

From: Chairman Pension Fund Committee
Interim Corporate Director - Finance

To: Pension Fund Committee – 27 June 2024

Subject: Responsible Investment Update

Classification: Unrestricted

Summary:

This report provides an update on the Fund's responsible investment activities, including the work of the Responsible Investment (RI) 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.

A comprehensive review of the Fund's Responsible Investment Policy (established in 2020) has been undertaken prior to the Committee's meeting to ensure that the Fund's documented policy accurately reflects its evolving approach (including its recently agreed net zero commitment). The revised Responsible Investment Policy has been developed with the Responsible Investment Working Group over the year-to-date utilising best practice guidance and peer review analysis, together with external review from the Investment Consultant and the ACCESS pool's appointed responsible investment advisers, PIRC. The Local Pension Board has been consulted on the proposed policy, which is now presented to the Committee for approval.

Recommendations:

The Committee is recommended to note this report and to approve the revised Responsible Investment Policy at Appendix 1.

FOR DECISION

1. Responsible Investment Policy Update

- 1.1 Since the Committee's last meeting, officers have been working with the Responsible Investment Working Group (RIWG) to update the Fund's Responsible Investment (RI) Policy. At its meeting on 6 March, officers presented the RIWG with a gap analysis comparing several LGPS peers' RI policies against the current RI Policy, along with recommendations from the Principles for Responsible Investment (PRI) for drafting a successful RI Policy. This exercise demonstrated that there were several opportunities to update the policy to bring it into alignment with best practice and to better reflect the Fund's current RI practices (which have evolved since the original RI Policy

was established in 2020, not least since the introduction of the Fund's net zero commitment in December 2023. The exercise also provided an opportunity to incorporate the outcomes of the RI beliefs session held at the Committee's strategy development meeting in February 2024).

- 1.2 An initial draft revised RI Policy was reviewed by the RIWG at its meeting on 30 April. Following feedback from the group, officers incorporated suggested changes and presented a second draft at the RIWG's May meeting. Officers also took input from the Investment Consultant and the Pool's RI advisers, PIRC, in preparing the revised policy.
- 1.3 The Local Pension Board has an important role in the formulation of the Fund's RI Policy, given that the Board is comprised of scheme member and employer representatives, and the Board was consulted on the proposed policy at its meeting on 11 June 2024. The Board received and noted the policy and suggested no amendments.
- 1.4 Officers recommend that the Committee approves the revised RI Policy. If the policy is approved, the final version will be published on the Fund's website and advertised to stakeholders through appropriate communication channels.

2. Responsible Investment Working Group

- 2.1. The Responsible Investment Working Group (RIWG) met on 30 April and 30 May, with a further meeting planned for 20 June 2024 (subsequent to the drafting of this report).
- 2.2. The key focus of the group over these meetings has been the revision of the RI Policy, providing feedback to officers which have influenced the draft that has been presented to this committee meeting.
- 2.3. In addition to the RI Policy the group has also conducted several other pieces of business.
- 2.4. At its April meeting the RIWG reviewed the RI workplan for 2024/25. The workplan will help guide the Fund's RI activities over the year. Major areas for consideration include the RI Policy (as above), engagement with ACCESS, stewardship activities, exploring impact investing, and building out the Fund's RI reporting approach.
- 2.5. At its meeting on 30 May 2024, the RIWG approved a more formal terms of reference for the group. The RIWG has operated on an informal basis to date and will continue to do so under the new terms of reference. However, officers recognise that having a documented terms of reference will enhance good governance and will help to ensure the RIWG's contribution continues to be effective.
- 2.6. The RIWG also received a presentation from PIRC at its May meeting. PIRC have been appointed by ACCESS to develop the pool's RI reporting capabilities

and output. Given the critical role that ACCESS play in facilitating the Kent Pension Fund’s responsible investment activities and reporting, officers have identified engagement with ACCESS as an important theme for the Fund’s RI workplan.

- 2.7. At the time of writing, the RIWG is due to meet again on the 20 June. The agenda for the meeting includes an update on the activities of the Local Authority Pension Fund Forum, together with an evaluation of the Fund’s PRI assessment for 2023, which will help inform this year’s submission. A verbal update on the outcomes of the meeting will be given to the Committee on 27 June.

3. Voting Activity for the 3 Months to 31 March 2024

- 3.1. The Fund’s RI Policy requires our appointed investment managers to report on their voting decisions and a summary of the voting activity of our managers for the quarter to 31 March 2024 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	WS ACCESS Global Equity Core Fund	21	241	12
Schroders	Y	WS ACCESS UK Equity Fund	1	1	0
Schroders GAV	Y	WS ACCESS Global Active Value Fund	73	774	133
M&G	Y	WS ACCESS Global Dividend Fund	4	88	5
Ruffer	Y	WS ACCESS Absolute Return Fund	1	12	0
Impax	N	Impax Environmental Markets (Ireland) Fund	7	30	16
Pyrford	N	Global Total Return	7	147	10
Sarasin	N	Segregated mandate	8	106	45

- 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. As previously reported, Impax reported an issue with their proxy voting system where votes were not submitted at Shareholder meetings from August 2023 until January 2024. This meant that 12 votes were not submitted over two

AGMs in January. The issue has now been resolved and votes are being submitted.

- 3.4. 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. Engagement activity

- 4.1. Investment managers are expected to actively engage with companies to monitor and develop their management of ESG issues to enhance the value of the Fund's investments.
- 4.2. An example of a successful engagement around climate risk conducted by one of the Fund's external asset managers – Pyrford – provided in Appendix 2.

5. Securities Lending

- 5.1. The ACCESS pool agreed a common policy for securities lending which commenced in November 2018 and the following information is provided by the ACCESS pool. All the sub-funds have been set up to enable securities lending to take place, which is operated by Northern Trust, the Pool's custodian. 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.

- 5.2. The Securities Lending performance for the quarter ending 31 March 2024 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	108.763	10.7	0.060
LF ACCESS Global Dividend	M&G	125.085	10.6	0.037
LF ACCESS Absolute Return	Ruffer	93.850	23.8	0.063
LF ACCESS UK Equity	Schroders	26.453	2.4	0.008
LF ACCESS Global Active Value Fund	Schroders	16.198	4.3	0.013
Total		370.349		0.180

- 6.4 Baillie Gifford Global Equity Core, M&G Global Dividend Fund, Schroders Global Active Value and Ruffer Absolute Return lent a total of seven of the top ten revenue earning stocks, which included: ISHARES IV PLC, Visa Inc, Moderna Inc, Keyera Corp, Ginkgo Bioworks Holdings Inc, UK TSY, ADR Exscientia PLC.

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Appendices

Appendix 1 – Responsible Investment Policy

Appendix 2 – Examples of Company Engagements carried out by External Asset Managers

