

Cambridgeshire Pension Fund

Investment Sub-Committee

23 May 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.

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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 three months to 31 December 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 October to December 2023.

1.2.3. A summary of engagement with investment managers directly by the Fund covering the period between October and December 2023.

1.2.4. A summary of the Local Authority Pension Fund Forum (LAPFF) engagement and voting activity for the period between January to March 2024.

1.3. Further information on specific stewardship and engagement activities summarised in this report is available from Officers on request.

1.4. Officers have begun sharing the LAPFF voting alerts with managers to understand their voting plans regarding that alert. This process is a new addition to the report, not before shared with the ISC.

1.5. PIRC along with the ACCESS Responsible Investing (RI) sub-group have begun work on their review of the ACCESS voting guidelines.

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.
- 3.2. This will incorporate the expectations ACCESS places on asset managers into the framework. These expectations include outlining responsible investment principles, main risks, how ESG is incorporated into investment decisions, stewardship, voting and engagement activities and outcomes, and reporting against TCFD.
- 3.3. As part of this work, a review of the ACCESS voting guidelines, in collaboration with the ACCESS RI sub-group, has commenced.

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 31 December 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	6	38	13	3
J O Hambro - WS ACCESS Global Equity – JOHCM	2	17	12	1
Longview - WS ACCESS Global Equity	4	32	33	13
	12	87	58	17

- 4.4. During the three months ending 31 December 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 162 occasions to vote by the investment managers. There were 17 instances where votes were not cast, or managers chose to abstain from voting. Of the votes cast, 87 were for and 58 against management proposals.
- 4.6. Of the 162 votes, 3 were subject classified as Environmental (E), 15 were classified as Social (S) and 144 were classified as Governance (G). Governance includes issues such as board structure, election of directors, remuneration and in-house policies. Social included issues such as human rights concerns and weapons development. Environmental included issues surrounding climate risk in retirement plan options.
- 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 31 December 2023 the Fund's ACCESS investment managers held a total of 157 assets and held 4 confirmed engagements with companies within the reporting period. There was 1 engagement on an environmental topic, 2 on social topics and 1 relating to governance.
- 5.3. A summary of engagements by managers covering the three months to 31 December 2023 is shown below. JO Hambro had no engagement during the reporting period, they had a call with a company arranged but had to postpone until next quarter. Although Dodge and Cox provided an example of their engagement, they could not provide their engagement numbers. Officers chased this information, but Dodge and Cox were not

forthcoming, the matter has therefore been escalated to ACCESS. 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				<p>Dodge and Cox engaged with Company A, a Swiss-based, diversified global cement company with operations in over 70 countries. They invested in Company A because of its strong industry positioning, shareholder focused management team, and attractive valuation. Dodge and Cox view the Company as having a high carbon risk, and as such, have conducted substantial analysis on their carbon intensity and decarbonization goals over the past few years.</p> <p>Dodge and Cox continued conversations with Company A's management team around its efforts to reduce its carbon intensity. Additionally, they had focused conversations with management and the board on succession planning due to the announcements in Q1, 2023 about the CEO and Chair transitions.</p> <p>While cement production is a highly carbon intensive process, Dodge and Cox view Company A as a leader in its decarbonization goals within its sector. They continue to engage with the Company on their emission reduction targets.</p> <p>In early 2023, the company announced that the Chair of the board would not seek re-election and the current CEO would step into the Chair position. The CEO would retain a dual CEO/Chair role until a new CEO was identified. They spoke generally about succession planning, the amount of change at the company and other capital allocation priorities.</p> <p>Dodge and Cox felt the engagement was successful as they communicated their views to the company and believe that company management adequately heard their voice.</p>
JO Hambro	41	0	0	0	JO Hambro participated in no engagement during the reporting period.
Longview	30	1	2	1	<p>In November 2023, Longview conducted a video conference call with Company B's General Counsel, Head of Corporate Social Responsibility and Associate General Counsel. The discussion focused on the Company's Board structure, environmental approach and potential climate commitments. The Company explained that they intend to expand their Board by adding one or two directors, actively seeking candidates with previous CEO experience in large public companies. They highlighted how their Board refresh aligns with the Company's evolution over the years. Their primary focus remains on technology, operations and delivery, while</p>

Manager	Number of Assets	Types of Engagement			Engagement example
		E	S	G	
					<p>maintaining a diverse Board. Earlier in the year, Longview engaged with Company B regarding a shareholder proposal advocating for an Independent Board Chair, which the Company had opposed. Longview had suggested that an Independent Chair would enhance the Board's overall structure and we had supported the shareholder proposal in our vote. On the call, the Company confirmed that this matter had been resolved from their perspective. Despite Longview's support, the resolution had not secured a majority vote from shareholders. On climate, Longview referenced the Climate Commitments Audit of the portfolio, noting that Company B had not yet established a net zero target or specific emissions reduction objectives. They asked about their plans for future climate commitments. The Company highlighted that progress has been made since appointing a Head of Corporate Sustainability in 2021. They have aligned climate disclosures with the Task Force on Climate-Related Financial Disclosures (TCFD) framework and have been collecting data for three years to assess potential emissions reduction targets. They conducted a materiality assessment in 2021 and plan to update it in 2024. Company B explained that they would prefer setting achievable short to medium-term climate objectives. Currently, they have no plans to align themselves to a 2050 net zero target and would prefer setting goals that the current leadership team can actively pursue. They have been assessing ways to meaningfully reduce Scopes 1 and 2 emissions while tackling the challenges posed by Scope 3 emissions. Their immediate priority is to work on reducing their carbon footprint while positioning themselves for setting realistic targets in the near future. They were interested in Longview's feedback and so they mentioned the progress in emissions reductions that we have seen amongst companies in the portfolio. Going forward, Longview will continue to track Company B's efforts on climate and its target-setting progress.</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 December 2023:

Date	Meeting Type	Manager
24th October	Local	Allianz
9th November	IUG	Longview and M&G
15th December	Local	Equitix

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 January and March 2024.

Period	Engagement Topics	Engagements	Example
January – March 2024	<ul style="list-style-type: none"> • Environmental Risk • Diversity Equity and Inclusion • Human Rights • Climate Change • Governance (General) 	Abb Ltd, Abbvie Inc, Ap Moller - Maersk AS, Apple Inc, Bae Systems PLC, Bank Of Montreal, Bank Of Nova Scotia, Burberry Group PLC, Canadian Imperial Bank Of Commerce, Caterpillar	Last year, LAPFF recommended a vote in favour of a shareholder proposal at Starbucks, which sought a review of workforce practices at Starbucks and was co-filed by LAPFF member Merseyside Pension Fund. This resolution

	<ul style="list-style-type: none"> Finance and Accounting 	<p>Inc, Compagnie Financiere Richemont SA, Equinor Asa, Fujitsu Ltd, Hermes International, Hsbc Holdings PLC, J Sainsbury PLC, Kering Sa, KKR & Co Inc, Lennar Corporation, Lockheed Martin Corporation, Lvmh (Moet Hennessy - Louis Vuitton) SE, Moncler Spa, National Grid PLC, Nestle SA, Occidental Petroleum Corporation, Rio Tinto PLC, Royal Bank Of Canada, RTX Corp, Shinhan Financial Group Ltd, Starbucks Corporation, Thales, The Boeing Company, The Toronto-Dominion Bank, Tyson Foods Inc, United Utilities Group PLC.</p>	<p>passed with 52% voting in favour.</p> <p>Over the past year, LAPFF has witnessed significant improvement in employment relations at the company. Starbucks and the Workers United Union have begun work on a “foundational framework” which they say will deliver collective bargaining agreements, and a fair process for organising. After a period of friction within the company, LAPFF welcomes a more collaborative approach.</p>
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8.4. Voting Alerts

- 8.4.1. LAPFF issued voting alerts for 3 different companies during the three-month period to March 2024. 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.
- 8.4.2. Officers began sharing the LAPFF voting alerts with managers at the end of the 3-month period to understand their voting plans regarding the alerts. LAPFF alerts for two companies were shared with equities managers, with several responses confirming no holdings with the companies in question.

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.

13.2. Report has been reviewed by Squire Patton Boggs.

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. 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? Yes 14/04/2024
Has this report been cleared by Head of Pensions? Yes, Mark Whitby 29/04/2024
Has this report been cleared by Legal Services? Yes, 09/05/2024