

**Report for: Pension Fund  
Committee**

---

<b>Date of Meeting:</b>	24 November 2021
<b>Subject:</b>	Environmental, Social and Governance (ESG) Reporting – Update
<b>Responsible Officer:</b>	Dawn Calvert – Director of Finance and Assurance
<b>Exempt:</b>	Yes – (Appendix 2 only) Exempt from publication under paragraph 3, Part 1 of Schedule 12A to the Local Government Act 1972 (as amended) as it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)
<b>Wards affected:</b>	Not applicable
<b>Enclosures:</b>	Appendix 1- Summary of Blackrock Voting Policies available Exempt Appendix 2 (Aon) – Exempt ESG reporting dashboard

## **Section 1 – Summary and Recommendations**

---

Further to discussions at the last meeting, this report considers the development of ESG reporting for the LBH Pension Fund, and outlines voting options available for the Fund's passive equity investments managed by Blackrock.

### **Recommendations:**

The Committee is recommended to consider and comment on the report, indicate how it wishes to take this matter forward and express a voting preference for the Blackrock Low Carbon ACS Fund.

## **Section 2 – Report**

1. The LGPS (Management and Investment of Funds) Regulations 2016 require that the Fund's Investment Strategy Statement (ISS), should include details of the authority's policy on ESG matters. The updated ISS was approved at the Committee's last meeting, which also received a report on ESG reporting. This report provides some further information for consideration.
2. As previously reported, a significant part of the focus of this subject is directed towards environmental and climate change issues. During the recent review of the Fund's investment strategy, the Committee made decisions which have improved the Fund's position in this regard – i.e.
  - allocated 8% of its assets to the LCIV Sustainable Equity Fund (replacing another manager)
  - approved the transfer of its passive equity portfolio managed by Blackrock (24% of the Fund), to a Low Carbon passive fund.
  - Approved an allocation of 5% of its assets to the LCIV Renewables Fund.
3. At the training session immediately before the last meeting, Blackrock presented in detail how the low carbon fund achieves the reduction in exposure to those assets, and how they address other aspects of ESG, including using voting powers to influence companies in which shares are held about matters such as employee working conditions and harmful impacts in the places where they operate, and how they (Blackrock) report this.
4. Subsequently, Blackrock have developed a facility through which investors in its passive pooled funds, including LBH, are able to influence the way in which Blackrock casts votes at shareholder meetings. In effect, LBH has to opt for one of three "options" which will be based upon its overarching views, and votes will be cast in line with that policy.

5. The three options available for consideration are:

- a. If Harrow opts to **choose from a menu of third-party proxy voting policies** - they will be able to select one from the six available third-party proxy voting policies listed in Appendix 1 (note – appendix 1 lists seven, but one policy is for U.S. clients only). Their votes will be cast according to the selected policy using BlackRock's voting infrastructure. Also as this is an ACS fund, because BlackRock is a fiduciary with respect to the pooled funds, BlackRock must review any voting policy that will apply to votes in connection with the funds' holdings to confirm that the policy is consistent with the fiduciary standards that apply to the funds

The available policies are

- 2021 ISS Benchmark
- 2021 Catholic-Faith Based
- 2021 Public Fund
- 2021 Sustainable Responsible Investment (SRI)
- 2021 Sustainability
- 2021 Taft-Hartley

For further information on the above policies please refer to

<https://www.issgovernance.com/policy-gateway/voting-policies/>

- b. In the **own your own voting option** - If Harrow had its own proxy voting policy and a proxy voting vendor, Blackrock could send to their proxy voting vendor their proportional ownership of the ACS World Low Carbon fund to vote based on their proxy voting policy. As stated in the announcement for the 'own your own voting' option, clients who opt into this option will vote proxies according to their own policy and transmits their votes using their own voting infrastructure. Also as this is an ACS fund, because BlackRock is a fiduciary with respect to pooled funds, BlackRock must review any client's voting policy that will apply to votes in connection with the funds' holdings to confirm that the policy is consistent with the fiduciary standards that apply to the funds.
- c. If Harrow **chooses not to opt-in**, BlackRock Investment Stewardship (BIS) will continue to represent their long-term economic interests, casting proxy votes in line with BlackRock's voting policy using BlackRock's voting infrastructure.

6. Officers are liaising with Aon regarding the most appropriate approach and a recommendation will be brought to the meeting. Blackrock envisage having the necessary documentation in place for this to be operational from February 2022.

7. At the last meeting, Aon were asked to show how an "ESG dashboard" might look – a draft of this is attached as Appendix 2 (exempt) – please note the data is used to exemplify the dashboard and is not "real data".

8. The Committee is asked to advise on how it would like to develop this reporting further.

## **Legal Implications**

9. There are no direct legal implications arising from this report. As indicated above, the Fund is required to publish its Investment strategy Statement (ISS) to comply with the LGPS (Management and Investment of Funds) Regulations 2016. The Regulations require the ISS to contain a statement about how the Fund will address ESG matters through its investments.

## **Financial Implications**

10. Whilst the financial health of the Pension Fund directly affects the level of employer contribution which, in turn, affects the resources available for the Council's priorities there are no impacts arising directly from this report.

## **Risk Management Implications**

11. The Pension Fund's Risk Register is reviewed regularly by both this Committee and by the Pension Board. The latest review was carried out at the 24<sup>th</sup> June meeting of the Committee.
12. There are no specific risk management implications arising from this report. The level of risk to which its investments are exposed is a key component in developing the Fund's investment strategy.

## **Equalities implications / Public Sector Equality Duty**

13. Was an Equality Impact Assessment carried out? No  
There are no direct equalities implications arising from this report.

## **Council Priorities**

14. The performance of the Pension Fund directly affects the level of employer contribution which then, in turn, affects the resources available for the Council's priorities.

## **Section 3 - Statutory Officer Clearance**

**Statutory Officer: Dawn Calvert**

Signed by the Chief Financial Officer

**Date: 15/11/2021**

**Statutory Officer: Caroline Eccles**

Signed on behalf of the Monitoring Officer

**Date: 15/11/2021**

**Chief Officer: Dawn Calvert**

Signed on behalf of the Corporate Director

**Date: 15/11/2021**

## **Mandatory Checks**

**Ward Councillors notified: Not applicable**

## **Section 4 - Contact Details and Background Papers**

**Contact:** Jeremy Randall – Interim Pensions Manager

Email: [Jeremy.randall@harrow.gov.uk](mailto:Jeremy.randall@harrow.gov.uk)

Telephone 020 8736 6552

**Background Papers: None**