

Cumbria Local Government Pension Scheme.

STATEMENT OF COMPLIANCE WITH THE UK STEWARDSHIP CODE

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Cumbria Local Government Pension Scheme (Cumbria LGPS) is fully committed to responsible investment (RI) to incorporate environmental, social and governance (ESG) factors into investment decisions to improve the long term value for shareholders. Cumbria LGPS are cognisant of the increasing body of evidence suggesting that well governed companies are likely to deliver stronger long term investment performance. Cumbria LGPS also believe that asset owners, either directly (where resources allow) or through their external managers and membership of collaborative shareholder engagement groups (such as LAPFF), can influence the Board/Directors of companies to enhance the management and financial performance of those companies.

As global investors Cumbria LGPS expect the principles of good stewardship to apply globally, whilst recognising the need for local market considerations in its application. Reflecting on this we have summarised our compliance with the UK Stewardship Code and principles relating to good stewardship below.

Cumbria LGPS has a diversified portfolio using a number of active investment managers together with passive and other pooled funds. All investment managers are required to adhere to the Stewardship Code

Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

Cumbria LGPS takes its responsibilities as a shareholder seriously and seeks to adhere to the Principles of the Stewardship Code. It views stewardship as part of the responsibilities of share ownership and therefore, an integral part of the investment strategy.

The Fund aims to promote high standards of governance through being an engaged and active asset owner. We seek to ensure that there is effective engagement with companies to improve their long term investment performance and hold management to account for their decisions. The Fund considers the informed use of votes, while not being a legal duty, is a responsibility of the owners of companies and as such is an implied fiduciary duty of the Pensions Fund Committee and investment managers to whom they delegate this function.

In practice Cumbria LGPS applies the Code in a number of ways:

- Responsibility for the exercise of voting rights in relation to the UK active portfolio is delegated to an external proxy voting provider; Pensions and Investment

Research Consultants (PIRC). PIRC vote in accordance with their 'standard voting template' which is based upon relevant law, best practice, accounting standards and regulatory considerations, however Cumbria LGPS have the opportunity to override votes if considered appropriate. Any issues or queries can be raised by the Fund as part of the quarterly reporting process or more frequently where necessary.

- Responsibility for the exercise of voting rights in relation to the Global active portfolio is currently delegated to the investment managers. Investment managers are expected to approach the subject of voting with the same care and attention as other matters which influence investment decisions. The investment managers may liaise with the Fund where appropriate and any issues or queries can be raised by the Fund during their quarterly review meetings.
- Where Cumbria LGPS has elected to invest in pooled indexed funds (passive UK and overseas) and cannot therefore directly influence the underlying companies in which the pooled funds invest; the Funds passive manager is a Tier 1 signatory to the UK Stewardship Code and is active in its engagement with the companies in which it invests. Reports on voting and engagement activity are reviewed by the Fund as part of the quarterly review process and are available at www.ljim.com/cgupdate We also consider our membership of the Local Authority Pension Fund Forum (LAPFF); a collaborative shareholder engagement group for Local Authority Pension Funds which seeks to promote the highest standards of corporate governance and corporate social responsibility; allows the Fund to indirectly influence these companies.

The investment managers and PIRC are required to report quarterly on their voting actions and any engagement activity undertaken for every appropriate investment. Any responses received from companies concerned would also be reported. Both must hold and make available to the Fund a full voting audit trail. The outcome of voting actions should also be shown where possible.

The Fund reports quarterly to the Pensions Committee on the engagement work undertaken by PIRC, investment managers and LAPFF, these reports are available on the Council's website. In addition a representative of the Fund regularly attends the LAPFF meetings and also attends the LAPFF Annual Conference to ensure the Fund has a full understanding and to facilitate input into the work programme of LAPFF.

Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

Cumbria LGPS expects the asset managers it employs to have effective policies addressing potential conflicts of interest, and that these are all publically available on their respective websites. These are discussed prior to the appointment of a manager, and reviewed as part of the standard manager monitoring process.

In respect of conflicts of interest within the Fund, the Pensions Committee and the Local Pension Board (LPB) review the Pension Fund Code of Conduct and Conflicts of Interest Policy annually and all Members, officers and independent advisors are required to adhere to this policy. The Fund policy document can be found on the shared Cumbria LGPS website at <https://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp>. In addition, Committee and Board Members are required to make declarations of interest prior to meetings which are documented in the minutes of each meeting and available on the Council's website at www.cumbria.gov.uk.

Cumbria County Council, the Administering Authority of Cumbria LGPS requires all Members of the Pension Committee, Local Pension Board and officers to declare and pecuniary or other registerable interests. Details of the declared interests of Council Members are maintained and monitored on a Register of Interests. These are published on the Council's website under each Member's name and updated on a regular basis.

Principle 3 - Institutional investors should monitor their investee companies.

Cumbria LGPS considers that as investors we own a portion of the companies we invest in. With our voting policies and working through PIRC, our investment managers and LAPFF we can use our rights as owners to encourage companies to act more responsibly and improve their practices. All our managers are required to consider how environmental, social and governance factors might impact companies sustainability, and therefore their long term share performance.

Day-to-day responsibility for interactions with our externally managed equity holdings is delegated to our appointed asset managers, and the Fund expects them to monitor their investee companies and engage where necessary. Managers are asked to include information on stewardship and engagement activity in their quarterly reports to Cumbria LGPS, so that activity and impact can be monitored. The Fund has regular meetings with its investment managers where their stewardship activities are on the agenda. This assists the Fund in understanding the impact and effectiveness of any such activities undertaken and ensures that they are aligned with the engagement work done by LAPFF. Reports on the Funds voting and engagement activity through PIRC, its investments managers and LAPFF are received by the Pensions Committee on a quarterly basis, these reports are available on the Council's website.

In addition, the Fund receives an 'Alerts' service from PIRC and LAPFF, highlighting corporate governance issues of concern at investee companies, and these are used to monitor and report on voting activity to the Pensions Committee; and liaise with managers to promote consistency of voting where appropriate

There is a dedicated role within Pensions team to monitor all aspects of corporate governance at a Fund level which includes liaising with PIRC and LAPFF and where appropriate the investment managers.

Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their activities.

As highlighted above, Cumbria LGPS delegates its responsibility for day-to-day interaction with companies to PIRC, the Fund's Investment Managers and LAPFF, including the escalation of engagement when necessary.

Where special situations arise which are not covered by the Fund's corporate governance strategy or where the policy is unclear, these organisations will consult with the Senior Manager Pensions and Financial Services.

Although willing to act alone, as the Fund typically holds a very small percentage of equity in individual companies, there are strong reasons to collaborate with other asset owners in order to present a stronger case. The Fund utilises its membership of the LAPFF, which co-ordinates collaborative engagement with companies, regulators and policymakers to protect and enhance shareholder value, in order to maximise its influence.

If deemed appropriate, the Fund will participate in shareholder litigation through its contracts with Institutional Protection Services (IPS) and US law firm Spector Roseman Kodroff & Willis (SRKW).

Any such actions and subsequent outcomes are reported to the Pensions Committee on a quarterly basis in order to monitor activity and assess effectiveness.

Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate.

Cumbria LGPS considers collaborative engagement is a key part of a responsible investment strategy and the Fund seeks to work collectively with other institutional shareholders in order to maximise the influence it can have on individual companies.

The Fund seeks to achieve this through membership of the LAPFF, which engages with companies over environmental, social, and governance issues on behalf of its members; and also its relationship with the investment managers.

The LAPFF agree planned work programmes each year which are discussed and approved at LAPFF meetings which a representative of the Cumbria LGPS fund regularly attends. Feedback is provided to the Pensions Committee on a quarterly basis.

The contact for any potential collective action with the Fund is the Pension Fund Senior Manager, Pensions & Financial Services (Deputy s151 Officer – LGPS), who is contactable by emailing: pensions@cumbria.gov.uk

Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.

Cumbria LGPS views its voting rights as a valuable instrument to:

- protect shareholder rights;
- minimise risk to companies from corporate governance failure;
- enhance long term value; and
- encourage corporate social responsibility.

As such, the Fund seeks to exercise all voting rights attached to its investments.

Whilst it is the Fund's intention to follow the principles of UK corporate governance best practice, the Fund will interpret the application of these principles according to its own views of best practice. There are also other issues outside of these principles on which the Fund will take a view.

As indicated earlier responsibility for the exercise of voting rights in relation to the UK active portfolio is delegated to an external proxy voting provider PIRC. They vote in accordance with their 'standard voting template' which is based upon relevant law, best practice, accounting standards and regulatory considerations, however we have the opportunity to override votes if required.

As a general rule, PIRC will vote in favour of resolutions which are in line with the UK Corporate Governance Code or comply with best practice.

The external investment managers are responsible for exercising voting rights in relation to the Global active portfolio on investments that are managed by them on behalf of the Fund and voting activity of the managers is made available to Members of the Pensions Committee on a quarterly basis. They will vote in accordance with their own "Investment and Corporate Governance" policy which is available on their websites. The investment managers will liaise with the Fund where appropriate.

Reports summarising the Fund's voting activity are presented to the Pensions Committee on a quarterly basis, the full PIRC Proxy Voting Report is provided as an Appendix to the Quarterly Monitoring report and is available on the Council's website. The Fund also publishes a summary of voting activity in its Annual Report and Accounts.

The Fund engages in stock lending and may seek to recall stock on loan prior to a shareholder vote if the issue upon which the vote rests is contentious enough to warrant it and it is deemed to be cost effective, suitable and practical.

Principle 7 - Institutional investors should report periodically on their stewardship and voting activities.

Cumbria LGPS reports quarterly to the Pensions Committee on stewardship activity through a specific section on the voting undertaken each quarter, in the Fund Quarterly Monitoring report, the full PIRC Proxy Voting Report is provided as an Appendix to this report and is available on the Council's website. The report also includes details of engagement activity undertaken through the Local Authority Pension Fund Forum. On an annual basis the Fund includes a section on Stewardship Responsibilities in its Annual Report and Accounts, detailing voting activity and highlighting the key engagements over the year through its membership of LAPFF. These are available on the Council's website, Cumbria LGPS section at <https://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp>.

Data to produce these reports is taken from a number of sources including quarterly reports from:

- PIRC
- LAPFF
- Investment managers

Members are kept informed of any current news items relevant to the holdings of Cumbria LGPS, where those topics are in the public arena and would be of interest to LGPS stakeholders.

Approved by the Pensions Committee 7th March 2017