

# Cambridgeshire Pension Fund

## Investment Sub-Committee

25 May 2023

Report by: Head of Pensions

Subject: Stewardship and Engagement Report

Purpose of the Report: To update the Investment Sub Committee on stewardship and engagement matters relating to the Fund's investments.

Recommendations: The Investment Sub Committee is asked to:

a) Note the report.

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## 1. Executive Summary

- 1.1. The Cambridgeshire Pension Fund recognises the importance of promoting good governance and management in the companies in which the Fund invests. The Fund expects investment managers to exercise voting rights and engage with companies with the aim of good stewardship of the Fund's assets.
- 1.2. This report updates the Investment Sub-Committee (ISC) on:
  - 1.2.1. The Fund's voting activity during the six months to 31 December 2022 for assets held within the ACCESS pool, covering approximately 60% of the Fund's assets.
  - 1.2.2. A summary of engagement activity on behalf of the Fund by ACCESS sub-fund managers covering the period between January to December 2022.
  - 1.2.3. A summary of engagement with investment managers directly by the Fund covering the period between July to December 2022.
  - 1.2.4. A summary of the Local Authority Pension Fund Forum (LAPFF) engagement and voting activity for the period between October to March 2023.
- 1.3. Further information on specific stewardship and engagement activities summarised in this report is available from Officers on request.

## 2. Background

- 2.1. The Fund believes that Environmental, Social and Corporate Governance (ESG) issues create material risks and opportunities which will influence long term investment performance and the ability of the Fund to achieve its investment and funding objectives.

Therefore, good ESG and stewardship practices should be integrated throughout the investment process of the Fund.

- 2.2. Good stewardship can protect and enhance value for companies and markets as a whole. The Fund is committed to being a long-term steward of the assets in which it invests. It believes in the importance of investment managers acting as active asset owners through proactive voting and engagement with companies. In addition, the Fund believes that acting collectively with other investors is an effective way to engage with companies.
- 2.3. The Fund includes in its Investment Strategy Statement a policy on the exercise of the rights (including voting rights) attached to investments. Specifically with regards to stewardship and engagement, the Fund expects its investment managers to:
  - 2.3.1. Exercise our rights as owners of investments by actively participating in company level decisions tabled as shareholder votes at General Meetings.
  - 2.3.2. Engage with companies where there are concerns over ESG issues.
  - 2.3.3. Vote pool-aligned assets in accordance with the ACCESS Voting guidelines on a “comply or explain” basis and inform the Fund of voting outcomes.
  - 2.3.4. Report on their voting activity on a regular basis, with ACCESS Pool managers required to report on a monthly basis.
- 2.4. The Fund believes that acting collectively with other investors, for example, with partner authorities in the ACCESS pool or through membership of the Local Authority Pension Fund Forum (LAPFF), is an effective way to engage with companies.

### 3. Voting

- 3.1. The ACCESS Joint Committee agreed the voting guidelines for inclusion by the pool operator, Link Fund Solutions (LFS), in their Investment Management Agreements. These guidelines set out those matters of importance to the ACCESS Council’s and promote good corporate governance and management in the companies in which investments are made. In circumstances where investment managers do not adopt the positions set out in these guidelines, they are required to provide a robust explanation of the position adopted.
- 3.2. ACCESS also expects that investment managers will be signatories to and comply with the Financial Reporting Council’s Stewardship Code and United Nations Principles of Responsible Investment.
- 3.3. A summary of the voting activity for the six months ending 31 December 2022, including votes for and against management, is set out below for each of the ACCESS sub-funds in which the Fund invests:

Sub-Fund Name	Manager	Number of Meetings	Number of Votes Cast		
			For	Against	Other
LF ACCESS Global Stock	Dodge & Cox	15	99	26	0
LF ACCESS Global Equity – JOHCM	J O Hambro	8	70	15	3
LF ACCESS Global Equity	Longview	5	52	31	8
		28	221	72	11

- 3.4. During the six months ending 31 December there were 28 company meetings, which include Annual general Meetings (AGMs) and Extraordinary General Meetings (EGMs).  
In total there were 304 votes cast by the investment managers of the three ACCESS sub-funds in which the Cambridgeshire Pension Fund invests. Of the votes cast, 221 were for

and 72 against management proposals. There were 11 instances where votes were not cast, or managers chose to abstain from voting.

- 3.5. Investment managers use their discretion to cast votes not aligned to the ACCESS voting guidelines where they feel it is in the shareholders best interest to do so. There were no instances where the fund manager has overridden the ACCESS voting policy in the last six months for assets held under pooled governance.

#### 4. Engagement Activities – ACCESS Pool

- 4.1. The Cambridgeshire Pension Fund receives regular reporting on engagement activities for assets held within the ACCESS Pool. This includes dialogue between investment managers and LFS in order to promote good corporate governance and management in companies in which the Fund invests.
- 4.2. A summary of engagements by manager covering the twelve months to 31 December 2022 is shown below:

Manager	Types of Engagement	Volume of Engagement
Dodge & Cox	<ul style="list-style-type: none"><li>• Corporate governance</li><li>• Environmental/Social</li><li>• AGM or EGM proposals</li></ul>	TBC – verbal update to be provided
JO Hambro	<ul style="list-style-type: none"><li>• Environmental</li><li>• Social</li><li>• Governance</li></ul>	6 engagements with 2 companies
Longview	<ul style="list-style-type: none"><li>• Corporate governance</li><li>• Modern Slavery and human rights</li><li>• Diversity &amp; Inclusion</li><li>• Compensation</li><li>• Climate Change</li><li>• Product governance</li><li>• Capital allocation.</li></ul>	38 engagements with 16 companies

#### 5. Engagement Activity – Direct

- 5.1. The Fund engages directly with investment managers through regular meetings with officers on a rotational basis, the Investment User Group hosted by ACCESS and via quarterly Investment Sub-Committee meetings.
- 5.2. Discussions and challenge include fund performance as well as stewardship and engagement activities the investment manager have undertaken on behalf of the Fund.
- 5.3. In addition to proactive voting, investment managers should act as active asset owners through engagement with companies where there are concerns over environmental, social and governance (ESG) issues.

- 5.4. The Fund has written to investment managers setting out its aims and ambitions for the Fund to reach net carbon zero by 2050 or earlier, and asking how the investment manager can help the Fund achieve these goals. Investment managers have acknowledged these aims and ambitions and are keen to help the Fund on its decarbonisation journey and achieve the milestones set out within the Fund's Climate Action Plan.
- 5.5. The table below represents engagement with our managers at meetings covering the period of six months to December 2022:

<b>Date</b>	<b>Meeting Type</b>	<b>Manager</b>
5 <sup>th</sup> July	Local	Equitix
8 <sup>th</sup> July	Local	BlueBay
11 <sup>th</sup> July	Local	JO Hambro
12 <sup>th</sup> July	Local	JP Morgan
5 <sup>th</sup> September	Investment User Group (IUG)	M&G Alpha
28 <sup>th</sup> September	IUG	Longview
15 <sup>th</sup> November	Local	Dodge & Cox

## 6. Voting and engagement – Passive Funds

- 6.1. UBS invest in pooled passive funds on behalf of the Fund. The passive funds are not within the ACS structure itself, therefore UBS do not have to adhere to the ACCESS voting policy. However, UBS operate a high-quality programme of stewardship and engagement on behalf of the Fund. UBS produce an Annual Stewardship report, the report is available on request.
- 6.2. UBS will be responsible for the assets and the associated voting and ownership rights when the Fund invests with Osmosis, as the assets will be held in a segregated account managed by UBS against the Osmosis index. However, Osmosis have examined the UBS voting policy and believe it is significantly aligned with their own. Osmosis will continue to engage on the assets held within the Fund's portfolio.

## 7. Local Authority Pension Fund Forum

- 7.1. The Cambridgeshire Pension Fund is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF exists to promote the investment interests of local authority pension funds and to maximise their influence as shareholders, whilst promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest.
- 7.2. LAPFF engages with hundreds of companies to amplify the local authority voice and accelerate change. Their understanding of problems facing companies and ability to voice concerns is enhanced by also engaging with company stakeholders.
- 7.3. At the March 2023 meeting, the ACCESS Joint Committee have agreed to become a pool member of LAPFF. This should align voting priorities, enable ACCESS to demonstrate its participation in company engagement as well as good stewardship and strengthen the ability of LAPFF to engage, which will benefit ACCESS as an asset pool and individual Authorities.
- 7.4. The following table is a summary showing the companies and topics which the LAPFF has engaged between October and March 2023.

Period	Engagement Topics	Engagements
October-December 2022	<ul style="list-style-type: none"> <li>• Social Risk</li> <li>• Environmental Risk</li> <li>• Supply Chain Management</li> <li>• Audit Practices</li> <li>• Governance (general)</li> <li>• Human Rights</li> <li>• Climate Change</li> </ul>	AIA Group LTD, AIR Liquide SA, Anglo American PLC , Arcelormittal SA, BHP Group Limited (AUS) , BHP Group Limited (AUS), Chipotle Mexican Grill INC , CRH PLC , DRAX Group PLC , Electric Power Development CO , Equinor ASA , Glencore PLC , Kasikornbank PCL , Kellogg Company , KLA Corporation , Lyondellbasell Industries N.V. , Mitsubishi UFJ Financial GRP, National Grid PLC , Renault SA , Rio Tinto Group (AUS) , Rio Tinto PLC , Rolls-Royce Holdings PLC , Sumitomo Mitsui Financial Group , Tesco PLC , The Home Depot INC , Vale SA
January – March 2023	<ul style="list-style-type: none"> <li>• Campaign (general)</li> <li>• Remuneration</li> <li>• Employment Standards</li> <li>• Environmental Risk</li> <li>• Supply Chain Management</li> <li>• Governance (general)</li> <li>• Human Rights</li> <li>• Climate Change</li> <li>• Other</li> </ul>	Adidas AG, AIA Group LTD, Airtel Africa PLC, Amazon.Com INC., Associated British Foods PLC, Bank Hapoalim B M, Bank Leumi LE-Israel BM, Barclays PLC, Berkshire Hathaway INC., Biffa PLC, Britvic PLC, BT Group PLC, Centamin PLC, Chipotle Mexican Grill INC, CLS Holdings PLC, Constellation Brands INC., Direct Line Insurance Group PLC , DRAX Group PLC, Ford Motor Company, Frasers Group PLC, General Mills INC, General Motors Company, Genuit Group PLC, Grafton Group PLC, Hennes & Mauritz AB (H&M), Hill & Smith PLC, ICADE, Israel Discount Bank LTD, JBS SA, JD Sports Fashion PLC, JTC PLC, Kingfisher PLC, Marubeni Corp, Mcdonald's Corporation, Mitsubishi UFJ Financial GRP, Mizrahi Tefahot Bank LTD, NCC Group PLC, Nestle SA, Next PLC, Otsuka Corporation, Pepsico INC., Rio Tinto PLC, RPS Group PLC, Shell PLC, Standard Chartered PLC, Starbucks Corporation, The Kraft Heinz Company, TP ICAP Group PLC, Unilever PLC, United Overseas Bank LTD, Videndum PLC, Vodafone Group PLC, Volvo AB, Walmart INC.

7.5. LAPFF produce a Workplan for each year. Their Workplan for 2023-24 is in exempt Appendix A.

#### 7.6. Voting Alerts

7.6.1. LAPFF issued two voting alerts in the six-month period to March 2023, in relation to Starbucks and Rio Tinto.

### 8. Relevant Pension Fund Objectives

- 8.1. To have robust governance arrangements in place, to facilitate informed decision-making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance.
- 8.2. To manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers.
- 8.3. To ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment.
- 8.4. To continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate.

### 9. Finance and Resources Implications

- 9.1. There are no resources implications arising from the proposals in this paper. Legal fees for review of subscription documentation are included in the Fund's budget.

### 10. Risk Management

- 10.1. The mitigated risks associated with this report has been captured in the Fund's risk register as detailed below -

RISK MITIGATED	RESIDUAL RISK
Failure to respond to changes in economic conditions.	Amber
As long-term investors, the Fund believes climate risk has the potential to significantly alter the value of the Fund's investments.	Amber
Failure to understand and monitor risk and compliance	Green
Failure to provide relevant information to the Pension Committee/Local Pension Board to enable informed decision making.	Green
Failure to respond to changes in economic conditions.	Amber

- 10.2. The Fund's full risk register can be found on the Fund's website at the following link:  
[Fund's Risk Register](#)

### 11. Communication Implications

- 11.1. None.

## 12. Legal Implications

12.1. There are no legal implications arising from the report.

## 13. Consultation with Key Advisers

13.1. Not applicable

## 14. Alternative Options Considered

14.1. Included in the paper.

## 15. Background Papers

15.1. None.

## 16. Appendices

16.1. Appendix A – Exempt – LAPFF Workplan for 2023-24

## Checklist of Key Approvals

Is this decision included in the Business Plan?	Not applicable.
Will further decisions be required? If so, please outline the timetable here	No.
Is this report proposing an amendment to the budget and/or policy framework?	No.
Has this report been cleared by Chief Finance Officer/Section 151 Officer?	Yes. Sarah Haywood
Has this report been cleared by Head of Pensions?	Yes. Mark Whitby
Has the Chair of the Pension Fund Committee been consulted?	Yes. Cllr Whelan
Has this report been cleared by Legal Services?	Yes. Emma Duncan