From:	Chairman Pension Fund Committee Interim Corporate Director - Finance
To:	Pension Fund Committee – 3 December 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.

In October the RIWG received an update on the Fund's net zero target of 2050. The review conducted by officers highlighted the good progress made in reducing the carbon footprint of the Fund's listed investments, and details are provided in section 1 of this report.

Sections 2 and 3 contain statistics for the September quarter on the votes exercised by investment managers on behalf of the Fund and an example of engagement undertaken by an investment manager in discharging the fund's stewardship responsibility as the asset owner.

Information on the Fund's securities lending activity for the quarter is contained in para 4 of this report.

Recommendations:

The Committee is recommended to note this report.

1. Responsible Investment Working Group

1.1. The Responsible Investment Working Group (RIWG) has met once since the last meeting of the Committee, on 16 October.

1.2. At this meeting officers provided the working group with an update on Net Zero targets.

1.3. In December 2023, the Kent Pension Fund Committee made a net zero commitment for 2050 for listed equity investments of the Fund.

1.4. In October 2024, officers conducted a review of the progress made by the Fund towards decarbonisation in the year since June 2023 which was the last point of assessment included in the underlying analysis supporting the Fund's net zero strategy.

1.5. The review was undertaken based on information obtained from the Fund's investment managers with respect to the following metrics and information:

- Carbon Footprint of the portfolio.
- Science Based Targets initiative (SBTi) alignment of underlying portfolio companies.
- Rationale for holding high emitters in the portfolio and engagement activity undertaken to support decarbonisation.

1.6. The managers source carbon footprint data from different mainstream third party ESG data providers, which means aggregated figures across the pool need to be treated with caution. However, most managers used MSCI (the same source of data used to underpin the Fund's original net zero assessment in 2023). Officers further validated the data to ensure consistency of basis.

1.7. Overall, the review found:

a. Good progress in decarbonisation of listed equity portfolios being on track to meet the IPCC curve net zero targets. The reduction achieved as of June '24 brought the carbon footprint down to 76% of the 2020 baseline compared to 92% as at June 2023. Coverage of companies reporting carbon metrics ranged from 97%-99% and therefore provided a high level of confidence.

b. The decarbonisation achieved in the fixed income portfolios was even more significant even though the Fund has not made a formal net zero commitment in relation to these portfolios. These portfolios showed a reduction to 39% of the 2020 baseline in June 2024 compared to 60% at June 2023. We recognise that the coverage of companies reporting carbon metrics is still quite low although improving consistently. There is a possibility that the metrics might reflect an increase in carbon footprint in the short run as more companies' data gets included.

c. The number of underlying companies in the listed equity portfolios with SBTi targets also showed an improvement from 37% to 39%. Companies in fixed income portfolios with SBTi targets improved from 23% to 24%.

d. Most managers provided comprehensive details of engagement undertaken with the high emitting companies in their portfolio, although decarbonisation was not the only focus of their engagement.

1.8. The Fund will need to continue to engage with managers to monitor the effectiveness of their stewardship activities with high emitting holdings. Officers anticipate that this activity will increasingly take place via the ACCESS pool in the future.

1.9. Key findings of the review are attached in Appendix 1

2. Voting Activity for the 3 Months to 30 September 2024

2.1. 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.

2.2. Asset managers are required to conduct all voting decisions at company meetings on behalf of the Fund. For pooled assets, voting should be conducted 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.

2.3. 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 September 2024 is shown in the table below:

Manager	Fund Name	Number of Meetings	No. of votes for	No. of votes Against, Abstained or Withheld
ACCESS POOL				
Baillie Gifford	WS ACCESS Global Equity Core Fund	36	439	21
Schroders	WS ACCESS UK Equity Fund	11	225	3
Schroders GAV	WS ACCESS Global Active Value Fund	23	251	17
M&G	WS ACCESS Global Dividend Fund	3	38	6
Robeco	WS ACCESS EM Equity Fund	6	79	11
Columbia Threadneedle	WS ACCESS Emerging Markets Equity Fund	17	120	18
Ruffer	WS ACCESS Absolute Return Fund	5	52	5
NON-POOLED				
Impax	Impax Environmental Markets (Ireland) Fund	9	84	6
Pyrford	Global Total Return	3	52	3
Sarasin	Segregated mandate	0	0	0

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. Managers regularly report on engagements carried out with companies in the Fund's portfolio. An example of the engagements reported by Sarasin is included in Appendix 2 of this report

3.3. At its meeting in September, the Committee received an example of engagement provided by Ruffer with Newmont (a global mining company), which they hold in their portfolio. Ruffer had concerns about Newmont's executive compensation package as well as concerns about their health and safety practices following recent incidents at a number of mining sites. The report prompted queries from members who were keen to get further assurance on the robustness of challenge provided by Ruffer in its engagement with the company.

3.4. Officers have further engaged with Ruffer for assurance on their evaluation of the credibility of Newmont's plans to address these concerns. Ruffer have provided an explanation of their approach to engagement with Newmont and have confirmed that they are satisfied with the progress made so far. Ruffer take a long-term approach to engagement supported by consistent reporting and monitoring.

3.5. The update from Ruffer, alongside the original engagement example from the September Committee meeting, is included in full at Appendix 3.

4. Securities Lending

4.1. The ACCESS pool has a common policy for securities lending. All the sub-funds participate in the programme, which is operated by Northern Trust, the Pool's custodian.

4.2. The Kent Pension Fund also has a securities lending programme with Northern Trust for the directly held segregated assets not yet in the pool.

4.3. 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.

4.4. 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

4.5. 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.

4.6. The Securities Lending performance for the quarter ending 30 September 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	114.906	11	0.052
WS ACCESS Global Dividend	M&G	82.046	6.5	0.030
WS ACCESS Absolute Return	Ruffer	91.916	22.7	0.010
WS ACCESS UK Equity	Schroders	17.640	2.1	0.007
WS ACCESS Global Active Value Fund	Schroders	16.054	4	0.006
WS ACCESS EM Equity Fund	Robeco	23.827	10	0.009
WS ACCESS Emerging Markets Equity Fund	Columbia Threadneedle	0.595	0.2	0.000
Direct assets mandate	Goldman Sachs	20.074	5.6	0.016
Direct assets mandate	Sarasin	10.546	2.9	0.013
Total		**346.984**		**0.680**

6.4 Baillie Gifford Global Equity Core, M&G Global Dividend Fund and Ruffer Absolute Return lent a total of six of the top ten revenue earning stocks, which included: Tempus AI Inc, UK (Gov of), ISHARES IV PLC MSCI CHINA, Rivian Automotive Inc, ADR Exscientia PLC & Keyera Corp.

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Appendices

Appendix 1 – Net Zero Update
Appendix 2 – Engagement Example: Sarasin
Appendix 3 – Ruffer Update on Newmont Engagement