

## The Cumbria Local Government Pension Scheme and its approach to Responsible Investing

**Background:** The Cumbria Local Government Pension Scheme (“the Fund”) invests assets totalling approximately £3.2bn\* to pay for the current and future pensions of its c.62,000\* members across 125\* employers within Cumbria. (\* as at 31<sup>st</sup> March 2023)

The overarching objective of the Fund is to manage a sustainable and solvent Local Government pension fund on behalf of current and future members of the Fund. To achieve this objective the Fund invests in a diverse range of assets and aims to maximise the long term return on these investments within acceptable risk parameters.

**The Fund’s approach to Responsible Investing (RI):** The Fund recognises that good governance is a fundamental driver in delivering the long term returns it requires and in mitigating risk. Businesses that are governed well and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. As such the Fund is committed to being a responsible owner and believes that responsible investment, incorporating environmental, social and governance (ESG) factors into investment decisions, can help to improve the long term value for investors.

The Fund believes that the best way to be a responsible investor and to influence policy change is not through divestment but through active engagement. The Fund would only disinvest if maintaining an investment negatively affected the Fund’s duty to generate investment return. The Fund considers that, by exerting pressure as an investor, it can bring more influence on companies than it could by boycotting specific sectors from its investment strategy. Consequently, the Fund does not believe that it is appropriate to explicitly divest from any specific sector or invest in any specific sector.

**Examples of what the Fund is doing as a responsible investor:** The Fund, through its various proxy voting arrangements, votes on resolutions at AGMs of companies in which it has shareholder voting rights. In doing so, the Fund supports resolutions that promote transparency and disclosure of climate risks and setting emission reduction targets. In addition to this the Fund works closely with its pension pool, Border to Coast Pension Partnership Ltd, and partner funds within the pool to ensure that good governance is at the heart of its corporate and investment philosophies<sup>1</sup>.

As part of its diverse portfolio of investments the Fund is currently invested in a range of infrastructure projects that own and operate energy production and distribution companies. Whilst the primary role of these investments in the portfolio is to generate return, these target a proportion of green energy production and innovation as good long-term, sustainable investments. These include onshore and offshore wind farms in the UK, together with windfarms in mainland Europe, the US and Latin America, solar power and battery storage projects in the US, Latin America and Japan, biomass processing in the UK and hydropower plants in Norway.

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<sup>1</sup> <https://www.bordertocoast.org.uk/sustainability/>

In addition to this, following on from the Fund being a Tier 1 signatory to the 2012 Stewardship Code, in October 2021 the Fund submitted its first comprehensive Stewardship Report to the Financial Reporting Council for assessment against the 2020 Code.<sup>2</sup> The 2020 Code sets high expectations on those investing pension fund monies, seeking to set a benchmark for the responsible allocation, management and oversight of assets to create long term value and lead to sustainable benefits for the economy, the environment and society. The Fund's most recent Stewardship Report is published on its website<sup>3</sup> as well as forming part of its Annual Report and Accounts.

The Fund is also a member of the Local Authority Pension Fund Forum<sup>4</sup> (LAPFF) which uses its collective presence in the market to progress matters of corporate governance in the companies owned by its member funds.

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<sup>2</sup> <https://www.frc.org.uk/investors/uk-stewardship-code>

<sup>3</sup> <https://www.cumbriapensionfund.org/media/pnpbu2pw/clgps-stewardship-report-2021-22-final-new-logo.pdf>

<sup>4</sup> <http://www.lapfforum.org/>