CAMBRIDGESHIRE PENSION FUND

Agenda Item No: 5

To:	Investment Sub Committee
Meeting date:	12 September 2024
Report by:	Mark Whitby Head of Pensions Mark.Whitby@WestNorthants.gov.uk
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. Background

1.1 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.

1.2. 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.

1.3. To promote good stewardship and ensure the diligent monitoring of engagement activities, this report is presented to the ISC on a quarterly basis.

1.4. 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:

1.4.1. Exercise our rights as owners of investments by actively participating in company level decisions tabled as shareholder votes at General Meetings.

1.4.2. Engage with companies where there are concerns over ESG issues.

1.4.3. 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.

1.4.4. Report on their voting activity on a regular basis, with ACCESS Pool managers required to report on a monthly basis.

1.5. 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.

2. Executive summary

2.1 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.

2.2. This report updates the Investment Sub-Committee (ISC) on:

2.2.1. The Fund’s voting activity during the three months to 31 March 2024 for assets held within the ACCESS pool.

2.2.2. A summary of engagement activity on behalf of the Fund by ACCESS sub-fund managers covering the period between January to March 2024.

2.2.3. A summary of engagement with investment managers directly by the Fund covering the period between January and March 2024.

2.2.4. A summary of the Local Authority Pension Fund Forum (LAPFF) engagement and voting activity for the period between April and June 2024.

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

2.4. Officers have continued to share the LAPFF voting alerts with managers to understand their voting plans regarding each alert.

2.5. PIRC along with the ACCESS Responsible Investing (RI) sub-group have been reviewing the ACCESS voting guidelines. These revised guidelines will be considered by the ACCESS Joint Committee.

3. Pension & Investment Research Consultants Ltd (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 comprehensive review of the ACCESS voting guidelines, in collaboration with the ACCESS RI sub-group, has been undertaken and the revised guidelines will be considered by the ACCESS Joint Committee.

4. Voting

4.1. The ACCESS Joint Committee agreed the original 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. The Stewardship Code submission was unsuccessful, and Officers are working on addressing the areas that did not meet the criteria.

4.3. A summary of the voting activity for the three months ending 31 March 2024, 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	5	101	6	0
J O Hambro - WS ACCESS Global Equity – JOHCM	9	112	11	3
Longview - WS ACCESS Global Equity	3	32	20	0
	17	245	37	3

4.4. During the three months ending 31 March there were 17 company Annual General Meetings (AGMs)

4.5. Of the three ACCESS sub-funds in which the Cambridgeshire Pension Fund invests, there were 285 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, 245 were for and 37 against management proposals.

4.6. Of the 282 votes cast, 1 was subject classified as Environmental (E), 1 was classified as Social (S) and 280 were classified as Governance (G). Governance includes issues such as board structure, election of directors, remuneration and in-house policies. The Social issue voted on was to approve political donations. The Environmental issue was 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 March 2024 the Fund's ACCESS investment managers held a total of 144 assets and held 7 confirmed engagements with companies within the reporting period. There was 1 engagement on an environmental topic, none on social topics and 6 relating to governance.

5.3. A summary of engagements by managers covering the three months to 31 March 2024 is shown below. JO Hambro and Longview each had one engagement during the reporting period. Dodge and Cox held five engagements. 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	1	0	4	The purpose Dodge and Cox's engagement with Company A was to talk through potential changes to the Company's compensation program that had been driven by feedback from external shareholders. The Company proposed updates to its compensation plan during engagement in January 2024. This conversation took place before the Company's proxy was filed which gave Dodge and Cox the opportunity to engage directly, expressing their views on the updates to its program. They discussed the new financial targets, CO_2 emission reduction targets and total shareholder return (TSR) metrics in the program. Dodge and Cox pushed back on the types and composition of metrics the Company was proposing. They believe that the best compensation program aligns management with long-term shareholders. Dodge and Cox expressed concern that some of the metrics were overweighted on certain targets when compared to the areas where executives are spending their time.

Manager	Number of Assets	Types of Engagement			Engagement example
		E	S	G	
					Dodge and Cox felt that the engagement was successful, they communicated their views to Company management and their voice was heard.
JO Hambro	29	0	0	1	Issue - While Company B has improved its approach to sustainability over recent years, including its disclosures to the market, JO Hambro sees more room for improvement in its approach to sustainability and further enhancements to its disclosures. Objectives - Enhancing the articulation of the company's sustainability credentials to improve the company's perception by the market, particularly ESG ratings providers. In the meeting with the CEO, the team highlighted ongoing perception by an ESG ratings provider on poor company disclosures on ESG matters. In previous meetings with the company, JO Hambro had identified areas for improvement on disclosures, specifically on enhancements to improved safety, diversity, and climate change disclosures, including moves to adopt reporting more consistent with the TCFD. These disclosures appear to have been ingested by another ESG ratings provider, resulting in a ratings upgrade. However, JO Hambro encouraged the company to further enhance their disclosures, with a view to further improve market perception. The CEO outlined ESG initiatives that have been undertaken to enhance the company's approach to sustainability, including: - Established an ambitious target of reducing 50% of greenhouse gas(GHG) emissions reduction by 2030, with a commitment to net-zero by 2050, having surpassed an earlier target 8 years ahead of schedule - Disclosure of waste and water metrics - Established targets to improve diversity, with a view to increase female representation to 40% in the management team and to 35% in senior roles in the company by 2030 - Provision of board oversight of ESG via a Global Sustainability Committee - Monitoring of supplier's ESG performance (via Sphera and iPoint); top suppliers are also required to complete Ecovadis questionnaires and are assessed on ESG factors In response to JO Hambro's query on the company's management of higher than industry average toxic emissions and waste, the CEO offered assurances that the upcoming sustainability report would enhance disclosures on this front and would go a long way to address these concerns. The team also encouraged the company to sign up to the UN Global compact, and the company confirmed that they have applied to be a signatory and are awaiting a response. Outcomes and future steps - JO Hambro noted the company's ESG ratings score has improved with an ESG ratings provider - They see room for improvement with ESG ratings providers more generally, and see the upcoming

Manager	Number of Assets	Types of Engagement			Engagement example
		E	S	G	
					improvements in disclosures would assist in addressing concerns highlighted by these ratings providers - The CEO welcomed JO Hambro's engagement to date and took up their offer to further engage with the company on its sustainability approach, which they will follow up later in 2024.
Longview	30	0	0	1	In 2023, Longview had asked Company C about specific measures taken to address the workplace safety concerns raised by the US Occupational Safety and Health Administration (OSHA). The Company had explained that efforts were underway to address the root causes of these issues. They had highlighted relaxed operational procedures during Covid-19 and shifts in supply and demand that put significant strain on the supply chain, as contributing factors. In January 2024, Longview followed up with the Company's Head of Investor Relations for an update on the business. During this discussion, Longview enquired into specific operational matters with the aim of assessing the progress being made in addressing the above safety concerns. Longview first asked about the changes introduced since the return of the former CEO in October 2023. The Company explained that the CEO had been an active board member since his retirement in November 2022. He transitioned from the role of senior advisor to consultant in April 2023 but had remained on the board. His focus has been on execution discipline while adapting the business to the post-COVID landscape. Longview was interested in the performance of the supply chain, store standards and employee turnover since their last update with the company in late 2023. The Company noted that challenges persisted with the supply chain and that efforts were focused on achieving on-time and in-full truck deliveries, with plans to simplify work for their store teams as rates improved. Temporary warehousing was still being used, although to a lesser extent, and expected to be phased out into 2024. The supply chain is nearly restored to normal, but the final stages of improvement will take time. There are variations between facilities, with some facing more challenges, such as those serving larger store footprints, having higher subsidiary stores or where the labour force was more under pressure. Store manager turnover is improving but remains higher than desired. Longview enquired about measures taken to address this issue, especially considering that previous discussions with the Company suggested that store manager turnover would improve. Longview questioned why the recovery has been slower than expected. The Company explained that one reason for the higher turnover is the disruption in the supply chain, which has made store management more challenging. In addition to supply chain improvements, the Company is addressing this by rationalising stock keeping units (SKUs) and increasing labour in the store. Longview

Manager	Number of Assets	Types of Engagement			Engagement example
		E	S	G	
					enquired about the reasoning behind the change in leadership for Store Operations and the decision to allocate an additional $150 million in labour to stores instead of implementing the concept of Smart Teams as originally planned. The Company clarified that the $150 million investment translates to approximately $7,500 per store across 20,000 stores, with varying allocations of staff to different locations. Smart Teams were initially intended to be sent to underperforming stores to prevent decline, however, this was disbanded in favour of investing in permanent front-of-house staff which they believe will improve store standards and help reduce shrink. Longview asked about the current level of shrink compared to previous recessionary periods. The Company noted that shrink is likely higher than in previous recessionary environments due to various factors, including consumer struggling and decreased law enforcement against theft. Self-checkout systems have also contributed to increased opportunities for theft and errors. Whilst the Company has made some notable improvement in its supply chain and store standards, they remain below the Company's targets. Longview plans to continue closely monitoring the handling of its workplace safety improvements and OSHA's citations and penalties in ongoing discussions with the company.

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 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.

6.5. The table below represents engagement with our managers at meetings covering the period of three months to June 2024:

Date	Meeting Type	Manager

12th April	Local	Schroders
11th May	Local	Equitix
14th May	Local	JP Morgan
22nd May	Local	HarbourVest
19th June	IUG	JP Morgan and IFM Infrastructure
19th June	Local	M&G
28th June	IUG	UBS

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 April and June 2024.

Period	Engagement Topics	Engagements	Example
April – June 2024	• Environmental Risk • Diversity Equity and Inclusion • Human Rights • Climate Change • Governance (General) • Finance and Accounting • Campaign (General)	Abbvie Inc, Alphabet Inc, Altria Group Inc, Amazon.com Inc, American Express Company, Anglo American Plc, AP Moller – Maersk AS, BAE Systems Plc, Bank of America Corporation, Bank of Nova Scotia, Barclays Plc, Berkshire Hathaway Inc, BHP Group Limited (Aus), British American Tobacco Plc, Burberry Group Plc, Capital One Financial	London Stock Exchange Group LAPFF has been concerned about the weakening of standards relating to new entrants to the London listed companies' market. An open letter was sent to the chair of London Stock Exchange Group, asking for an evidence-based approach, and to supply the evidence for assertions made to date. That letter was released

	• Employment Standards • Supply Chain Management • Social Risk	Corporation, Centene Corp, Centerpoint Energy Inc, Central Japan Railway Corp, Chipotle Mexican Grill Inc, Chubb Limited, Compass Group Plc, DBS Bank Ltd, Drax Group Plc, DTE Energy Company, Enbridge Inc, Equinor ASA, Estee Lauder Companies Inc, Expeditors International of Washington Inc, Exxon Mobil Corporation, Frasers Group Plc, Glencore Plc, Hays Plc, Hollywood Bowl Group Plc, HSBC Holdings Plc, Huntingdon Ingalls Industries Inc, Imperial Brands Plc, Intercontinental Hotels Group Plc, International Business Machines Corporation, ITC Ltd, Japan Tobacco Inc, Johnson & Johnson, Kinder Morgan Inc, KT&G Corp, Lockheed Martin Corporation, London Stock Exchange Group Plc, Loreal SA, Markel Corporation, McDonald’s Corporation, Merck & Co. Inc, Meta Platforms Inc, Mitchells & Butlers Plc, Mitie Group Plc, Mitsubishi UFJ Financial GRP, Mizuho Financial Group Inc, Moncler SPA, Mondelez International Inc, Morgan Stanley, National Grid Plc, Nestle SA, Nexon Co Ltd, Nextera Energy Inc, Nippon Steel Corp, Northumbrian Water Group, Old Dominion Freight Line Inc, Paccar Inc, Pennon Group Plc, Philip Morris International Inc, Power Corporation of Canada, Quest Diagnostics Incorporated, Republic Services Inc, Rio Tinto Plc, Ross Stores Inc, Royal Bank of Canada, RTC Corp, Severn Trent Plc, Shell Plc, Skyworks Solutions Inc, Southern Company, SSAB (Svenskt Stal AB), Staffline Group Plc, Sumitomo Mitsui Financial Group, Suncor Energy Inc, Tesla Inc, The Boeng Company, The Golman Sachs Group Inc, The Kroger Co, The Procter & Gamble Company, The Toronto-Dominion Company, The Travelers Companies	to Reuters and obtained wide coverage. The response did not sufficiently address the core issues. A letter has also been sent to the chair of the Financial Conduct Authority (FCA) which is the UK Listing Authority. LAPFF has written back to the LSEG to request evidence, and to point out that body was set up under the auspices of the Investment Management Association known as the “Investor Forum” has turned itself into the Investor and Issuers Forum. The Forum is also considering what further steps that will be decided after the General Election. The FCA has responded with a holding letter. The Times on 27 June 2024 covered issues with poor listing standards consistent with the LAPFF approach.

		Inc, Thyssenkrupp AG, TotalEnergies SE, Toyota Industries Corp, Toyota Motor Corp, United Overseas Bank Ltd, United Utilities Group Plc, Vale SA, Wells Fargo & Company, Yara International ASA, Yaskawa Electric Corp, Zoetis Inc.	

8.4. Voting Alerts

8.4.1. LAPFF issued voting alerts for 50 different companies during the three-month period to June 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 have been sharing the LAPFF voting alerts (via Waystone) with equities managers to understand their voting plans regarding the alerts. Of the total alerts distributed, responses have been received from only a limited number of managers. All responding managers have confirmed that they do not hold shares in the companies in question.

9. Recommendations

9.1. That the Investment Sub Committee:

Note the report.

10. Relevant Pension Fund objectives

10.1 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.

10.2. 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.

10.3. 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.

10.4. To continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate.

11. Implications (including financial implications)

11.1 Resources and financial

11.1.1 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.

11.2 Legal

11.2.1 No material issues have been identified which may give rise to legal liability and/or risk from an administering authority perspective.

11.2.2. Squire Patton Boggs have reviewed the paper for legal implications.

11.3 Communication

11.3.1 None

12. Risk management

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

12.2. 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

12.3. The Fund's full risk register can be found on the Fund's website at the following link: Fund's Risk Register

13. Consultation

13.1. Not applicable

14. Background papers

14.1 None

15. Appendices

15.1 Stewardship and Engagement Report Appendix A – (Exempt)

16. Accessibility

16.1 An accessible version of the information contained in the Table at 5.3 is available on request from Ben.Barlow@Westnorthants.gov.uk.