

From:	Chairman Pension Fund Committee Interim Corporate Director - Finance
To:	Pension Fund Committee – 19 September 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.

Recommendations:

The Committee is recommended to note this report.

1. Responsible Investment Working Group

- 1.1. The Responsible Investment Working Group (RIWG) has met twice since the last meeting of the Committee, on 20 June and 25 July.
- 1.2. At its June meeting, the RIWG received a presentation from the Local Authority Pension Fund Forum (LAPFF). LAPFF is a voluntary association of 89 LGPS funds and 7 LGPS Pools who collectively have assets under management of £350bn.
- 1.3. Keith Bray from LAPFF gave an overview of the profile and activities of the LAPFF which mainly includes:
 - facilitating commissioning of research into and by engagement with investee companies where ESG concerns have been identified.
 - issuing occasional voting alerts for members to discuss with their fund managers.
 - facilitating collaboration with other institutional investors, both nationally and internationally.
- 1.4. The presentation also highlighted the engagements undertaken by the LAPFF which covered topics such as:
 - Climate change
 - Mining
 - Human rights of Indigenous communities
 - Environmental risks
 - Finance and accounting

- Board composition

- 1.5. At its meeting on 25 July, the RIWG received a presentation from the IIGCC, an investor network focused on accelerating climate action by facilitating knowledge exchange and providing resources, of which the Kent Pension Fund is a member.
- 1.6. The IIGCC presented an overview of its tools and resources, most notably the Net Zero Investment Framework which supports both companies and asset owners in the setting of carbon reduction targets with clear action plans and implementing and managing the action plans through portfolio construction engagement with companies and investment solutions.
- 1.7. The IIGCC also provided an overview of the current regulatory landscape and direction of travel which will affect the reporting by asset managers as well as investors/asset owners.
- 1.8. Officers will be reviewing how the tools can be utilized to make progress on the implementation of the Fund's net zero target and reporting obligations.

2. PRI Annual Assessment

- 2.1. In addition, officers also completed the submission of the Principles for Responsible Investment assessment for the calendar year 2023. The annual PRI reporting exercise helps the Fund assess and benchmark the its RI policies and practices against peers and best practice. Results of the assessment will be shared with the RIWG and the Committee when available.

3. Voting Activity for the 3 Months to 30 June 2024

- 3.1. The Fund regards the exercise of ownership rights, including voting rights, as a critically important activity that enhances value and supports the maintenance of a sustainable financial system in which the interests of the Fund's beneficiaries are effectively accounted for when companies make important strategic decisions
- 3.2. Asset managers are required to carry out all voting decisions at company meetings on behalf of the Fund. For pooled assets, voting should be carried out in accordance with the ACCESS voting guidelines on a comply or explain basis. For non-pooled assets with voting rights, asset managers should adhere to their own voting policies.
- 3.3. Asset managers are required to provide feedback information on voting decisions on a quarterly basis. A summary of the voting activity of the managers for the quarter to 30 June 2024 is shown in the table below :

Manager	Fund Name	Number	No. of	No. of votes
----------------	------------------	---------------	---------------	---------------------

		of Meetings	votes for	Against, Abstained or Withheld
ACCESS POOL				
Baillie Gifford	WS ACCESS Global Equity Core Fund	125	1678	176
Schroders	WS ACCESS UK Equity Fund	30	650	11
Schroders GAV	WS ACCESS Global Active Value Fund	399	5170	777
M&G	WS ACCESS Global Dividend Fund	3	44	3
Robeco	WS ACCESS EM Equity Fund	22	293	62
Columbia Threadneedle	WS ACCESS Emerging Markets Equity Fund	55	617	134
Ruffer	WS ACCESS Absolute Return Fund	23	396	44
NON POOLED				
Impax	Impax Environmental Markets (Ireland) Fund	52	607	76
Pyrford	Global Total Return	46	623	30
Sarasin	Segregated mandate	33	412	301

2.4 Officers also review the voting alerts received from LAPFF from time to time and share with the asset managers if it is identified that the portfolio holds the relevant shares. The voting alerts are intended to provide additional information on ESG issues related to upcoming voting opportunities and enable the Fund to discuss potentially important stewardship events with asset managers on a timely basis.

3. Engagement activity

3.1. The Fund expects the investment managers who hold shares on its behalf to fully comply with the UK Stewardship Code 2020 (the Code) and to be a signatory to the UN supported Principles for Responsible Investment. Asset managers are expected to actively engage with companies to monitor and develop their management of material ESG issues to protect and enhance the value of the Fund's investments

3.2. An example of a successful engagement around health and safety and sustainability reporting conducted by one of the Fund's external asset managers – Ruffer – is provided in Appendix 1.

4. Securities Lending

4.1. Securities lending allows another party — typically a financial institution — to temporarily borrow stocks from an investor. In return, the investor typically gets paid a fee which is split between the lender and the broker.

- 4.2. Institutions typically borrow stocks for trading activities, like settlements, short selling and hedging risks. Banks also borrow treasuries and investment grade bonds to meet their reserve requirements.
- 4.3. As well as increasing returns for shareholders, stock lending (and borrowing) provides liquidity to capital markets enabling more efficient pricing and supporting the viability of the capital markets in which investors such as the Kent Pension Fund participate on a long term basis.
- 4.4. 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.
- 4.5. The Kent Pension Fund also has a securities lending programme with Northern Trust for the directly held segregated assets not yet in the pool.
- 4.6. Standard guidelines have been agreed in both the programmes to provide maximum protection for assets which include borrower/market restrictions as well as adequacy and type of collateral (cash) backing the loaned assets.
- 4.7. The programmes afford the managers the ability to recall shares for voting to meet their stewardship obligations. NTRS also operate a buffer management system which restricts a portion of lendable stocks to allow for representative voting
- 4.8. The Securities Lending performance for the quarter ending 30 June 2024 is set out in the table below:

Fund	Manager	Average Stock on Loan	% On Loan	Net Earnings
		£m		£m
WS ACCESS Global Equity Core	Baillie Gifford	106.698	10.8	0.069
WS ACCESS Global Dividend	M&G	95.355	7.7	0.029
WS ACCESS Absolute Return	Ruffer	96.477	23.6	0.085
WS ACCESS UK Equity	Schroders	19.825	2.1	0.009
WS ACCESS Global Active Value Fund	Schroders	18.162	2.4	0.009
WS ACCESS EM Equity Fund	Robeco	17.660	7.8	0.006
WS ACCESS Emerging Markets Equity Fund	Columbia Threadneedle	3.904	1.5	0.002
Direct assets mandate	Goldman Sachs	32.053	8.5	0.016
Direct assets mandate	Sarasin	0.000	0.0	0.013
Total		390.134		0.238

- 6.4 Baillie Gifford Global Equity Core, M&G Global Dividend Fund and Ruffer Absolute Return lent a total of seven of the top ten revenue earning stocks,

which included: Ginkgo Bioworks Holdings, UK (GOVT OF) 0.25% BDS,
ISHARES IV Plc, ADR ESCIENTIA Plc, Visa Inc, Keyera Corp, UK TSY 2.75%.

James Graham, CFA, Pension Fund and Treasury Investments Manager

Connor Steensel, Investment Accountant Level 2

T: 03000 416290 / 03000 423231

E: James.Graham@kent.gov.uk / Connor.Steensel@kent.gov.uk

29 August 2024

Appendices

Appendix 1 – Examples of Company Engagements carried out by External Asset
Manager

