

<b>Item No.</b> 14.	<b>Classification:</b> Open	<b>Date:</b> 26 February 2024	<b>Meeting Name:</b> Pensions Advisory Panel
<b>Report title:</b>		Update on approach to Engagement and Voting	
<b>From:</b>		Interim ESG Manager – Treasury and Pensions	

## RECOMMENDATION

1. The Pension Advisory Panel is asked to note the update provided in this report on the engagement and voting activity for the underlying investments of the Fund.

## AN UPDATE ON THE FUND'S ENGAGEMENT AND VOTING ACTIVITY

### BACKGROUND

2. The Fund adopts a responsible approach to environmental, social and governance (ESG) parameters of its investments. This is managed through ongoing engagement on various ESG themes with the underlying portfolio companies as part of the Fund's engagement and voting activity.
3. For all assets, the Fund undertakes this primarily through delegation to the investment managers who engage with various underlying portfolio companies on a regular basis and also vote (where applicable) on the Fund's behalf at the annual/quarterly meetings.
4. The Fund has more control of the voting and engagement activity of the segregated global equity mandate run by Newton. For pooled equity mandates (BlackRock, Legal and General Investment Management (LGIM), and Comgest), the voting and engagement activity is informed primarily by the investment managers' own internal policies. Through their size and scale, these managers - particularly BlackRock and LGIM - have significant influence in engaging with companies and exercising voting rights to address company-specific and market-wide ESG risks and opportunities.
5. In both instances (segregated and pooled mandates), officers discuss ESG priorities with the Fund's investment managers, which they may consider while engaging and voting on the Fund's behalf. The Fund's approach is articulated in its Investment Strategy Statement (ISS) and Responsible Investment Policy (RI Policy).
6. For all listed assets, the investment managers typically follow an active engagement approach through a combination of discussions with management and application of voting powers to identify and achieve improvements on various ESG themes.

7. Most of the investment managers (LGIM, BlackRock, Robeco, Newton, Comgest) managing our listed assets have an in-house investment stewardship or responsible investment teams or dedicated team members sitting within the wider investment or portfolio management team. These are responsible for engaging in discussions with the management of portfolio companies (and prospective portfolio companies) and for voting decisions on multiple ESG themes in line with their internal policies and, where relevant, the Fund's strategic mandates.
8. The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which promotes the investment interests of local authority pension funds and works to maximise their influence as shareholders, whilst promoting corporate social responsibility and high standards of corporate governance amongst the companies in which they invest. All of our investment managers are encouraged to follow LAPFF's recommendations as they engage with portfolio companies and vote at the meetings on behalf of the Fund.
9. For private assets, the investment managers use engagement as a mechanism to influence the portfolio companies in improving their performance on ESG parameters. Internally, the investment managers (e.g. Blackstone) have a defined set of ESG metrics/standards. Through ongoing engagement, they monitor the portfolio companies for compliance with minimum ESG metrics/standards and gradual improvement over time.
10. This report outlines the key engagement and voting themes across the listed asset classes for both our segregated and pooled mandates. It also summarises the engagement and voting activity over the past quarter(s) for LAPFF, active equities portfolios (Newton and Comgest), and passive equities portfolio with LGIM.

## **KEY ENGAGEMENT AND VOTING THEMES**

11. Through the investment managers, the Fund engages and votes on, various ESG-focused themes and topics.
12. During the six-month period from July to December 2023, some of the key ESG-focused engagement and voting themes for the listed assets are outlined below:
  - Environment focused themes:
    - Climate change
    - Decarbonisation
    - Deforestation
    - Biodiversity
  - Social themes:
    - Human rights
    - Employee diversity

- Governance related themes:
    - Company disclosure and transparency
    - Board composition
    - Executive remuneration.
13. The investment managers summarise their engagement themes and voting decisions in reports which are subsequently shared with us on a quarterly and an annual basis.
14. The above themes, in particular the focus on climate change and decarbonisation, are aligned with the Fund's net-zero agenda.

## **ENGAGEMENT AND VOTING SUMMARY – SELECT LISTED FUNDS**

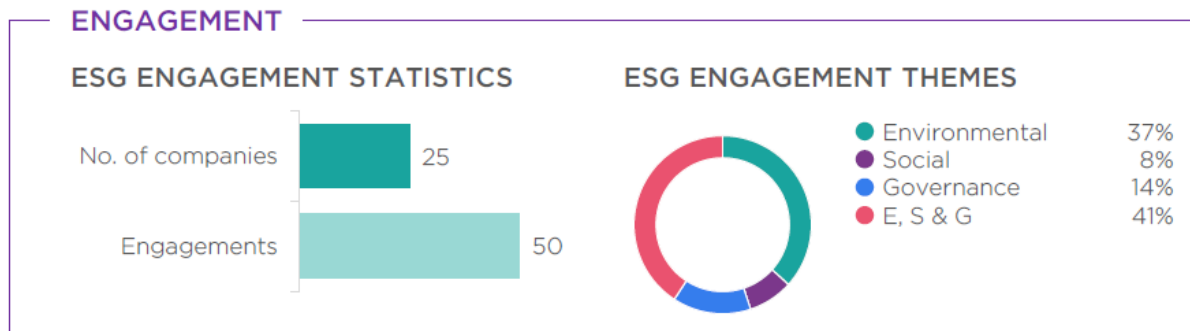
### **LAPFF (Quarters 2 and 3: July to December 2023)**

15. Attached is a link to the LAPFF website which includes historical reports of the stakeholder engagement activity it undertakes on an ongoing basis: <https://lapfforum.org/engagements/>
16. During the quarter from July to September 2023, LAPFF engaged with 182 companies including through its “Nature Action 100” and “Say on Climate” initiatives. Engagements included meetings, AGM attendance and letters/email correspondences.
17. The primary areas of engagement were environmental risk (120) and climate change (c. 45), followed by human rights (c. 20). Other topics include supply chain management, employment standards, governance, social risk, Board composition, diversity and inclusion and audit risks.
18. The detailed report for the period July to September 2023 is available at: <https://lapfforum.org/engagements/q3-quarterly-engagement-report-2/>
19. During the quarter from October to December 2023, LAPFF engaged with 44 companies.
20. The primary areas of engagement were climate change (c. 35) and environmental risk (15), followed by supply chain management (c. 6) and human rights (c. 6). Other topics include governance, social risk, Board composition, and diversity and inclusion.
21. The detailed report for the period October to December 2023 is available at: [https://lapfforum.org/wp-content/uploads/2024/02/LAPFF\\_QER04\\_2023.pdf](https://lapfforum.org/wp-content/uploads/2024/02/LAPFF_QER04_2023.pdf)

### **Comgest (12-month period ended Sept 2023)**

22. Comgest's approach to voting and engagement is covered as part of its Active Ownership Policy and can be found at <https://www.comgest.com/-/media/comgest/esg-library/esg-en/active-ownership-policy.pdf>

23. On a quarterly basis Comgest provides information on the voting undertaken and their engagement across ESG matters. Data provided in each quarterly report is for the 12 month period up to the previous quarter.
24. Over the 12 month period to 30 September 2023, Comgest conducted 50 engagements with 25 companies. Breakdown of the engagement themes is captured in the charts below<sup>1</sup>.



25. Over the 12 month period to 30 September 2023, Comgest voted with management on 487 resolutions and against management on 70 resolutions.

### **Newton (Quarter 3 July – Sept 2023)**

26. Newton's Governance Principles and Voting Guidelines can be found at: <https://www.newtonim.com/uk-lgps/special-document/governance-principles-and-voting-guidelines/>
27. Newton's Stewardship and Sustainability Policy can be found at: <https://www.newtonim.com/uk-lgps/special-document/stewardship-and-sustainability-policy/>
28. On a quarterly basis Newton provides information on the voting undertaken and their engagement across ESG matters.
29. During the period from July to September 2023, for our segregated fund, Newton had engagements with Accenture on the topic of human capital and with Goldman Sachs on climate transition risk and net-zero strategy.
30. From October to December 2023, Newton engaged with Boston Scientific on the topic of Product safety and quality.
31. Newton also had stewardship meetings with various companies on social aspects such as supply chain risk management and human capital, environmental aspects like use of natural resources and governance aspects such as Board and leadership quality, skills and experience.
32. During the six month period, Newton voted with the management of portfolio companies on two resolutions and against the management on two resolutions.

<sup>1</sup> Source: Comgest Quarterly Report shared on 11/01/2024

## LGIM (12-month period ended Sept 2023)

33. LGIM's Corporate Governance Policy can be found at <https://www.lgim.com/landg-assets/lgim/document-library/capabilities/lgim-uk-corporate-governance-and-responsible-investment-policy.pdf>
34. LGIM also publishes its approach to voting in the public domain. Its voting intentions for 2023 are outlined in a blog available at: <https://www.lgimblog.com/categories/esg-and-long-term-themes/lgims-voting-intentions-for-2023/>
35. During the 12 month period, Low Carbon Transition Emerging Markets Equity Index Fund, LGIM had 635 engagements with 398 companies, representing 51% of the fund value.
36. The top five engagement topics were climate impact pledge, remuneration, climate change, deforestation, and board composition.
37. The summary of the engagement activity is captured below<sup>2</sup>.

### Engagement (12 month period)<sup>xiii</sup>



## ENGAGEMENT AND VOTING ACTIVITY NEXT STEPS

38. Going forward, the Fund intends to adopt a more proactive approach to engagement and voting activity through participation in LAPFF meetings and regular reviews of fund manager policies and reporting
39. We will continue to report on voting and engagement activity via the quarterly Pensions Advisory Panel. The Fund will also aim to review the voting and engagement activity and provide specific guidance and action points to the fund

<sup>2</sup> [https://fundcentres.lgim.com/srp/lit/7vjVYA/ESG-report\\_Low-Carbon-Transition-Developed-Markets-Equity-Index-Fund\\_30-09-2023.pdf](https://fundcentres.lgim.com/srp/lit/7vjVYA/ESG-report_Low-Carbon-Transition-Developed-Markets-Equity-Index-Fund_30-09-2023.pdf)

managers to ensure that, where possible, there is alignment with our strategic priorities and the ISS and RI Policy.

**Policy framework implications**

40. There are no immediate implications arising.

**Community, Equalities (including socio-economic) and Health Impacts**

**Community Impact Statement**

41. There are no immediate implications arising.

**Equalities (including socio-economic) Impact Statement**

42. There are no immediate implications arising.

**Health Impact Statement**

43. There are no immediate implications arising.

**Climate Change Implications**

44. There are no immediate implications arising.

**Resource Implications**

45. There are no immediate implications arising.

**Legal Implications**

46. There are no immediate implications arising

**Consultation**

47. There are no immediate implications arising.

**Financial Implications**

48. There are no immediate implications arising.

**SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

49. Not applicable.

## AUDIT TRAIL

<b>Lead Officer</b>	Clive Palfreyman, Strategic Director of Finance	
<b>Report Author</b>	Spandan Shah, Interim ESG Manager - Treasury and Pensions	
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<b>Key Decision?</b>	No	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments Included</b>
Assistant Chief Executive - Governance and Assurance	No	No
Strategic Director of Finance	No	No
<b>Cabinet Member</b>	No	No
<b>Date final report sent to Constitutional Team</b>	16 February 2024	