

Cambridgeshire Pension Fund

Investment Sub-Committee

16 November 2023

Report by: Head of Pensions

Subject: Stewardship and Engagement Update

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 30 June 2023 for assets held within the ACCESS pool.
 - 1.2.2. A summary of engagement activity on behalf of the Fund by ACCESS sub-fund managers covering the period between January to June 2023.
 - 1.2.3. A summary of engagement with investment managers directly by the Fund covering the period between January and June 2023.
 - 1.2.4. A summary of the Local Authority Pension Fund Forum (LAPFF) engagement and voting activity for the period between April to September 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 on 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, Waystone, in their Investment Management Agreements. These guidelines set out those matters of importance to the ACCESS authorities 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 Principles of Responsible Investment.
- 3.3. A summary of the voting activity for the six months ending 30 June 2023, 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	Number of Meetings	Number of Votes Cast		
		For	Against	Other
Dodge and Cox - LF ACCESS Global Stock	71	1,006	159	30
J O Hambro - LF ACCESS Global Equity – JOHCM	41	486	72	61
Longview - LF ACCESS Global Equity	25	185	192	32
	137	1,677	423	123

- 3.4. During the six months ending 30 June there were 137 company meetings, which include Annual General Meetings (AGMs) and Extraordinary General Meetings (EGMs).
- 3.5. Of the three ACCESS sub-funds in which the Cambridgeshire Pension Fund invests, there were 2,223 occasions to vote by the investment managers. There were 123 instances where votes were not cast, or managers chose to abstain from voting. Of the votes cast, 1,677 were for and 423 against management proposals.

3.6. 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 managers covering the six months to 30 June 2023 is shown below. Please refer to exempt Appendix A for identification of the companies involved in the engagement examples.

Manager	Number of Assets	Types of Engagement			Engagement example
		E	S	G	
Dodge & Cox	85	4	3	11	Dodge and Cox discussed a variety of environmental, social and governance-related items with Company A, including pipeline, research and development (R&D) efforts, and other topical issues. They also discussed a variety of social topics, including access to medicine, diversity, equality and inclusion, and environmental topics, including carbon emissions reduction targets. They also discussed the structure and decision making process of the R&D organisation and outlook on certain products, and plans for the oncology business. Additionally, Dodge and Cox's Global Industry Analyst and ESG Integration Analyst met with the Vice President of Reputation and Responsible Business. A variety of ESG topics were discussed, including Company A's new composite ESG performance rating for compensation targets, drug pricing and access to medicine, its efforts to increase diversity in clinical trials, and its greenhouse gas emissions reduction targets.
JO Hambro	40		1	1	JO Hambro wrote to the Lead Independent Director welcoming Company B's ongoing climate transition strategy and seeking assurances regarding the role of independent directors in overseeing matters relating to strategic human capital, an area they view as crucial in supporting the transition. Noting the additional attention to culture in the mining sector, JO Hambro welcomed Company B's public submission and participation in the Western Australia

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		E	S	G	
					Parliamentary Inquiry into Sexual Harassment Against Women in the FIFO Mining Industry and noted favourably the subsequent company disclosure on identification and mitigation of cultural matters, including bullying and harassment. While JO Hambro observed effective scrutiny over underperformance, they asked that greater attention also be paid to areas of outperformance to ensure that results are achieved in a manner that is consistent with target culture and conduct expectations, noting the potential for human capital metrics to be gamed or the potential for conduct issues to drive outperformance (for instance the Australian Banking Royal Commission identified multiple instances of a coupling of conduct issues and abnormally high sales performance). They also asked that the lead independent director ensure that monitoring and reporting of human capital metrics includes healthy scepticism of strong (and therefore potentially under-examined) performance, including but not limited to areas such as employee engagement. They also raised concerns regarding continued reports of executive turnover at Company B, noting that it remains critical that the company manages culture in a way that continues to both differentiate and generates value, and facilitates attraction of key talent going forward, a crucial component in supporting the continued transition of the business.
Longview	36	3	3	6	In June 2023 Longview engaged with the CEO and Head of Investor Relations of Company C for a detailed discussion on various aspects of their business and industry dynamics. Longview were interested in the CEO's evaluation of performance versus the goals he set when he joined in 2018. He explained that he had tried to preserve the company's performance while backing leaders across Company C to shift from perceiving 'people as cost', to a mindset of 'talent management'. He felt the company also has a greater focus on sustainability, they now

Manager	Number of Assets	Types of Engagement			Engagement example
		E	S	G	
					rely on a set of principles with enough flexibility to allow managing directors to develop their own plans in local marketplaces. Longview also enquired about the benefits of having local and hyper-local scale. In the UK, Company C benefits from scale at both the national and sector levels. They are exploring how they can share front-line resources across the business and deploy labour to a much more flexible roster, particularly with the emergence of hybrid working.

Engagement Activity - Direct

- 4.3. 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.
- 4.4. Discussions and challenge include fund performance as well as stewardship and engagement activities the investment manager has undertaken on behalf of the Fund.
- 4.5. 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.
- 4.6. The Fund has written to investment managers setting out it's 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.
- 4.7. The table below represents engagement with our managers at meetings covering the period of six months to June 2023:

Date	Meeting Type	Manager
6th April	Local	HarbourVest
3rd May	Local	JO Hambro
16th May	Local	M&G
12 th June	IUG	UBS
13th June	Local	Allianz
14th June	Local	M&G

5. Voting and Engagement – Passive Funds

- 5.1. 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.

- 5.2. UBS are responsible for the assets and the associated voting and ownership rights the Fund invests with Osmosis, as the assets are 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.

6. Local Authority Pension Fund Forum

- 6.1. 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.
- 6.2. 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.
- 6.3. The following table is a summary showing the companies and topics which LAPFF has engaged between April and June 2023.

Period	Engagement Topics	Engagements	Example
April – June 2023	<ul style="list-style-type: none"> • Audit Practices • Board Composition • Diversity Equality and Inclusion • Remuneration • Other • Employment Standards • Supply Chain Management • Governance (General) • Environmental Risk • Human Rights 	Adidas AG, Alphabet INC, Amazon.com INC, Ameren Corporation, Anglo-American PLC, Associated British Foods PLC, Bank Leumi Le-Israel BM, Bank of America Corporation, Barclays PLC, Berkshire Hathaway INC, BHP Group Limited (AUS), Borgwarner INC, BP PLC, Bridgestone Corp, Cenovus Energy INC, Centerpoint Energy INC, Centrica PLC, Chevron Corporation, Chubb Limited, CK Hutchinson Holdings LTD, Comcast Corporation, Costar Group INC, Coterra Energy INC, DBS Bank LTD, Dollarama INC, Drax Group PLC, E.On SE, EDF (Electricite De France), Electric Power Development Co, Enbridge INC, Exxon Mobil Corporation, Glencore PLC, Grupo Mexico Sa De	LAPFF sought a meeting with BP's CEO to better understand BP's decision to move down its 2030 carbon reduction targets. LAPFF had a cordial meeting and gained some explanations of BP's thinking, with further research and engagement in this area to follow. Further contact and engagement with the company is ongoing.

	<ul style="list-style-type: none"> Climate Change 	<p>CV, GSK PLC, Hennes and Mauritz AB (H&M), Honeywell International INC, HSBC Holdings INC, Iberdrola SA, Idex Corporation, Imperial Oil LTD, JP Morgan Chase & Co, Kamigumi Co LTD, Kellogg Company, Kingfisher PLC, Lindt and Sprungli AG, Lockheed Martin Corporation, Marathon Petroleum Corporation, Markel Corporation, Meta Platforms INC, Mitsubishi UFJ Financial GRP, National Grid PLC, New York Community Bancorp INC, Next Plc, Nike Inc, Nintendo Co Ltd, Paccar INC, Pennon Group PLC, Public Storage, Quest Diagnostics Incorporated, Raytheon Technologies Corp, Rio Tinto Group (AUS), Roche Holding AG, Sanofi, Sanwa Holdings Corp, Severn Trent PLC, Shell PLC, Southern Company, Sumitomo Mitsui Financial Group, Tesla INC, The Goldman Sachs Group INC, The Home Depot INC, The Mosaic Company, The TJX Companies INC, The Travelers Companies INC, Tokyo Electric Power Co INC, Totalenergies SE, Toyota Motor Corp, United Utilities Group PLC, Vale SA, Valero Energy Corporation, Volvo AB, Wells Fargo & Company, Welltower INC, WH Group Ltd.</p>	
July – September 2023	<ul style="list-style-type: none"> Environmental Risk Diversity Equity and Inclusion Human Rights 	<p>AIA Group LTD, Allianz SE, Alphabet INC, Apple INC, Associated British Foods PLC, AVIVA PLC, AXA, Barratt Developments PLC,</p>	<p>LAPFF wrote to Centrica one of the major UK energy suppliers and</p>

	<ul style="list-style-type: none"> • Climate Change • Supply Chain Management • Social Risk • Employment Standards • Board Composition • Remuneration Audit Practices 	<p>Bayerische Motoren Werke AG, Berkshire Hathaway INC., Booking Holdings INC., Burberry Group PLC, Centrica PLC, China Construction Bank Corp, China Life Insurance (CHN), Devon Energy Corporation, FEDEX Corporation, Ford Motor Company, General Motors Company, Grupo Mexico SA DE CV, Hennes & Mauritz AB (H&M), J Sainsbury PLC, KKR & CO INC, Legal & General Group PLC, Lloyds Banking Group PLC, Marks & Spencer Group PLC, Mercedes-Benz Group AG, Meta Platforms INC, Metlife INC., Mizuho Financial Group INC, Muenchener Rueck AG (Munich RE), National Grid Gas PLC, Nestle SA, Northumbrian Water Group, Occidental Petroleum Corporation, Persimmon PLC, Ping An Insurance Group, Prudential PLC, Renault SA, Rio Tinto Group (AUS), Ryanair Holdings PLC, Salesforce INC, Severn Trent PLC, Shinhan Financial Group LTD, SSE PLC, Suzano SA, Taylor Wimpey PLC, Tesla INC, The Procter & Gamble Company, Total Energy Services INC, Unilever PLC, United Utilities Group PLC, Vale SA, Volkswagen AG, Volvo AB, WH Smith PLC, Whitbread PLC, Zurich Insurance Group AG.</p>	<p>owner of British Gas. The company responded by setting out how it is supporting customers through the cost-of-living crisis. The company also outlined ongoing support and advice that it provides low-income customers.</p>
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6.4. Voting Alerts

- 6.4.1. LAPFF issued fifty-five voting alerts in the three-month period to June 2023 and three alerts for the quarter ending September 2023. ACCESS is considering the

treatment of LAPFF voting alerts as part of the ESG/RI Sub-Group chaired by the Fund's Head of Pensions.

7. Recommendations

7.1. That the Investment Sub Committee:

7.1.1. Note the report.

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

- 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. None

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? 08/11/2023

Has this report been cleared by Head of Pensions? Yes. Mark Whitby 19/10/2023

Has this report been cleared by Legal Services? 08/11/2023