions, including appropriate case studies and short-listing companies over which manager engagement can be challenged.
- As an evolution of this analysis, further exercises could be undertaken in future to provide greater insight and understanding on managers' stewardship and engagement activities. We have set out details of these below.

LAPFF analysis

- The Fund is a member of the Local Authority Pension Fund Forum ("LAPFF"). LAPFF issues voting alerts to members ahead of corporate annual general meetings (AGMs) with recommendations on how to vote on specific resolutions, as an extension of engagement activities undertaken at company level by LAPFF on behalf of its members.
- As the Fund invests in passive global equities in highly diversified portfolios, we expect the Fund to have exposure to most of the companies to which the LAPFF alerts relate, but note that the Fund's equity holdings have a lower exposure than the market index to high emitting companies.
- Analysis could be undertaken to assess how the managers' voting practices have aligned with LAPFF recommendations. Given the Fund is a member of LAPFF, ensuring consistency between its guidance and votes cast by managers on the Fund's behalf would be of benefit.

Independent assessment of voting activities

- As an extension of the LAPFF analysis, managers' voting activities could be independently assessed to check consistency with their stated policies and ambitions, particularly in relation to climate change. This would provide greater insight into how managers are exercising stewardship duties in practice and any inconsistencies highlighted would serve as a basis for further engagement with managers.

We look forward to discussing this paper with the Committee.

Appendix

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 5,000 signatories from over 60 countries.
- Signatories are subject to annual reporting and assessment to demonstrate their compliance with the principles, with signatories being assigned a numerical rating between 1 and 5 (with 5 being the highest rating).

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.

Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes but is not limited to equities, government or corporate bonds, derivatives 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 investments. As a result, an investor may not get back the full amount of the original investment. Past performance is not necessarily a guide to future performance.

Thank you

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