



West Northamptonshire Council

Investment Sub Committee

06/03/2024

Mark Whitby – Head of Pensions

Report Title	Stewardship & Engagement Report
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List of Appendices

Stewardship and Engagement Report Appendix A – (Exempt)

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 three months to 30 September 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 July to September 2023.
- 2.2.3. A summary of engagement with investment managers directly by the Fund covering the period between July to September 2023.
- 2.2.4. A summary of the Local Authority Pension Fund Forum (LAPFF) engagement and voting activity for the period between October to December 2023.
- 2.3. Further information on specific stewardship and engagement activities summarised in this report is available from Officers on request.
- 2.4. 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.

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. To promote good stewardship and ensure the diligent monitoring of engagement activities, this report will be presented to the ISC on a quarterly basis.
- 5.4. 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:

- 5.4.1. Exercise our rights as owners of investments by actively participating in company level decisions tabled as shareholder votes at General Meetings.
- 5.4.2. Engage with companies where there are concerns over ESG issues.
- 5.4.3. Vote pool-aligned assets in accordance with the ACCESS voting guidelines on a “comply or explain” basis and inform the Fund of voting outcomes.
- 5.4.4. Report on their voting activity on a regular basis, with ACCESS Pool managers required to report on a monthly basis.
- 5.5. 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.

6. PIRC

- 6.1. 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.

7. Voting

- 7.1. 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.
- 7.2. 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.
- 7.3. A summary of the voting activity for the six 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	Manager	Number of Meetings	Number of Votes Cast		
			For	Against	Other
WS ACCESS Long Term Global Growth	Baillie Gifford	3	21	0	0
WS ACCESS UK Equity Fund - Liontrust	Liontrust	13	197	24	0
WS ACCESS Global Equity - Newton	Newton	3	34	3	0
WS ACCESS Diversified Growth	Baillie Gifford	10	75	3	12
WS ACCESS Global Equity	Longview	1	19	4	0
		30	346	34	12

- 7.4. During the three months ending 30 September there were 30 company meetings, which include Annual General Meetings (AGMs) and Extraordinary General Meetings (EGMs). Baillie Gifford attended an EGM to vote on the company’s incentive plan and election of directors, as well as routine business on behalf of the Long Term Global Growth Fund. They also attended EGM’s to vote on electing committee members and share repurchases on behalf of the Diversified Growth Fund. Liontrust attended a Company Extraordinary Shareholders Meeting to approve dividend distribution, approve a reduction in share capital and transact other business (voting).
- 7.5. Of the five ACCESS sub-funds in which the Northamptonshire Pension Fund invests, there were 392 occasions to vote by the investment managers. There were 12 instances where votes were not cast, or managers chose to abstain from voting. Of the votes cast, 346 were for and 34 against management proposals.
- 7.6. 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 10 instances where Baillie Gifford has voted outside the ACCESS voting policy in the last three months for assets held within ACCESS sub-funds. They voted to support the election of an executive director when there was no senior independent director in place on three occasions. They voted in support of an audit firm that had a tenure of over ten years. They also voted to support remuneration where the performance period was less than five years three times. They voted to support the elections of the board chair and executives when there was no senior independent director. They also voted for the election of a director who was not subject to re-election at least every three years on two occasions.

8. Engagement Activities – ACCESS Pool

- 8.1. 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.
- 8.2. At 30 September 2023 the Fund’s ACCESS investment managers held a total of 268 assets and held 60 engagements with companies. There were 20 engagements on environmental topics, 14 on social topics and 26 relating to governance.
- 8.3. 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	
Baillie Gifford (WS ACCESS Long Term)	37	5	6	13	Baillie Gifford held a meeting with Company A’s Chief Scientist providing an opportunity to learn about the company’s efforts to ensure online safety on its platform, which it recognises is vital for its social license to operate. Company A reiterated a comment made previously by their Chief Technology Officer:

Manager	Number of Assets	Types of Engagement			Engagement example
		E	S	G	
Global Growth)					"safety is what separates Company A from the chaos that is the rest of the Internet". They prioritise online safety overgrowth. There is a deep recognition that even just a few nefarious users can lead to the disintegration of a user community and an exodus of advertisers. One of the ways that the company is expecting to enhance safety is by increasing the use of artificial intelligence for content moderation, which incidentally is also expected to be a source of significant cost-saving for the company. AI is being trained to examine every action taken by every user on the platform, whether in text, images, video or audio, to help detect any issues pertaining to safety, bullying, regional cultural standards, fraud, and so forth. In their view, Company A's considerable investment in safety measures is what has enabled the company to maintain the strength of its community and thus retain its youngest user cohorts as they age. Baillie Gifford found it was helpful to understand how Company A is innovating to improve its product. This necessarily entails upholding safety on the platform.
Baillie Gifford (WS ACCESS Diversified Growth)	92	5	3	8	Company B develops, manufactures, and markets cables, and related accessories in Denmark and internationally. Baillie Gifford met with their Head of Sustainability to explore the company's sustainability commitments and ability to provide the market with cables that use low carbon metals. As sustainability credentials become increasingly important to its end clients our aim was to build our understanding of how they intend to capture this opportunity. They discussed Company B's long-term sustainability targets and the areas of focus for 2023. The metals in its cables are a significant contributor to its supply chain emissions. They used this meeting to assess the company's ability to expand its programme of using low carbon metals (such as green copper) in its product line-up. The company has been proactive in asking its suppliers for low carbon options, for example, selecting mines that use renewable energy sources and electric powered vehicles. As many of its customers look to reduce the carbon intensity of their own supply chains, this could be a driver of future growth. Baillie Gifford felt that this meeting helped

Manager	Number of Assets	Types of Engagement			Engagement example
		E	S	G	
					them to understand the procurement process for their low carbon metals and the extent to which this can be a competitive advantage to the company going forward.
Newton	57	5	2	1	<p>Engagement with Company C under the Social heading: Human capital (safety, working conditions, employee engagement, diversity and inclusion) and Governance heading: Board and leadership quality, skills and experience.</p> <p>The first objective of this engagement was to conduct an independent assessment/audit of human rights/health and safety issues and report upon key findings and how the company will action them. Company C reasonably highlighted that this could be extremely expensive. However, we would disagree that this is a poor use of resource - it remains unable to point to current risks to the business through human capital. We emphasise we need to see the bridge as to what is being done and what will happen in the future. It is likely that the company will continue to take a defensive stance towards forward looking asks around governance and disclosures and will continue to do only what is regulatory requirement.</p> <p>The second objective was to appoint a director with experience in human capital to the board and as workforce representative (should be non-executive) and report on how the board oversees human capital related issues and related strategy. Appointing a director with HCM experience may be more effective in the long run and ensure these issues are given the attention and consideration that they deserve at the highest levels of the company. Further, by requiring the board to report on how it approaches and oversees HCM issues – shareholders can hold the board accountable in a more effective manner. The initial reaction to this ask was disappointing but not unexpected. However, this is a thematic engagement which means these are long-term objectives which do not have an immediate investment impact if not achieved but these engagements are necessary to conduct to be on top of our risk assessment and understanding.</p>

Manager	Number of Assets	Types of Engagement			Engagement example
		E	S	G	
					In terms of next steps we are still considering how we can push further for what would provide us comfort in terms of their human capital management practises and we will continue to escalate our concerns through annual check-ins and voting in the AGMs.
Longview	30	3	3	2	In September 2023, Longview held a video conference call with Company D’s Global Chief Counsel and their Head of Investor Relations & ESG. They discussed various sustainability matters including Company D’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 D explained that their environmental impact encompasses not only their 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 D 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 3 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,

Manager	Number of Assets	Types of Engagement			Engagement example
		E	S	G	
					<p>while educating smaller suppliers has been an ongoing process. Within their supplier network, their primary focus has been on the top 200 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&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&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 30 subject matter experts from across the organisation to gather recommendations for risk mitigation. Lastly, Company D explained that their plan is to integrate most of these ESG risks into their overall enterprise risk management process.</p>
Liontrust	52	2	0	2	<p>In August 2023, Liontrust met with the new CEO of Company E. Investment rationale: The company enjoys an 80% market share. The group has a long runway of growth opportunities in its core business stemming from increased data monetisation, accelerated product innovation and new growth areas. The objectives of engagement were to meet the new CEO and understand his priorities for the business and to understand the group’s strategy and what Company E of the future might look like. Company E’s new CEO, comes from outside the sector but has a broad range of experience across B2B and B2C businesses. He believes there is opportunity to increase the ambition at the company around monetisation and product innovation. Company E</p>

Manager	Number of Assets	Types of Engagement			Engagement example
		E	S	G	
					continues to focus on its core business, which has many years of potential growth ahead. The group is also investing modestly now to add future layers of revenue and profit growth in commercial real estate, mortgages and data. Liontrust fed back to Company E that its historically clean accounting has been attractive and that they may want to bear that in mind going forward as it takes on increased levels of investment. Liontrust gave Company E a resiliency score of 4 (Above average) they feel the company has a dominant market share with a well-developed moat. The new CEO has a good handle on the issues facing the business and the opportunities for growth, but the team does not have enough evidence yet of his management of these areas. They also gave the company a conviction score 4. Liontrusts' above average conviction reflects the group's attractive valuation, the potential for a pickup in topline growth short to medium term, and profit growth longer term following a period of investment. The team remains conscious that the CEO is new and unproven as a PLC CEO.

Engagement Activity – Direct

- 8.4. The Fund engages directly with investment managers through regular meetings with officers on a rotational basis, the Investment User Group (IUG) hosted by ACCESS and via quarterly Investment Sub-Committee meetings.
- 8.5. Discussions and challenge include fund performance as well as stewardship and engagement activities the investment managers have undertaken on behalf of the Fund.
- 8.6. 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.
- 8.7. 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.
- 8.8. The table below represents engagement with our managers at meetings covering the period of three months to September 2023:

Date	Meeting	Manager
7th July	IUG	Baillie Gifford and Macquarie
19th July	IUG	Acadian & Newton
21st July	Local	IFM
30th August	Local	HarbourVest
5th September	Local	Dodge and Cox
8th September	IUG	Baillie Gifford and Royal London
27th September	IUG	Newton and M&G
29th September	Local	Blue Bay

9. Voting and Engagement – Passive Funds

- 9.1. 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.
- 9.2. 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.

10. Local Authority Pension Fund Forum

- 10.1. 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.
- 10.2. 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.
- 10.3. 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"> Environmental Risk Diversity Equity and Inclusion Human Rights 	AIA Group LTD, Aston Martin Lagonda Global Holdings PLC, AVIVA PLC, AXA, BAE Systems PLC, Bakkavor Group PLC, Barclays Bank PLC,	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

	<ul style="list-style-type: none"> • Climate Change • Supply Chain Management • Social Risk • Employment Standards • Board Composition • Remuneration • Audit Practices 	<p>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 Fluid Systems PLC, Vale SA.</p>	<p>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 methods and technologies become available.</p>
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10.4. Voting Alerts

10.4.1. 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.

11. Implications (including financial implications)

11.1. Resources and Financial

11.1.1. 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 –
- 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	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
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 at - [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