



West Northamptonshire Council

Investment Sub Committee

22/11/2023

Mark Whitby – Head of Pensions

Report Title	Stewardship & Engagement Update
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Contributors/Checkers/Approvers

MO	Sarah Hall on behalf of Catherine Whitehead	08/11/2023
S151	James Smith on behalf of Martin Henry	03/11/2023
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List of Appendices

None

1. Purpose of Report

- 1.1. To provide an update to the Investment Sub Committee on stewardship and engagement matters relating to the Fund's investments.

2. Executive Summary

- 2.1. The Northamptonshire 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 six months to 30 June 2023 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 June 2023.
- 2.2.3. A summary of engagement with investment managers directly by the Fund covering the period between January to June 2023.
- 2.2.4. A summary of the Local Authority Pension Fund Forum (LAPFF) engagement and voting activity for the period between April to September 2023.
- 2.3. Further information on specific stewardship and engagement activities summarised in this report is available from Officers on request.

3. Recommendations

- 3.1. The ISC is asked to note the report.

4. Reason for Recommendations

- 4.1. This is an information only paper providing an update on stewardship and engagement activities relating to the Fund's investments.
- 4.2. Future recommendations and decisions on the Fund's investments will be brought before the Pensions Committee or ISC for approval as appropriate.

5. Report Background

- 5.1. 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.
- 5.2. 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.
- 5.3. 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:
 - 5.3.1. Exercise our rights as owners of investments by actively participating in company level decisions tabled as shareholder votes at General Meetings.
 - 5.3.2. Engage with companies where there are concerns over ESG issues.
 - 5.3.3. Vote pool-aligned assets in accordance with the ACCESS voting guidelines on a "comply or explain" basis and inform the Fund of voting outcomes.
 - 5.3.4. Report on their voting activity on a regular basis, with ACCESS Pool managers required to report on a monthly basis.
- 5.4. 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.

6. Voting

- 6.1. 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.
- 6.2. 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.
- 6.3. 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	Manager	Number of Meetings	Number of Votes Cast		
			For	Against	Other
LF ACCESS Long Term Global Growth	Baillie Gifford	33	345	36	32
LF ACCESS UK Equity Fund - Liontrust	Liontrust	102	1,744	60	30
LF ACCESS Global Equity - Newton	Newton	54	772	144	29
LF ACCESS Diversified Growth	Baillie Gifford	47	537	14	26
LF ACCESS Global Equity	Longview	25	185	192	32
		261	3,583	446	149

- 6.4. During the six months ending 30 June there were 261 company meetings, which include Annual General Meetings (AGMs) and Extraordinary General Meetings (EGMs).
- 6.5. Of the five ACCESS sub-funds in which the Northamptonshire Pension Fund invests, there were 4,178 occasions to vote by the investment managers. There were 149 instances where votes were not cast, or managers chose to abstain from voting. Of the votes cast, 3,583 were for and 446 against management proposals.
- 6.6. 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 74 instances where Baillie Gifford has voted outside the ACCESS voting policy in the last six months for assets held under pool governance, including relating to appointment of auditors, election of directors, and remuneration.

7. Engagement Activities – ACCESS Pool

- 7.1. The Northamptonshire 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.

7.2. 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	
Baillie Gifford (LF ACCESS Long Term Global Growth)	39	7	8	18	<p>Baillie Gifford made contact with Company A to communicate concerns regarding the compensation committee's decision to reprice options and amend performance targets for outstanding awards, and to explain their decision to oppose the executive pay resolution. During the year, the compensation committee repriced stock options and amended corresponding performance targets attached to equity awards granted to management. The performance options were granted in February 2022 with a 10-year term. However, in April 2023 the board and committee made significant changes to the exercise price and vesting criteria in response to market conditions which meant the awards were out-of-the-money. They had a call with a compensation committee member to explain their concerns. Specifically, that this decision does not align with their clients' experience as long-term shareholders and that it is inconsistent with the virtues the company espouses for incentive compensation in its proxy statement. Baillie Gifford outlined their belief that making changes 1 year into a 10-year plan when short-term conditions had affected the options' value is premature and indicates a lack of resolve by the board. Whilst not indifferent to the retention concerns put forward by the board, we explained that changing vesting conditions for outstanding awards and without shareholder approval is contrary to the principles of pay for performance. Furthermore, it is doubly disappointing given lengthy conversations last year in relation to executive remuneration where expectations were outlined. Baillie Gifford opposed the executive compensation resolution, which received a 26% oppose vote at the AGM. This was followed up with a letter to the board reiterating our expectations for executive remuneration and their commitment to be constructive shareholders. Baillie Gifford remains enthusiastic about the prospects for the company and look forward to future opportunities to engage.</p>

Manager	Number of Assets	Types of Engagement			Engagement example
		E	S	G	
Baillie Gifford (LF ACCESS Diversified Growth)	102	9	3	12	Baillie Gifford held a meeting with the IR and VP of Sustainability at Company B, they covered various subjects, including competitive positioning, decarbonisation, copper market dynamics, circularity, and the philosophy of their corporate governance. Baillie Gifford were left with the impression of a thoroughly integrated sustainability proposition across the spokes of E, S, and G. They were also impressed by the communication of the company representatives and their strong sense of mission and strategic engagement. Baillie Gifford gained a better understanding of the risks and opportunities facing the company from a sustainability perspective. These are material considerations for the overall investment case. The visit to the corporate HQ also had the unexpected result of highlighting a seemingly very strong corporate culture.
Newton	63	8	4	2	Newton engaged with Company C to discuss climate change risk management. Newton's aim was to influence Company C to set absolute Scope 3 emissions targets and to strengthen its net-zero ambitions. Newton encouraged Company C to look to invest in clean energy alternatives and to improve their climate related disclosures as currently lagging peers. Newton felt the discussions were successful and are on track for seeing improvement.
Longview	36	3	3	6	In June 2023 Longview engaged with the CEO and Head of Investor Relations of Company D 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 D 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 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 D benefits from scale at both the national and sector levels. They are

Manager	Number of Assets	Types of Engagement			Engagement example
		E	S	G	
					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.
Liontrust	80	6	10	15	<p>Liontrust met with the group chief sustainability officer of Company E and the global head of sustainable finance strategy & implementation to discuss the group’s newly released energy policy and coal phase-out policy as well as its net zero ambitions. Company E asked Liontrust to provide feedback ahead of publishing its Climate Transition Plan. Liontrust wanted to understand how the company’s climate transition plan fits within the group’s wider strategy, executive pay, and other material issues. They asked whether there is a risk that the company’s coal phase-out policy and fossil fuel policy will materially restrict the number of clients that it can work with. The company considers the strategic importance of clients from a business perspective together with their carbon profiles and reputation risks. Their policies are designed to allow for flexibility and subjectivity so that the carbon profiles of clients does not always take precedence over other equally material considerations. The aim of the company is to identify clients who will thrive through the energy transition. If a client is not positioned properly to face the transition, the client ultimately will not be viable and the relationship will not benefit the company. They also asked how the group balances its net zero ambitions with its operations in Asia, considering that the region is still largely reliant on coals and fossil fuel to power its economic development. The company confirmed that these considerations are front and centre in executing their climate transition plan. This is why they chose not to implement thresholds on coal (as requested by certain stakeholders) and instead focused on transition plans and engagement with clients. Similarly, rather than having a blanket ban on unconventional oil and gas (O&G), they looked at different types of unconventional O&G and took into consideration the local energy systems that depend on them. Liontrust provided feedback on what they would like to see in the group’s upcoming Climate Transition report. They would hope to see</p>

Manager	Number of Assets	Types of Engagement			Engagement example
		E	S	G	
					how the net zero plan connects with the overall strategy, with key material risks / opportunities, and with executive pay.

Engagement Activity – Direct

- 7.3. 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.
- 7.4. Discussions and challenge include fund performance as well as stewardship and engagement activities the investment managers have undertaken on behalf of the Fund.
- 7.5. 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.
- 7.6. 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.
- 7.7. The table below represents engagement with our managers at meetings covering the period of six months to June 2023:

Date	Meeting	Manager
6 th April	Local	HarbourVest
11 th April	Local	CBRE
16 th May	Local	M&G
12 th June	IUG	UBS
13 th June	Local	Allianz
14 th June	Local	M&G

8. Voting and Engagement – Passive Funds

- 8.1. 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.

8.2. 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.

9. Local Authority Pension Fund Forum

9.1. The Northamptonshire 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.

9.2. 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.

9.3. 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 • Climate Change 	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 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	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.

		<p>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>	
<p>July – September 2023</p>	<ul style="list-style-type: none"> • Environmental Risk • Diversity Equity and Inclusion • Human Rights • Climate Change • Supply Chain Management • Social Risk • Employment Standards • Board Composition • Remuneration • Audit Practices 	<p>AIA Group LTD, Allianz SE, Alphabet INC, Apple INC, Associated British Foods PLC, AVIVA PLC, AXA, Barratt Developments PLC, 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</p>	<p>LAPFF wrote to Centrica one of the major UK energy suppliers and 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>

		<p>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>	
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9.4. Voting Alerts

9.4.1. 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.

10. Implications (including financial implications)

10.1. Resources and Financial

10.1.1. There are no resources or financial implications arising from the report.

11.2 Legal

11.2.1 There are no legal implications arising from the report.

12. Risk Management

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

Risk	Residual risk rating
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

Risk	Residual risk rating
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 provide relevant information to the Pension Committee/Local Pension Board to enable informed decision making.	Green

12.1. The Fund's full risk register can be found - [Northamptonshire Risk Register](#)

13. Relevant Pension Fund Objectives

13.1. The following objectives have been considered in this report –

13.1.1. 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.

13.1.2. 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.

13.1.3. 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.

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

14. Consultation

14.1. Not applicable.

15. Consideration by Overview and Scrutiny

15.1. Consideration by Overview and Scrutiny is not required.

16. Climate Impact

16.1. This an information update paper only. There are no climate impact considerations arising as a direct result of this paper.

17. Communications

17.1. There are no communication implications. This paper does not require any further communication activities.

18. Background Papers

18.1. Not applicable