

West Northamptonshire Council

Investment Sub Committee

30/11/2022

Mark Whitby – Head of Pensions

Report Title	Stewardship & Engagement Update
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Contributors/Checkers/Approvers

MO	Jeanette McGarry on behalf of Catherine Whitehead	11/11/2022
S151	James Smith on behalf of Martin Henry	14/11/2022
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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 ISC on:
- 2.2.1 The Fund's voting activity during the six months to 30 June 2022 for assets held within the ACCESS pool, covering approximately 73% of the Fund's assets.
 - 2.2.2 a summary of investment managers engagement activity on behalf of ACCESS authorities in which the Fund invests within the ACCESS Pool covering the period between April to June 2022.
 - 2.2.3 a summary of the Local Authority Pension Fund Forum (LAPFF) engagement and voting activity for the period between April to September 2022.

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:

- Exercise our rights as owners of investments by actively participating in company level decisions tabled as shareholder votes at General Meetings.
- Engage with companies where there are concerns over ESG issues.
- Vote pool-aligned assets in accordance with the ACCESS voting guidelines on a "comply or explain" basis and inform the Fund of voting outcomes.
- 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. Issues and Choices

6.1 Voting

6.1.1 The Fund has been working collaboratively with ten other Funds in the ACCESS Pool to jointly meet HM Government's published criteria on asset pooling.

6.1.2 The ACCESS Joint Committee (AJC) is the formal decision-making group within the ACCESS Pool. Each Administering Authority is represented on the AJC by a representative from its Pension Committee (or equivalent governance body). The Fund has 73% of its assets under pooled governance as at 30 June 2022.

- 6.1.3 The AJC agreed the voting guidelines for inclusion by the pool operator, Link Fund Solutions (LFS), in their Investment Management Agreements. These guidelines set out those matters of importance to the ACCESS Council's and promote good corporate governance and management in the companies in which investments are made. In circumstances where investment managers do not adopt the positions set out in these guidelines, they are required to provide a robust explanation of the position adopted.
- 6.1.4 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 (PRI).
- 6.1.5 A summary of the voting activity for the six months ending 30 June 2022 is set out below for each of the ACCESS sub-funds the Fund invests:

Sub-Fund Name	Manager	Number of Meetings	Number of Votes Cast		
			For	Against	Other
LF ACCESS Long Term Global Growth	Baillie Gifford	37	402	27	5
LF ACCESS UK Equity Fund - Liontrust (Majedie)	Liontrust (Majedie)	113	1771	81	12
LF ACCESS Global Equity - Newton	Newton	43	592	114	1
LF ACCESS Diversified Growth	Baillie Gifford	75	831	29	33
LF ACCESS Global Equity	Longview	30	235	192	24
		298	3831	443	75

- 6.1.6 During the six months ending 30 June 2022 there were 298 company meetings, which include Annual general Meetings (AGMs) and Extraordinary General Meetings (EGMs).
- 6.1.7 In total there were 4,349 votes cast by investment managers on behalf of ACCESS Authorities in which the Northamptonshire Pension Fund invests within the ACCESS pool. Of the votes cast, 3,831 were for and 443 against manager's proposals. There were 75 instances where votes were not cast, or managers chose to abstain from voting.
- Investment managers use their discretion to cast votes not aligned to the ACCESS voting guidelines where they feel it is in the shareholders best interest to do so. Categories where votes against the ACCESS voting guidelines during the last 6 months include, appointment of auditors, election of directors, and remuneration.
- 6.1.8 The ACCESS voting guidelines are expected to be reviewed shortly, as this was identified as a priority activity within the ACCESS RI Guidelines. This work is being co-ordinated by the Pool's ESG/RI sub-group, chaired by the Head of Pensions.
- 6.2 Engagement Activities – ACCESS Pool
- 6.2.1 The Northamptonshire Pension Fund receives regular reporting on engagement activities for assets held within the ACCESS Pool. This includes dialogue between investment managers and LFS in order to promote good corporate governance and management in companies in which the Fund invests.

6.2.2 A summary of engagements by manager covering three months to 30 June 2022 is shown below:

Manager	Types of Engagement
Baillie Gifford	<ul style="list-style-type: none"> • Corporate governance • Environmental/Social • AGM or EGM proposals
Newton	<ul style="list-style-type: none"> • Climate change • Human capital management • Food and nutrition • Compensation • Diversity • Board effectiveness • Strategy
Liontrust (Majedie)	<ul style="list-style-type: none"> • Strategy & leadership • Market & competition • Valuation & model • Society & individuals • Governance & regulation • Operational • Environment & animals
Longview	<ul style="list-style-type: none"> • Corporate governance • Environmental/Social • AGM or EGM proposals

6.3 Engagement – Direct

6.3.1 The Fund engages directly with investment managers through regular meetings with officers on a rotational basis and via quarterly Investment Sub Committee meetings.

6.3.2 Discussions and challenge include fund performance as well as stewardship and engagement activities the investment managers have undertaken on behalf of the Fund.

6.3.3 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.

6.3.4 The Fund has recently 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.

6.4 Voting and Engagement – Passive Funds

6.4.1 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 guidelines. However, UBS operate a high-quality programme of stewardship and engagement on behalf of the Fund.

6.5 Local Authority Pension Fund Forum

6.5.1 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.

6.5.2 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.

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

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

	<ul style="list-style-type: none"> Environmental Risk 	Financial Group Inc, National Grid Gas Plc, Next Plc, Paccar Inc., Rio Tinto Plc, Rolls-Royce Holdings Plc, Royal Mail plc, Siemens AG, SSE Plc, Starbucks Corporation, Sumitomo Mitsui Financial Group, Tesco Plc, Tesla Inc, Thermo Fisher Scientific Inc., TRANSDIGM Group Incorporated, Vale SA, Volvo AB, Walmart Inc.
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7. Implications (including financial implications)

7.1 Resources and Financial

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

7.2 Legal

7.2.1 There are no legal implications arising from the report.

7.3 Risk

7.3.1 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
Failure to provide relevant information to the Pension Committee/Local Pension Board to enable informed decision making.	Green

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

7.4 Relevant Pension Fund Objectives

7.4.1 The following objectives have been considered in this report -

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

7.5 Consultation

7.5.1 Not applicable.

7.6 Consideration by Overview and Scrutiny

7.6.1 Consideration by Overview and Scrutiny is not required.

7.7 Climate Impact

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

7.8 Communications

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

8. Background Papers

8.1 Not applicable