

## Cumbria Pension Fund - Responsible Investment Policy

The below sets out Cumbria Pension Fund's ("the Fund") Policy which governs its approach to responsible investment (RI) and stewardship.

### Context

This policy is set in the context of the following:

- Westmorland & Furness Council became the Administering Authority of Cumbria Pension Fund on 1 April 2023;
- Wide consultation with scheme members and other stakeholders, and;
- Government's agenda for the pooling of the investment assets of the Local Government Pension Scheme in England and Wales.

With regard to the latter, the Cumbria Pension Fund is a participant in the Border to Coast Pensions Partnership ('Border to Coast'). The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. Whilst the Fund retains responsibility for setting a policy stance in relation to responsible investment issues, this will be implemented in the most part by Border to Coast, who have developed a collective policy on responsible investment and associated voting guidelines in conjunction with the 11 partner funds. Our other Fund Managers also implement RI directly.

While endorsing the collective policy adopted and developed by Border to Coast in conjunction with our partner funds, the Fund, given that it retains responsibility in this area, reserves the right to act alone where the collective view does not coincide with its own in material respects.

### Beliefs

Responsible Investment as a concept is fundamental to the Fund's investment beliefs. Thus, it is a key part of "how we do investment" (and how we expect those who manage money on our behalf to do it) rather than being an add on or overlay. The Fund has adopted the following statement of its Responsible Investment beliefs:

*As long-term investors, we believe that integrating environmental, social and corporate governance ("ESG") considerations into the investment management process improves risk adjusted returns.*

- *We believe that ESG factors, such as climate change, can have a material impact on the risk profile and value of financial assets in the long term.*
- *We note the UK Government's commitment to achieve net zero by 2050 and support that as a Fund.*
- *We note that our primary investment manager (BCPP) is committed to achieving net-zero on their investment portfolios by 2050 or sooner, recognising that achievement of this is linked to central government ambitions.*

- *It is recognised that scheme employers may have their own specific net-zero targets and aims but the fiduciary duty requires the Fund's investment decisions to be in the interest of scheme members and employers.*
- *We do not believe that making investment decisions solely on non-financial grounds (e.g. ethical considerations) meets the Fund's overarching primary fiduciary duty, but do consider that being a responsible investor and incorporating ESG factors into investment decisions can help to improve the long-term risk adjusted returns for investors.*
- *We believe that the best way to be a responsible investor and to influence policy change is not through divestment in the first instance but to influence through active engagement and encourage continuous improvement in respect of progress towards the ESG ambitions of the Fund.*
- *We expect our active investment managers to consider progress on shareholder engagement in their decision to continue to invest or divest in a company.*
- *We expect management teams and Boards of Directors to be responsive to their shareholders.*
- *We will lead by example by ensuring we are an active shareholder and, where appropriate, utilising the scale of collaboration with other LGPS Funds.*

This policy is set within the context of these beliefs.

## **Stewardship, Responsibility and ESG**

The primary objective of any pension fund is to ensure that its assets are able to meet its liabilities when they fall due. In order to achieve this, funds have to produce the required levels of financial return without taking on undue levels of risk (rewarded or unrewarded) whilst also operating within the relevant regulatory framework.

Evidence shows that pension funds which consider how the companies they are invested in behave in relation to environmental, social and governance issues, tend to achieve better returns. In other words, companies that are well managed and have strong governance are more likely to be successful long-term investments. This accords with the expectations in the Fund's [investment beliefs](#) and reflects our overall attitude to the stewardship of the Fund. As an active, long-term investor, we are aware that businesses that operate to high standards of corporate governance along with environmental, social and governance best practice, have the potential to protect and enhance investment returns.

The Fund is a signatory to the Financial Reporting Council's UK Stewardship Code 2020. The Code sets standards for the responsible allocation, management and oversight of capital to create long-term value leading to sustainable benefits for the economy, the environment and society. The Fund also expects Border to Coast to be a signatory to both the UK Stewardship Code and the Principles for Responsible Investment.

The Fund has also considered the views of stakeholders, principally scheme members and employers, in coming to its views in this area. While it is difficult to establish member views with precision, it is possible to distil a generic view from this research as members and employers wanting the Fund "to invest in a world worth living in" with the Fund being invested on their behalf. This provides a broad principle that underpins our beliefs in this area.

There are five major components to our Responsible Investment (RI) approach:

- 1) Stewardship: ensuring the Fund's RI expectations cover all assets and are being met through regular monitoring of investments and investment managers.

- 2) Integration: RI factors being included in investment decisions and in the analysis of the Fund's investments.
- 3) Voting: using shares to 'have a say' by voting at company meetings.
- 4) Engagement, Escalation and Exclusion: talking to companies in which it invests about issues of concern and encouraging them to adopt better practices then acting against companies where voting and engagement have not solved specific area(s) of concern. There may be specific instances where this is exhausted and the decision to sell or not invest is appropriate.
- 5) Litigation: Joining class actions, where appropriate, where activities undertaken by companies are considered to have had a detrimental effect to the value of the Fund. In the context of pooling any new litigation is likely to be undertaken by the pool company.

### Integration of RI into investment decisions

The Fund expects its investment managers and other service providers such as Border to Coast, to consider, environmental, social and corporate governance (ESG) issues when carrying out financial analysis and investment decision making. The factors considered are those which can cause financial and reputational risk, ultimately resulting in a reduction in shareholder value.

The Fund proactively engages with Border to Coast and the pool's other partner funds to influence their responsible investment policy and engagement approach.

ESG issues will be considered and monitored in relation to both internally and externally managed assets at Border to Coast. Issues considered include, but are not limited to:

<b>Environmental</b>	<b>Social</b>	<b>Governance</b>	<b>Other</b>
<ul style="list-style-type: none"> <li>• Climate Change</li> <li>• Resource &amp; energy management</li> <li>• Water stress</li> <li>• Single use plastics</li> <li>• Biodiversity</li> </ul>	<ul style="list-style-type: none"> <li>• Human rights</li> <li>• Child labour</li> <li>• Supply chain</li> <li>• Human capital</li> <li>• Employment standards</li> <li>• Just transition</li> <li>• Pay conditions (e.g. living wage in UK)</li> </ul>	<ul style="list-style-type: none"> <li>• Board independence / diversity</li> <li>• Executive pay</li> <li>• Tax transparency</li> <li>• Auditor rotation</li> <li>• Succession planning</li> <li>• Shareholder rights</li> </ul>	<ul style="list-style-type: none"> <li>• Business strategy</li> <li>• Risk management</li> <li>• Cyber security</li> <li>• Data privacy</li> <li>• Bribery &amp; corruption</li> <li>• Political lobbying</li> </ul>

Officers and advisors at the Fund will maintain appropriate knowledge and skills in responsible investment and stewardship through continuing professional development, and where necessary take expert advice from suitable RI specialists to fulfil obligations and responsibilities.

Relevant training will also be undertaken by members of the Fund's Pensions Committee and Local Pension Board as part of their learning and development programme.

In addition, the Fund expects its investment managers, including Board to Coast, to have similar programmes to ensure their staff have expert knowledge and skills to analyse actual

and potential investments, including all aspects of Responsible Investment and particularly climate change.

## **Voting**

Voting rights are an asset to the Fund and the Fund expects its investment managers to use them carefully in every market to promote and support good corporate governance principles.

Detailed voting guidelines are developed annually by Border to Coast and agreed by the partner funds. The Fund proactively engages with Border to Coast and the pool's other partner funds to influence these.

Border to Coast appoints a specialist proxy voting advisor to provide analysis of voting and governance issues and to ensure that votes are executed in accordance with its policies and voting guidelines. The Fund appreciates that a degree of flexibility is required to reflect specific company and meeting circumstances and the voting guidelines are administered and assessed on a case-by-case basis.

A process is available to allow the Fund to vote its proportion of any shareholding in a different way to that adopted by Border to Coast should there be a difference in interpretation of the voting guidelines. The Fund retains the right to implement votes in a different way.

The Fund expects Border to Coast, where appropriate, to consider co-filing shareholder resolutions which support the long-term economic interests of shareholders and to notify the Fund in advance of doing so. Equally the Fund may encourage Border to Coast to co-file resolutions.

The Fund also monitors the execution of voting rights by all of its investment managers.

## **Engagement**

The Fund believes that the best way to influence companies is through engagement. As a responsible investor, the approach taken will be to influence companies' governance standards, environmental, human rights and other policies by constructive shareholder engagement and the use of voting rights.

Meeting and engaging with companies should be an integral part of the investment process. The Fund expects its investment managers, of whatever type, to engage with companies across all markets and to report on the outcomes of such engagement.

Border to Coast uses a specialist provider to help identify issues of concern and to engage with companies across the world, covering environmental, social and governance issues. These include breaches of the UN Global Compact, a framework based on international conventions in the areas of human rights, labour standards, environmental stewardship and anti-corruption. The factors considered in choosing those themes are:

- *that progress in the themes is expected to have a material financial impact on our investment portfolios in the long-term;*
- *that ambitious, but achievable milestones can be set through which progress over the period can be measured.*

These factors mean that the choice of themes is driven by the material ESG risks facing the Fund and their financial materiality.

The Fund also expects its investment managers to encourage companies to improve disclosure in relation to ESG and to report and disclose in line with the Task Force on Climate

related Financial Disclosures (TCFD) and other developing initiatives, such as the Workforce Disclosure Initiative (WDI) and Task Force on Nature Related Financial Disclosure (TNFD).

The Fund also undertakes collaborative engagement with other institutional shareholders. The Fund (along with the other ten Border to Coast partner funds and the pool Company) is an active member and supporter of the Local Authority Pension Fund Forum (LAPFF) and encourages LAPFF in its campaigns and initiatives.

The Fund engages with both Border to Coast and LAPFF to identify specific themes or areas of focus for engagement. However, different priorities of the various partner funds may result in some degree of compromise.

As a responsible investor, the Fund, through its investment managers, also engages with regulators, public policy makers, and other financial market participants on systemic risks to help create a stable environment to enhance long-term returns.

### **Escalation and Exclusion**

The Fund believes that engagement and constructive dialogue with the companies in which it invests is more effective than excluding companies from the investment universe. However, if engagement does not lead to the desired result, escalation may be necessary. A lack of responsiveness by the company can be addressed by conducting collaborative engagement with other institutional shareholders, registering concern by voting on related agenda items at shareholder meetings, attending a shareholder meeting in person, making a public statement, publicly pre-declaring our voting intention, and filing/co-filing a shareholder resolution. If the investment case has been fundamentally weakened, the decision may be taken by the relevant fund manager to sell the company's shares.

Aligned with the BCPP RI policy there are specific investments that the Fund supports the decision not to invest in. This includes controversial weapons therefore as a responsible investor the Fund will not invest in companies manufacturing cluster munitions, landmines, biological and chemical weapons.

The Fund will be looking for those acting on its behalf (principally Border to Coast) to set out, when launching an engagement process, the consequences of failure by companies to make progress particularly in relation to the production of clear and deliverable climate transition plans. It is expected that these consequences will include the identification of the point at which the investment case for a company is undermined to such an extent that divestment is the appropriate course of action. The Fund recognises that it cannot move on this alone given that all its listed investments are in pooled funds and will be explicitly seeking to influence its partners to agree to policies of this sort.

While endorsing the collective RI policy and approach adopted and developed by Border to Coast, in conjunction with our partner funds, the Fund, given that it retains responsibility in this area, reserves the right to act alone on escalation and exclusion decisions where the collective view does not coincide with its own in material respects.

### **Litigation**

Where assets held by the Fund are subject to individual or class action securities litigation, it will, where appropriate, participate in such litigation.

There are various litigation routes available dependent upon where the company is registered. The Fund will use a case-by-case approach to determine whether or not to participate after having considered the risks and potential benefits. The Fund in the past has used industry professionals to facilitate this. The Fund expects Border to Coast to follow a similar model.

### **Monitoring and Reporting**

The Fund monitors Border to Coast's activities for compliance with agreed policies and guidelines. The Fund undertakes this monitoring both individually and working collectively with the other partner funds within Border to Coast.

The Fund will report on its RI activities, and those of its investment managers, on a regular basis. This will be done by making the RI policy, voting guidelines and reports on activity publicly available on the Fund's website and providing links to such information provided by Border to Coast.

The Fund's, and Border to Coast's, compliance with the UK Stewardship Code is monitored on an annual basis by the Financial Reporting Council and the signatories are made public on their website.

The Fund is committed to further develop analysis and reporting of the impact of its investments in preparation for the introduction of new reporting requirements such as Taskforce on Climate Related Financial Disclosures (TCFD) and Taskforce on Nature Related Financial Disclosures (TNFD).

### **Conflicts of interest**

In the event of any potential conflict of interests, a suite of policies has been drawn up between Partner funds and Border to Coast.

In addition, the Fund will develop a specific Conflicts of Interest policy for members of its Pensions Committee, Local Pension Board and key Officers. This policy will enable those charged with governance of the Pension Fund to declare and resolve any relevant interests and relationships and help protect themselves from any accusations or perception that they have acted in an inappropriate way or based on their own interest.

### **Climate Change**

The Fund recognises the global issues and risks arising from climate change and the material impact it can have on the performance of the Fund on its assets and liabilities.

The Fund expects Border to Coast and its other investment managers to be aware of the investment risks associated with climate change and to take appropriate action to identify them and mitigate their impact, including engaging with and influencing companies.

The Fund is committed to further develop analysis and reporting of the climate metrics of the Fund's investments in preparation for the introduction of Taskforce on Climate Related Financial Disclosure (TCFD). This will also include improved reporting on investments in clean energy.

The Fund recognises that Border to Coast is committed to achieving net-zero on their investment portfolios by 2050 or sooner. Border to Coast and LAPFF also collaborate with like-minded investors and partners in initiatives such as Institutional Investors Group on

Climate Change (IIGCC) and Climate Action 100+. These should help to mitigate the climate changes risks faced by the Fund.

Following a fundamental review, this policy was agreed by the Pensions Committee in March 2024 and will be reviewed annually to ensure that it continues to reflect good practice on responsible investment, and the RI approaches adopted by our fund managers.

**March 2024**