

# Cambridgeshire Pension Fund

## Investment Sub-Committee

29 February 2024

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.

Enquiries to: Ben Barlow, Funding and Investments Manager.  
Tel – 07831 123167  
E-mail – [Ben.Barlow@Westnorthants.gov.uk](mailto:Ben.Barlow@Westnorthants.gov.uk)

### 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 three months to 30 September 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 July to September 2023.
  - 1.2.3. A summary of engagement with investment managers directly by the Fund covering the period between July and September 2023.
  - 1.2.4. A summary of the Local Authority Pension Fund Forum (LAPFF) engagement and voting activity for the period between October to December 2023.
- 1.3. Further information on specific stewardship and engagement activities summarised in this report is available from Officers on request.
- 1.4. To reflect the increased importance the Fund is placing on stewardship, starting from this date, this report will be presented to the ISC on a quarterly basis.

## 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. To promote good stewardship and ensure the diligent monitoring of engagement activities, this report will be presented to the ISC on a quarterly basis.
- 2.4. 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:
  - 2.4.1. Exercise our rights as owners of investments by actively participating in company level decisions tabled as shareholder votes at General Meetings.
  - 2.4.2. Engage with companies where there are concerns over ESG issues.
  - 2.4.3. 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.
  - 2.4.4. Report on their voting activity on a regular basis, with ACCESS Pool managers required to report on a monthly basis.
- 2.5. 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. PIRC

- 3.1. ACCESS has appointed Pension & Investment Research Consultants Ltd (PIRC) as its external ESG and RI advisor following a LGPS Framework Procurement, to implement and refine the Pool’s RI guidelines. PIRC will use the ACCESS RI guidelines as the starting point to deliver a universal reporting framework.

## 4. Voting

- 4.1. 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.
- 4.2. 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.

- 4.3. A summary of the voting activity for the three months ending 30 September 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 - WS ACCESS Global Stock	10	81	15	3
J O Hambro - WS ACCESS Global Equity – JOHCM	1	12	2	0
Longview - WS ACCESS Global Equity	1	19	4	0
	12	112	21	3

- 4.4. During the three months ending 30 September there were 12 company Annual General Meetings (AGMs).
- 4.5. Of the three ACCESS sub-funds in which the Cambridgeshire Pension Fund invests, there were 136 occasions to vote by the investment managers. There were 3 instances where votes were not cast, or managers chose to abstain from voting. Of the votes cast, 112 were for and 21 against management proposals.
- 4.6. Of the 136 votes, all were subject classified as Governance (G). Governance includes issues such as board structure, election of directors, remuneration and in-house policies. Interestingly during this period none were classified as either Environmental (E) or Social (S) issues.
- 4.7. 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 three months for assets held within ACCESS sub-funds.

## 5. Engagement Activities – ACCESS Pool

- 5.1. The Cambridgeshire Pension Fund receives regular reporting on engagement activities for assets held within the ACCESS Pool. This includes dialogue between investment managers and Waystone in order to promote good corporate governance and management in companies in which the Fund invests.
- 5.2. At 30 September 2023 the Fund's ACCESS investment managers held a total of 155 assets and held 26 engagements with companies. There were 5 engagements on environmental topics, 10 on social topics and 11 relating to governance.
- 5.3. A summary of engagements by managers covering the three months to 30 September 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	86	2	6	8	Company A is a global industrial conglomerate with operations spanning across aerospace, energy, and healthcare markets. We invested in Company A because we believed that it was undervalued and should benefit from an intelligent corporate restructuring program that included balance sheet repair, lower costs, and a three-way split-up of the company. Governance - We discussed Company A's compensation plan, specifically its pay for performance alignment, as well as its upcoming Annual General Meeting at which two new directors are up for election. Performance – we discussed the company's recent performance since the split-off of their Healthcare arm in January '23 and progress regarding its plans to spin off another business, early next year. We discussed that, as an investor, our preference is for companies to use a performance period longer than one year for long term incentive (LTI) compensation targets to better align management compensation with long-term shareholder value. We re-iterated the need for company management to provide more detailed disclosure on key performance indicators (KPI's) for the company and any amended targets as they execute the company's break-up plan over the next two years. We communicated our views to the company management and believe they adequately considered our perspective and opinion.
JO Hambro	39	0	1	1	Company B is actively looking for three new NEDs but is finding it difficult to find appropriately skilled (Africa, renewable energy), and non-conflicted directors to meet its expansion needs. The company argued that both the transition economy and African-experience director pools are shallow, further complicated by having numerous contractual relationships across the industry. The company believes they have made good progress on implementing the Workplace Integrity Review (workplace culture, sexual harassment), and responded well to our suggestion for third party review to provide independent assurance of the associated programs and of their efficacy.
Longview	30	3	3	2	In September 2023, Longview held a video conference call with Company C's Global Chief Counsel and their Head of Investor Relations & ESG. Longview discussed various sustainability matters including Company C's environmental approach and climate commitments; diversity and inclusion; and other key ESG initiatives. Another purpose of the call was to engage on the company's approach to data ethics as part of Longview's efforts to gather information on the theme. This will be reported on in due course. Company C explained that their environmental impact encompasses not only their

Manager	Number of Assets	Types of Engagement			Engagement example
		E	S	G	
					<p>own corporate footprint but also the climate-related solutions they provide to clients. This pertains to various aspects of their reinsurance business, climate analytics tools, and commercial risk solutions, amongst others. Longview asked about the progress they have made towards their net zero target. We had identified in our portfolio-wide Climate Audit in 2021 and 2022 that Company C had committed to achieve net zero emissions by 2030. They confirmed that they have reduced total emissions by 16% compared to their 2019 baseline, for scope 1 and 2 emissions and that their efforts have been consistent with their proposed Science-Based Targets Initiative (SBTi) goals which are in-line with a 1.5-degree pathway. The company's Smart Working Policy, which offers employees the flexibility to work in-office, remotely, or a combination of both, has contributed to reducing travel and commuting. The company's centralised purchasing approach has also improved efficiencies. They are working with suppliers to manage scope three emissions through their Sustainable Procurement Program. This initiative involves collecting information on carbon commitments from suppliers and actively encouraging them to meet their sustainability targets. Notably, eight out of their top ten suppliers have aligned their targets with SBTi, while educating smaller suppliers has been an ongoing process. Within their supplier network, their primary focus has been on the top two hundred suppliers, with the overarching aim of conducting a complete assessment of their supply chain. They also discussed two of the company's social initiatives – their Apprenticeship Program and their Inclusion and Diversity (I&amp;D) training designed for employees at all levels. The two-year Apprenticeship Program provides an alternative pathway to permanent roles for high-potential individuals from disadvantaged communities. In 2022, they welcomed 145 apprentices globally. Longview was interested in how they measure success. One of the ways that the company gauges the impact of its I&amp;D efforts is through an employee engagement survey, which has achieved an 80% participation rate in 2022. We were also interested in the company's firm wide ESG risk assessment conducted in 2022 and asked about outcomes and actionable findings. The company clarified that their ESG steering committee, a cross-functional team representing key areas of the business, was responsible for identifying and assessing relevant ESG risks. They collaborated with thirty subject matter experts from across the organisation to gather recommendations for risk mitigation. Lastly, Company C explained that their plan is to integrate most of these ESG risks into their overall enterprise risk management process.</p>

## 6. Engagement Activity - Direct

- 6.1. 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.
- 6.2. Discussions and challenge can cover a range of topics but a particular focus is always fund performance as well as stewardship and engagement activities the investment manager has undertaken on behalf of the Fund.
- 6.3. 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.
- 6.4. 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.
- 6.5. The table below represents engagement with our managers at meetings covering the period of three months to September 2023:

<b>Date</b>	<b>Meeting Type</b>	<b>Manager</b>
6 <sup>th</sup> July	Local	Dodge and Cox
7 <sup>th</sup> July	IUG	Baillie Gifford and Macquarie
7 <sup>th</sup> July	Local	JO Hambro
11 <sup>th</sup> July	Local	UBS
19 <sup>th</sup> July	IUG	Acadian & Newton
30 <sup>th</sup> August	Local	Harbour Vest
8 <sup>th</sup> September	IUG	Baillie Gifford and Royal London
27 <sup>th</sup> September	IUG	Newton and M&G
29 <sup>th</sup> September	Local	Blue Bay

## 7. Voting and Engagement – Passive Funds

- 7.1. 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.
- 7.2. 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.

## 8. Local Authority Pension Fund Forum

- 8.1. 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.

- 8.2. 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.
- 8.3. The following table is a summary showing the companies and topics which LAPFF has engaged between October and December 2023.

Period	Engagement Topics	Engagements	Example
October – December 2023	<ul style="list-style-type: none"> <li>• Environmental Risk</li> <li>• Diversity Equity and Inclusion</li> <li>• Human Rights</li> <li>• Climate Change</li> <li>• Supply Chain Management</li> <li>• Social Risk</li> <li>• Board Composition</li> <li>• Governance (General)</li> </ul>	AIA Group LTD, Aston Martin Lagonda Global Holdings PLC, AVIVA PLC, AXA, BAE Systems PLC, Bakkavor Group PLC, Barclays Bank PLC, Barclays PLC, BP PLC, Centamin PLC, Chipotle Mexican Grill INC, CRH PLC, EasyJet PLC, Energean PLC, Exxon Mobil Corporation, Ford Motor Company, Fresnillo PLC, Glencore PLC, Harbour Energy PLC, HSBC Holdings PLC, International Distributions Services PLC, John Wood Group PLC, KKR & Co INC, Legal & General Group PLC, Lloyds Banking Group PLC, Mercedes-Benz Group AG, National Grid Gas PLC, NatWest Group PLC, Nestle SA, Persimmon PLC, Ping An Insurance Group, Prudential PLC, Renault SA, Restaurant Brands International INC, Rio Tinto PLC, Rolls-Royce Holdings PLC, Sanofi, SAP SE, Shell PLC, Standard Chartered PLC, The Home Depot INC, The TJX Companies INC, TI	In the context of the agri-food sector’s shift towards more sustainable practices, LAPFF sought a meeting with Nestlé to assess and understand the integration of regenerative agriculture into its strategy. This includes understanding the company’s specific goals, initiatives, and progress in implementing regenerative practices, as well as its contributions to climate change mitigation and biodiversity conservation. During LAPFF’s meeting with Nestlé, the Forum gained insights into the strategies and initiatives involved in implementing regenerative agriculture. Discussions looked at how this would be incorporated into their broader climate strategy and covered biodiversity more widely. While the long-term efficacy of these actions is yet to be measured, the conversations indicated a strong commitment from Nestlé, although further evaluation will be required in the future to gauge the impacts of strategies. LAPFF will continue to engage with Nestlé, focusing on monitoring the implementation of their regenerative agriculture practices. LAPFF will also look more widely across the agrifood sector as others are incorporating this into their business strategies as new

		Fluid Systems PLC, Vale SA.	methods and technologies become available.
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#### 8.4. Voting Alerts

8.4.1. LAPFF issued one voting alert in the three-month period to December 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.

### 9. Relevant Pension Fund Objectives

- 9.1. 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.
- 9.2. 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.
- 9.3. 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.
- 9.4. To continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate.

### 10. Finance & Resources Implications

10.1. 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.

### 11. Risk management

- 11.1. The mitigated risks associated with this report has been captured in the Fund's risk register as detailed below.
- 11.2. As long-term investors, the Fund believes climate risk has the potential to significantly alter the value of the Fund's investments.

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

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



## 12. Communication Implications

12.1. None.

## 13. Legal Implications

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

## 14. Consultation with Key Advisers

14.1. Not applicable.

## 15. Alternative Options Considered

15.1. Not applicable.

## 16. Background Papers

16.1. None.

## 17. Appendices

17.1. Confidential Appendix A.

## 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.

Has this report been cleared by Head of Pensions? Yes. Mark Whitby 30/01/2024

Has this report been cleared by Legal Services? Yes.