

Cambridgeshire Pension Fund

Investment Sub Committee

17 November 2022

Report by: Head of Pensions

Subject: Stewardship and Engagement Update

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

Recommendations: The Investment Sub Committee:

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 ISC on:
 - 1.2.1. The Fund's voting activity during the six months to 30 June 2022 for assets held within the ACCESS pool, covering approximately 60% of the Fund's assets.
 - 1.2.2. a summary of investment managers engagement activity on behalf of ACCESS authorities in which the Fund invests within the ACCESS Pool covering the period between April to June 2022.
 - 1.2.3. a summary of the Local Authority Pension Fund Forum (LAPFF) engagement and voting activity for the period between April to September 2022.
- 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 Fund has been working collaboratively with ten other Funds in the ACCESS Pool to jointly meet HM Government’s published criteria on asset pooling.
- 3.2. The ACCESS Joint Committee (AJC) is the formal decision-making group within the ACCESS Pool. Each Administering Authority is represented on the AJC by a representative from its Pension Committee (or equivalent governance body). The Fund has 60% of its assets under pooled governance.
- 3.3. The AJC 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.
- 3.4. 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.
- 3.5. A summary of the voting activity for the six months ending 30 June 2022 is set out below for each of the ACCESS sub-funds the Fund invests:

Sub-Fund Name	Manager	Number of Meetings	Number of Votes Cast		
			For	Against	Other
LF ACCESS Global Stock	Dodge & Cox	66	948	128	14
LF ACCESS Global Equity – JOHCM	J O Hambro	33	383	62	5
LF ACCESS Global Equity	Longview	29	250	188	34
		128	1581	378	53

- 3.6. During the six months ending 31 March 2022 there were 128 company meetings, which include Annual general Meetings (AGMs) and Extraordinary General Meetings (EGMs).
In total there were 2,012 votes cast by investment managers on behalf of ACCESS Authorities in which the Cambridgeshire Pension Fund invests within the ACCESS pool. Of

the votes cast, 1,581 were for and 378 against manager's proposals. There were 53 instances where votes were not cast, or managers chose to abstain from voting.

- 3.7. 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. Categories where votes against the ACCESS voting guidelines during the last 6 months include, appointment of auditors, election of directors, and remuneration.
- 3.8. 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.
- 3.9. The ACCESS voting guidelines are expected to be reviewed shortly, as this was identified as a priority activity within the ACCESS RI Guidelines. This work being co-ordinated by the Pool's ESG/RI sub-group, chaired by the Head of Pensions.

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 is covering three months to 30 June 2022 is shown below :

Manager	Types of Engagement
Dodge & Cox	<ul style="list-style-type: none">• Corporate governance• Environmental/Social• AGM or EGM proposals
JO Hambro	<ul style="list-style-type: none">• Environmental• Social• Governance• Disclosure
Longview	<ul style="list-style-type: none">• Corporate governance• Environmental/Social• AGM or EGM proposals

5. Engagement Activity – Direct

- 5.1. The Fund engages directly with investment managers through regular meetings with officers on a rotational basis 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 recently 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.

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.

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. The following table is a summary showing the companies and topics which the LAPFF has engaged between April and September 2022.

Period	Engagement Topics	Engagements
April-June 2022	<ul style="list-style-type: none">• Social Risk• Finance and Accounting• Employment Standards• Audit Practices• Governance (general)• Environmental Risk• Human Rights• Climate Change	Mining, Electric Vehicles, Vale, Rio Tinto, Occupied Palestinian Territories (OPT) Engagements, J Sainsbury plc, Nestlé, Suzano, National Grid, London Stock Exchange Group, Anglo American, Arcelor Mittal, Novartis, LyondellBasell, Total, Water Utilities, Rathbones Votes Against Slavery, Asia Research and Engagement, Global Standard on Climate Lobbying, Human Rights Collaborations, CA100+ Transport Group, Institutional Investor Group on Climate Change (IIGCC), The Investor Initiative for Opioid Accountability (IOPA), Investor Initiative for Responsible Care
July-September 2022	<ul style="list-style-type: none">• Climate Change• Employment Standards• Human Rights• Board Composition• Supply Chain Management• Governance• Social Risk• Campaign• Environmental Risk	Alphabet inc., Amazon.com inc., Apple inc., BHP Group Limited (AUS), Charter Communications inc., CIMB Group Holdings BERHAD, Electric Power Development co., Ford Motor Company, ITV plc, JD Sports Fashion Plc, Kasikornbank pcl, Kellogg Company, Liberty Media Corporation, London Stock Exchange Group Plc, Marks & Spencer Group Plc, Mercedes-Benz Group AG, Meta Platforms Inc, Mizuho Financial Group Inc, National Grid Gas Plc, Next Plc, Paccar Inc., Rio Tinto Plc, Rolls-Royce Holdings Plc, Royal Mail plc, Siemens AG, SSE Plc, Starbucks Corporation, Sumitomo Mitsui Financial Group, Tesco

		Plc, Tesla Inc, Thermo Fisher Scientific Inc., TRANSDIGM Group Incorporated, Vale SA, Volvo AB, Walmart Inc.
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8. Recommendation

8.1. That the Investment Sub Committee:

8.1.1. Note the report.

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 ISC have the Authority to review and maintain the asset allocation of the Fund within parameters agreed with the Pension Fund Committee and the authority to appoint and terminate investment managers to the Fund. In both proposing the strategy to the Pension Fund Committee and implementing the strategy the ISC are advised by external profession Investment Consultants, Mercer Ltd and the Fund's Independent Adviser.
- 11.2. The risks associated with implementing the strategy have 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

- 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. This paper has been produced in conjunction with the Fund's Investment Consultants, Mercer.

15. Alternative Options Considered

15.1. Included in the paper.

16. Background Papers

16.1. None.

17. Appendices

17.1. Available on request.

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 Heywood

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. Fiona McMillan