

From:	Chairman Pension Fund Committee Corporate Director of Finance
To:	Pension Fund Committee – 26 September 2023
Subject:	Responsible Investment update
Classification:	Unrestricted

Summary:

This report provides an update on the work of the Responsible Investment Working Group. It also provides an update on the voting activity of the Fund's investment managers, and their engagement with the companies in which they are invested on our behalf, as well as information on the Fund's securities lending activity.

Recommendations:

The Committee is asked to note the report.

FOR DECISION

1. Responsible Investment Working Group

- 1.1 The Responsible Investment Working Group (RIWG) met on 13 June and 28 July.
- 1.2 At the meeting on the 13 June 2023, the RIWG continued to explore the implications of setting and implementing a net zero target and received a presentation from Daisy Streatfield, of Ninety-One Asset Management, an industry expert, which explored the practical considerations for implementing a net zero strategy. This built an initial net zero workshop delivered to the RIWG in May and led by the Investment Consultant, as previously reported to the Committee.
- 1.3 At its meeting on the 28 July 2023, the RIWG engaged in a review of the RI workplan that was established at the beginning of the year. The review considered the initiatives that have been completed within the year to date and agreed a plan for the remainder of the year (discussed further below at paragraph 1.5).
- 1.4 Since the last update report, officers have also enacted the Committee's decision in June to join *Pensions For Purpose* (PFP) and subsequently met with PFP, to commence membership of the Fund and to understand how we can best utilise our membership to improve our understanding of impact investing.

2. Workplan for the RIWG

- 2.1 The current workplan agreed by the RIWG is enclosed at appendix 1. The RIWG's scheduled business for the autumn is discussed below.
- 2.2 As noted above the RIWG has held two workshops on the subject of net zero this year and over the coming months, the RIWG will continue to progress the Fund's approach to climate risk management (in a manner that is consistent with the Committee's fiduciary duties) by considering the feasibility of setting a net zero target for the Fund's investment portfolio. In order to enable the Committee to make an informed, evidence-based decision, officers have engaged the Investment Consultant, Mercer, to conduct an analysis of the current investment portfolio's transition potential. This work will assess the current portfolio alignment with the transition to a low carbon economy and position the Fund to establish to a net zero objective. The analysis will be considered by the RIWG at its November meeting, and subject to the results of the analysis and the determinations of the RIWG, officers anticipate that a net zero policy recommendation will be brought to Committee for consideration at its upcoming meeting in December.
- 2.3 The RIWG is also scheduled to hold workshops around impact investing and the UN Sustainable Development Goals over the autumn. These sessions are intended to help Members explore and understand the relevance and potentially applicability of impact investing to the Fund's investment strategy. Progress will be reported at the Committee's meeting in December.
- 2.4 The RIWG will also consider an update on the ACCESS Pool's responsible investment reporting workstream, which will enable the Kent Pension Fund to understand how it can best utilise the pool's resources in support of its responsible investment activities.
- 2.5 Finally, the RIWG will undertake a periodic review of the Fund's responsible investment policy. Any recommended revisions will be brought to the Committee for consideration at its meeting in December.

3. Voting activity for the 3 months to 30 June 2023

- 3.1 The Fund's RI Policy requires our managers to report on their voting decisions and a summary of the voting activity of our managers for the 3 months is shown in the table below:

Manager	ACCESS ACS	Fund Name	Number of Meetings	No. of votes for	No. of votes Against, Abstained or Withheld
Baillie Gifford	Y	LF ACCESS Global Equity Core Fund	131	1678	123
Schroders	Y	LF ACCESS UK Equity Fund	33	703	19
Schroders GAV	Y	LF ACCESS Global Active Value Fund	401	4877	622

M&G	Y	LF ACCESS Global Dividend Fund	25	345	44
Ruffer	Y	LF ACCESS Absolute Return Fund	7	72	18
Impax	N	Impax Environmental Markets (Ireland) Fund	51	551	85
Pyrford	N	Global Total Return	42	655	58
Sarasin	N	Segregated mandate	33	361	216

3.2 The investment managers used their discretion to cast votes at meetings on behalf of the Fund and voted against resolutions where they felt it was in the best interests of shareholders to do so.

3.3 The managers of ACCESS funds are also required to comply with the ACCESS voting policy guidelines or to explain why they did not comply.

4. LAPFF Voting Alerts

4.1 The Local Authority Pension Fund Forum (LAPFF), of which the Kent Pension Fund is a member, issues voting alerts ahead of shareholder meetings to support member funds in their stewardship activities.

4.2 While the Fund does not formally oblige its appointed asset managers to automatically vote in line with LAPFF's voting recommendations, the voting alerts help the Fund to identify and prioritise any salient stewardship concerns and constitute a basis for monitoring stewardship activities that the Fund's managers conduct on its behalf.

4.3 Throughout the quarter to June 2023, LAPFF provided the Fund with a number of voting alerts with voting recommendations for upcoming company Annual General Meetings (AGMs). The voting alerts provided the Fund with 142 applicable recommendations which officers shared with the Fund's appointed asset managers to understand their vote instruction and the rationale behind these decisions. Of these recommendations, 56% of our managers' votes were aligned with LAPFF's recommendations. Where managers' votes do not align with LAPFF's recommendations, officers request an explanation. Officers will continue to monitor and engage with the Fund's managers.

5. Engagement activity

3.1 Investment managers are expected to actively engage with companies to monitor and develop their management of ESG issues in order to enhance the value of the Fund's investments.

3.2 Examples of successful engagements carried out by our managers are summarised in appendix 2.

6. Securities Lending

6.1 The following information is from the ACCESS pool. All the sub-funds have been set up to enable securities lending to take place, which is operated by Northern Trust as the custodian of Link Fund Solutions. ACCESS only accepts non-cash collateral, and this is at the typical market rate of 102% or 105% for cross currency to allow for FX exposure.

6.2 The Securities Lending performance for the quarter ending 30 June 2023 is set out in the table below:

Sub-Fund	Manager	Average Stock on Loan	% On Loan	Net Earnings
		£m		£m
LF ACCESS Global Equity Core	Baillie Gifford	112.174	12.0	0.073
LF ACCESS Global Dividend	M&G	94.697	7.8	0.023
LF ACCESS Absolute Return	Ruffer	79.741	22.3	0.014
LF ACCESS UK Equity	Schroders	21.051	1.9	0.009
LF ACCESS Global Active Value Fund	Schroders	19.377	5.6	0.018
Total		347.331		0.160

5.3 Baillie Gifford Global Equity Core and M&G Global Dividend Fund lent a total of six of the top ten revenue earning stocks, which included: Carvana Co, Ginkgo Bioworks Holdings Inc, Embracer Group, Cloudflare, Visa Inc and Roblox Corp.

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Appendices

Appendix 1 – RIWG Workplan

Appendix 2 – Examples of Company Engagements carried out by our Fund Manager

RESPONSIBLE INVESTMENT WORKPLAN 2023/24

Committee	RIWG Meeting	Lead items	Additional items	Committee plan
29 Mar 2023	26 Feb 2023	RI Strategy / Workplan	FM Climate Maturity Update RI Glossary	RI Strategy / Workplan RI Update
22 Jun 2023	Mar 2023	LAPFF Update	Investor network review	Investor network review RI Update
	May 2023	Net zero workshop Part 1 (Mercer)	Investor network review	
	Jun 2023	Net zero workshop Part 2 (Ninety One)		
26 Sep 2023	Jul 2023	Workplan review		RI Update
12 Dec 2023	Sep 2023	SDG workshop	ACCESS RI Reporting Update	RI Update
	27 Oct 2023	Impact investing workshop (PFP)		Net zero target
	24 Nov 2023	Net Zero Target / Interim targets	RI Policy review	RI Policy
22 Feb 2024* / 26 Mar 2024	Q1 2024 and onwards	TCFD Reporting briefing Annual PRI Report Impact evaluation / reporting Stewardship Code Briefing Stewardship Code GAP Analysis		Impact investing RI Update

*The Pension Fund Committee has customarily had two meetings in Q1, with the informal February meeting reserved for strategy development and/or training.

Appendix 2 - Examples of Company Engagements carried out by our Fund Managers

Baillie Gifford – Rio Tinto

Baillie Gifford engaged with both the Chair and the Chief Scientist at Rio Tinto to explore the detail behind their decarbonisation strategy, with a focus on its aluminium and iron ore operations which account for the majority of the company's carbon footprint.

Baillie Gifford discussed several critical aspects of Rio's carbon reduction programme, which is supported by a team of more than 500 people. They also covered the need to develop grid-scale energy storage to support the switching of Rio's smelter plants from coal-fired power to intermittent renewable power.

Rio Tinto faces potentially material financial consequences from rising carbon prices if it fails to significantly decarbonise. This engagement provided insight into the complexity of the challenge and reassurance that Rio will continue to commit material resources to exploring potential solutions as it pursues carbon reduction targets.

Sarasin - Illumina

Sarasin engaged with Illumina on multiple occasions throughout 2022 and 2023, specifically regarding concerns they had with the company's strategy and its earlier decision to spend \$7.1bn to acquire Grail. This acquisition promoted dispute with antitrust regulators and contributed to the company's share price dropping almost 60% at the start of 2023, although the majority of this fall is attributed to higher interest rates impacting long-duration equities.

Sarasin has had multiple calls with Illumina with a more successful call discussing the future of the Grail deal, the process through which Grail related decisions were being taken, board composition and executive remuneration issues.

This engagement allowed Sarasin to receive detailed responses and therefore better understood the considerations behind the decision to acquire Grail. These considerations related to the business synergies and benefits of entering a big market at an advanced stage.

Despite the positives, there are still a few concerns surrounding generous options grants and the Board's succession policy. However, this engagement provided Sarasin with the required rationale to vote at the most recent Illumina AGM.