



# Cumbria Local Government Pension Scheme

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## Stewardship Report 2021/22

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This report meets the requirements of the Financial Reporting Council (FRC's) – UK Stewardship Code 2020 and Cumbria Local Government Pension Scheme is listed as a signatory to the UK Stewardship Code ('the Code')

**CUMBRIA LOCAL GOVERNMENT PENSION SCHEME**  
**STEWARDSHIP REPORT 2021/22**

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Key documents referenced in this report and their location:

The Fund's *approach to Responsible Investment (RI)*:

<https://www.cumbria.gov.uk/elibrary/content/internet/536/654/1129/17170/43754134337.docx>

The Fund's *Investment Strategy Statement (ISS)*: Section 4 starting on page 40:

<https://www.cumbria.gov.uk/elibrary/Content/Internet/536/654/1129/17170/17664/446449495.pdf>

The Fund's *Funding Strategy Statement (FSS)*: Section 6 starting on page 66:

<https://www.cumbria.gov.uk/elibrary/Content/Internet/536/654/1129/17170/17664/446449495.pdf>

*Border to Coast Pensions Partnership Ltd (BCPP) Responsible Investment Policy*:

<https://www.bordertocoast.org.uk/wp-content/uploads/2022/03/RI-Policy-2022.pdf>

*BCPP Corporate Voting Guidelines*: <https://www.bordertocoast.org.uk/wp-content/uploads/2022/03/Corporate-Governance-Voting-Guidelines-2022.pdf>

*Local Authority Pension Fund Forum (LAPFF) Annual Report*: <https://www.bordertocoast.org.uk/wp-content/uploads/2022/03/RI-Policy-2022.pdf>

*Local Authority Pension Fund Forum (LAPFF) Annual Report*: <https://www.bordertocoast.org.uk/wp-content/uploads/2022/03/RI-Policy-2022.pdf>

**PRINCIPLE 1:** Purpose, investment beliefs, strategy & culture enable stewardship that creates long-term value for employers & beneficiaries leading to sustainable benefits for the economy, the environment and society.

### 1.1. Background & Purpose:

- 1.1.1. The Local Government Pension Scheme (LGPS) is a statutory scheme, established by an Act of Parliament and governed by the Public Services Pensions Act 2013 (PSPA 2013). It is a contributory defined benefit scheme to provide pensions and other related benefits for all eligible employees of local government and other participating employers.
- 1.1.2. Whilst the regulations are set on a national basis, individual Funds are managed by designated administering authorities at a local level. The LGPS, unlike private pension schemes, does not have Trustees but elected Members that perform similar duties to Trustees. Cumbria County Council is the Administering Authority for the Cumbria LGPS (the Fund) and as such is responsible for the investments and administration of benefits under the scheme. Under section 101 of the Local Government Act 1972 Cumbria County Council has delegated its functions as the Administering Authority to the Cumbria Pensions Committee (the Committee).
- 1.1.3. The LGPS, and therefore the Fund, is a multi-employer scheme which is open to new membership. The purpose of the Fund is to pay Cumbria LGPS members' pensions securely, affordably and sustainably over the short, medium and long term. The LGPS operates on a 'funded' basis, this means that contributions from employees and employers are paid into a fund which is invested, and from which pensions are paid. To do this, the Fund seeks to achieve sustainable, risk-adjusted performance of its investments over the long-term.

### 1.2. Culture, strategy and investment beliefs:

- 1.2.1. The Fund has a fiduciary duty to its employers and members, and it recognises the vital role of being a responsible asset owner – including the clear articulation of investment beliefs and strategy, values and organisational culture - in delivering this. This is articulated in the Fund's Investment Strategy Statement (ISS) which sets out its core behaviours (as per **1.2.3** below) and its investment beliefs (as summarised at **1.2.4** below).
- 1.2.2. The Fund considers that having a clearly defined culture, strategy and investment beliefs assists it to choose managers and other service providers whose approach is most closely aligned to that of the Fund.
- 1.2.3. The Fund's behaviours and culture revolve around the following core principles:
  - Communicate in a clear and constructive way;
  - Act with honesty and respect for others;

- Demonstrate a positive flexible attitude;
- Take responsibility for our actions;
- Obtain and maintain the appropriate knowledge and skills to understand the investments and risks undertaken within the Fund; and
- Treat all employers and members of the fund equitably.

1.2.4. Our investment beliefs are detailed in our ISS but in summary are:

- A. Our investment strategy should be determined by reference to the Fund's assets, liabilities and our risk tolerances. As previously noted, our long-term primary goal is to generate returns required to fund our members' current and future pensions. *As a long-term investor, Environmental, Social and Governance (ESG) considerations are a fundamental element of the investment process (both in terms of risk and reward) to the Fund (see G below).*
- B. Asset allocation has the greatest impact on the overall risk and return of the Fund. Investment managers should be responsible for stock selection however *the Fund recognises that it cannot delegate its responsibility and is accountable for effective stewardship.*
- C. It is important to take a long-term perspective when considering the investment strategy, but also recognise the implications of shorter-term market volatility.
- D. *Good governance improves the quality of decision-making.*
- E. All investments have a degree of financial risk, but we should only accept financial risk where we have a strong belief that we will be rewarded for it – *financial risk includes ESG considerations (see G below).*
- F. There are multiple risks to which the fund is exposed and those risks that are not sufficiently compensated should be mitigated, managed or avoided if possible.
- G. *We should continually consider all risks in our investment process by investing responsibly, including ESG factors:*
  - i. ESG factors, such as climate change, can have a material impact on the value of financial assets in the long term. Being a responsible investor and incorporating ESG factors into investment decisions can help to improve the long-term value for investors.
  - ii. We believe that the best way to be a responsible investor and to influence policy change is not through divestment but through active engagement.
  - iii. We expect management teams and board of directors to be responsive to their shareholders.
  - iv. We will lead by example by ensuring we are an active shareholder and, where appropriate, utilising the scale of collaboration with other LGPS Funds e.g.

through Border to Coast Pensions Partnership Ltd (BCPP) and the Local Authority Pension Partnership Forum<sup>1</sup> (LAPFF).

### 1.3. Activity and outcomes during 2021/22:

- 1.3.1. To ensure that the Fund's investment beliefs, strategy and culture enable effective stewardship Cumbria LGPS has undertaken a number of actions during the year. The key actions undertaken, and outcomes thereof are covered within the relevant sections of this report as summarised below:
- 1.3.2. **Reviewing and applying our policies:** This is considered in detail in **Principle 5 at 5.2.**
- 1.3.3. **Training:** This is considered in detail in **Principle 2 at 2.2.7 and 2.5.3.**
- 1.3.4. **Setting and reviewing the Fund's business plan and budget:** This is a core activity in the Fund's stewardship calendar. The plan and budget are designed to translate the Fund's beliefs, strategy and culture into clear, tangible actions and outcomes. They are considered and set by Committee annually in March, and the Committee receives and considers a formal mid-year review of progress and forecast outturn each December.
- 1.3.5. Monitoring of progress against the plan and budget is undertaken by officers informally throughout the year and any significant matters reported on an ad hoc basis to the Committee as appropriate. The Local Pension Board (LPB) also has oversight of the Fund's business plan and budget which ensures it remains appropriate to meet the underlying interests of clients & beneficiaries.
- 1.3.6. The Business Plan and Budget for 2021/22 were agreed at the meeting of the Committee on 16<sup>th</sup> March 2021<sup>2</sup> and progress against the plan was reviewed at the 10<sup>th</sup> December meeting of the Committee<sup>3</sup>. The draft accounts for the year – including a summary of business plan achievements - were reported to the Committee at its meeting in June 2022<sup>4</sup>.
- 1.3.7. Key elements of the business plan for the year which relate to investment beliefs, strategy and culture and which enable effective stewardship were:

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<sup>1</sup> For further information about LAPFF please see <https://lapfforum.org/about/>

<sup>2</sup> Plan setting:

<https://councilportal.cumbria.gov.uk/documents/s113416/PENSIONS%2016.3.21%20DRAFT%20PENSIONS%20ADMINISTRATION%20BUDGET%20202122%20AND%20BUSINESS%20PLAN%20PART%201.pdf>

<sup>3</sup> Plan review:

<https://councilportal.cumbria.gov.uk/documents/s119378/PENSIONS%2010.12.21%20HALF%20YEAR%20UPDATE%20OF%20THE%20PENSIONS%20ADMINISTRATION%20BUDGET%20202122%20AND%20BUSINESS%20PLAN%20.pdf>

<sup>4</sup> Draft Accounts 31 March 2022:

<https://councilportal.cumbria.gov.uk/documents/s123833/Appendix%201%20CPC%2016%2006%202022%20-%20Draft%20Unaudited%20Accounts%20to%2031%20March%202022.pdf>

<b>A. INVESTMENT MANAGEMENT – Investment Strategy</b>
<b>Planned activity</b>
Investigating and implementing suitable investment options to implement the Investment Strategy (the Strategy) approved by the Committee in December 2019 and revised in March 2021.
<b>Actions taken</b>
<p>In December 2019 the Pensions Committee approved an amended investment strategy. In 2020 it was recognised that the COVID-19 pandemic had had a material impact on investment markets and that this could have significant implications for expected returns on assets going forwards. A ‘sense-check’ of the strategy was therefore undertaken to take stock of the situation. The aim of this work was to ensure that the strategy would continue to enable the Fund to deliver its long-term primary goal of generating returns required to fund our members’ current and future pensions.</p> <p>In line with the Fund’s core principle that it should obtain and maintain the appropriate knowledge and skills to understand the investments and risks undertaken within the Fund, this work was undertaken with the assistance of an external consultant and additional training was provided to the Investment Sub Group (ISG) and Officers.</p> <p>In recognition of the Fund’s core belief that good governance improves the quality of decision-making the ISG and the Committee were regularly appraised of progress throughout the process. The revised Target Investment Strategy and Investment Strategy Statement (ISS) can be found at section 4 of the <b>Fund policy document</b>.</p>
<b>Outcomes</b>
<p>In order to serve the best interest of its beneficiaries, the strategy is designed to deliver long-term value. As such it is too early to assess whether this goal has been achieved, however monitoring of performance, including quarterly updates from the Fund’s actuary providing an estimate of an updated Funding position, indicate that the Fund is on track to meet its objective despite the volatility in investment markets during the year. As at 31<sup>st</sup> March 2022 the estimated funding position was 110% and performance over the 10 years to that date was 9.1% p.a. against a benchmark of 8.2% p.a.</p> <p>Work on implementing the Strategy is ongoing.</p>

<b>B. INVESTMENT MANAGEMENT – Investment pooling</b>
<b>Planned activity</b>
Liaising with the Fund’s chosen pooling company - BCPP - to ensure that suitable opportunities exist within the pool for the Fund to transition to its amended Investment Strategy.
<b>Actions taken</b>
<p>During the year the Fund has continued to work with BCPP and Partner Funds on the design and build of appropriate investment funds to meet the strategic investment needs of the Fund and Partner Funds in the pool. This work has been undertaken through numerous workshops and has included oversight and challenge of the pool through mechanisms such as:</p> <ul style="list-style-type: none"> <li>• Quarterly meetings of the Joint Committee;</li> <li>• Regular S151 Officer meetings;</li> <li>• Regular Officer Operations Group (OOG) meetings; and</li> <li>• Quarterly monitoring meetings for live investment funds.</li> </ul>
<b>Outcomes:</b>
<p>Through the pooling activity undertaken during the year the Fund has sought to deliver a number of objectives which will assist it in achieving our long-term primary goal of generating returns required to fund our members’ current and future pensions. It is still relatively early days so it is not yet possible to fully quantify how pooling has contributed to our goal, but key areas of progress include:</p> <ol style="list-style-type: none"> <li>a) Delivering cost savings through economies of scale. These will help manage scheme employer (key stakeholder) contribution rates thus achieve one of central government’s (a key stakeholder) key aims.</li> <li>b) The Fund has continued to be active in influencing the range of sub-funds that are provided by BCPP with the aim of ensuring the ability to implement as much of its Investment Strategy as possible through the pool, being mindful that it is one of eleven Partner Funds. BCPP launched a Multi-Asset Credit sub-fund in late 2021. Sub-funds currently under development include UK and Global Property, in addition to further vintage funds in Alternatives; Infrastructure, Private Equity and Private Credit.</li> <li>c) Continuing to improve our approach to responsible investment (of benefit to all stakeholders). BCPP and Partner Funds have continued to work together on three key areas of Responsible Investment: <ol style="list-style-type: none"> <li>i. Embedding ESG into the investment process from conception through to launch and beyond: An example of this is – Rather than being used to preclude certain investments, ESG factors are used to provide additional context for stock selection. For example, in 2020/21 the decision was made not to invest in the initial public offering of Deliveroo due to the very aggressive valuation, governance concerns regarding the share class structure and the treatment of employees.</li> </ol> <p>ESG data and research from specialist providers is used alongside general stock and sector research; it is an integral part of the research process and when considering portfolio construction, sector analysis and stock selection.</p> </li> </ol>

<p>ii. Aligning RI and ESG approaches where possible: this includes an annual review of the BCPP RI and voting guideline documents by both the Joint Committee and individual Partner Funds. During 2021/22 BCPP published their first standalone Climate Change Policy, developed in conjunction with Partner Funds. They also announced their commitment to achieving net zero greenhouse gas (GHG) emissions across investments by 2050, or sooner, and are working with Partner Funds to implement metrics and targets to work towards this.</p> <p>iii. Improving engagement with other investment managers: as noted at <b>3.3.3</b> of <b>Principle 3</b> the Fund is working with BCPP and Partner Funds to improve how it engages with its other investment managers on their approach to stewardship. Work to date includes entering into an Investment Oversight Agreement with BCPP whereby the pool company provides Funds with an oversight service in relation to Legal &amp; General’s (LGIM) management of the passive funds. The Fund received the first Responsible Investment Oversight Report in early 2022.</p>
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<b>C. OVERSIGHT AND GOVERNANCE – Training</b>
Please see 2.5.3 in Principle 2.

<b>D. OVERSIGHT AND GOVERNANCE – Response to financial, regulatory and structural change</b>
<b>Planned activity</b>
Review of governance arrangements in response to financial, regulatory and structural changes.
<b>Actions taken</b>
2021/22 has seen the Fund continuing to prepare for the expected regulatory changes in relation to the Taskforce for Climate-related Financial Disclosures (TCFD); the Scheme Advisory Board’s (SAB) ‘Good Governance Review’ and the McCloud Judgement. The Fund has also responded to consultations on Special Severance Payments and the Pension Regulator’s New Code of Practice. From an asset stewardship perspective, key developments include the approval by the FRC of the Fund’s Stewardship report for 2020/21 in April 2022.
Work has continued during the year with the task and finish group of Partner Funds (RI Working Group) – with input from BCPP. This was set up in 2020 to develop an approach to meeting the requirements of the 2020 Stewardship Code. Since then the group has widened its remit to consider all aspects of RI and, during 2021/22, has focussed on gaining a greater understanding of and progress working towards developing a co-ordinated approach towards the setting of net zero metrics and targets ahead of the anticipated publication of the TCFD regulations in late 2022.

From a Fund perspective, the Fund has continued its membership of LAPFF, a collaborative shareholder engagement group for Local Authority Pension Funds. Further detail of this is set out under **principle 9** at **9.4** but in summary during the year LAPFF has continued to use its collective presence in the market to progress matters of corporate governance in the companies owned by its member Funds, and thereby enable the Fund to indirectly influence these companies.

Furthermore, additional workshops and training sessions have been held for Members of the Committee to consider key matters. This included a workshop in January 2022 designed to enable the Committee to consider and further develop the Fund’s approach to RI.

**Outcomes**

Key outcomes include:

- The approval by the FRC of the Funds Stewardship Code for 2020/21 in April 2022;
- BCPP published their first standalone Climate Change Policy, which was developed in collaboration with Partner Funds; and
- Further progress on evolving the Fund’s approach to RI and reflecting this in the Fund’s policy document. Again, the Fund recognises that this is an iterative process and work is ongoing but a summary of the Fund’s current approach to RI can be found at:

**<https://www.cumbria.gov.uk/elibrary/content/internet/536/654/1129/17170/43754134337.docx>**

<b>E. OVERSIGHT AND GOVERNANCE – Policies &amp; strategies</b>
<b>Planned activity</b>
Reviewing and updating the Fund’s risks, policies and strategies
<b>Actions taken &amp; Outcome</b>
These are summarised in <b>Principle 5</b> of this report at: <b>5.2</b> and <b>5.5</b> .

**SUMMARY OUTCOME: The Fund considers that in terms of the work undertaken in the year they have been effective in serving the best interests of clients and beneficiaries.**

1.4. **Future improvements:** As noted in section 2.5.3, officers and members of the Fund have attended a number of workshops and events on Responsible Investment (RI). Climate and investment reporting has been a key focus of much of these sessions and the Fund is looking to build on the knowledge gained from them to assist it in developing its own reporting. The scope and content of the reporting will be informed by future regulations which are expected to be subject to consultation in late 2022.

### PRINCIPLE 2: Signatories' governance, resources and incentives that support stewardship

#### 2.1. Governance structure:

- 2.1.1. [The Fund believes that effective internal governance arrangements are fundamental to effective stewardship.](#) Also, as a Local Authority, it must adhere to applicable regulations such as the Local Government Act 2000 and LGPS specific regulations such as the Local Government Pension Scheme Regulations 2013. As such, the governance structures and processes for the Fund are designed to comply with relevant regulatory requirements whilst also seeking to deliver effective oversight and accountability and, ultimately, effective stewardship.
- 2.1.2. Details of the governance arrangements for the Fund are set out in its Annual Report<sup>5</sup> and in the Constitution of Cumbria County Council<sup>6</sup> but in summary the core governance arrangements of the Fund consist of the elements shown in the diagram overleaf.
- 2.1.3. Details of how these are resourced, including the workforce structure and information about qualifications, experience and training are set out in section 2.2 below. To support to the core governance arrangements summarised in the diagram, the Fund also accesses a number of specialist service providers. Further details of these are set out in sections 2.2.10 and 2.3 below.

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<sup>5</sup> 2020/21 Annual Report (the 2021/22 Annual Report will be published either on or by 1<sup>st</sup> December 2022). Details of the Funds governance arrangements are set out in section 7 on pages 74-82 and Appendix A-2 on pages 165-179.

<https://www.cumbria.gov.uk/elibrary/Content/Internet/536/654/1129/17170/17664/44530131117.pdf>

<sup>6</sup> <https://www.cumbria.gov.uk/council-democracy/constitution/default.asp>

Cumbria Pensions Committee: <https://www.cumbria.gov.uk/council-democracy/constitution/part2/decisionmakingbodies/2h.asp>

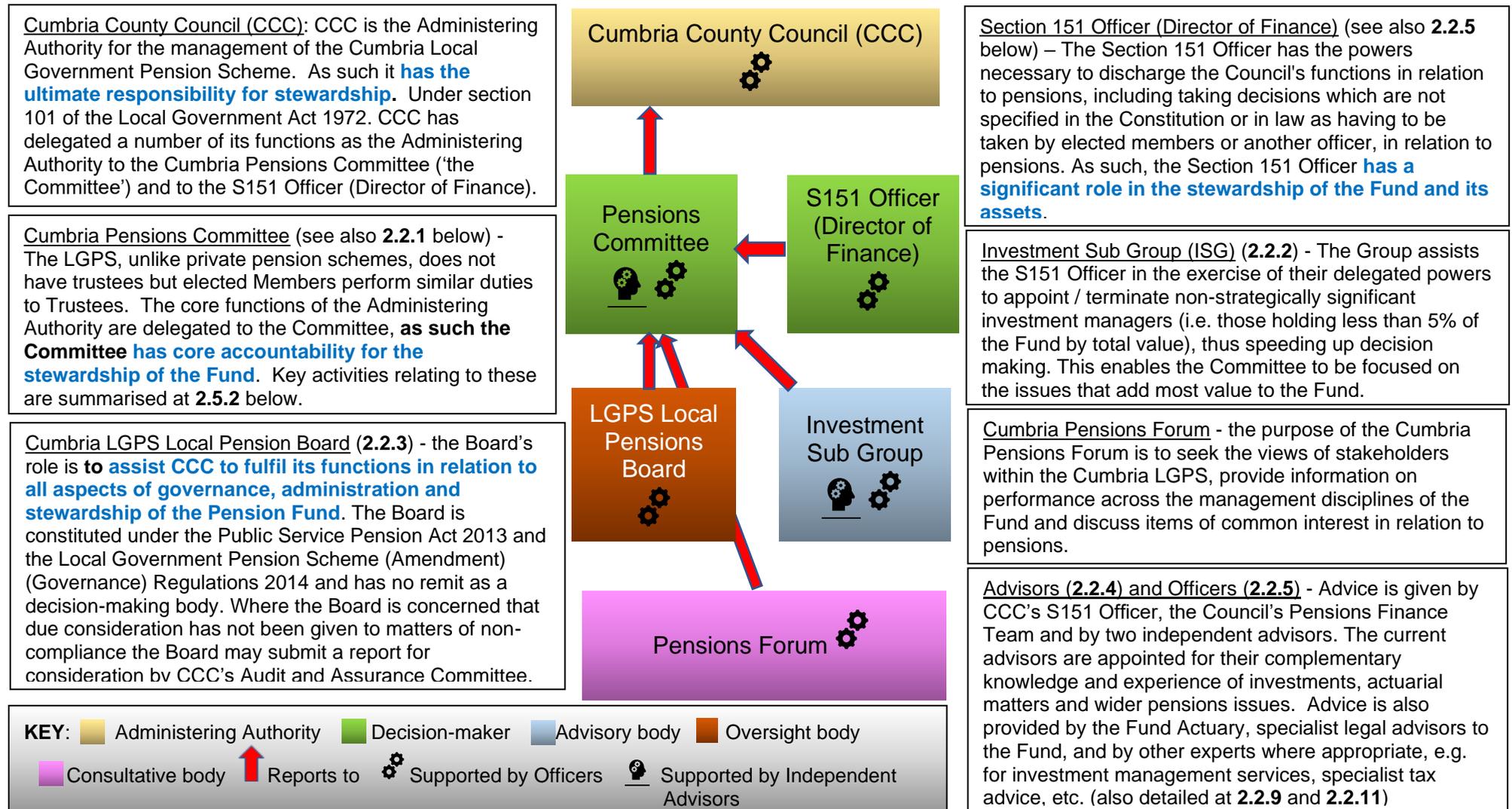
Investment Sub Group: <https://www.cumbria.gov.uk/council-democracy/constitution/part2/otherpanels/2o.asp>

Cumbria Pensions Forum: <https://www.cumbria.gov.uk/council-democracy/constitution/part2/otherpanels/2r.asp>

Cumbria LGPS Local Pension Board: <https://www.cumbria.gov.uk/council-democracy/constitution/part2/otherpanels/2p.asp>

## PURPOSE & GOVERNANCE

## PRINCIPLE 2 – Governance, resources and incentives supporting stewardship



**2.2. Resourcing of stewardship activities:**

2.2.1. Cumbria Pensions Committee: The membership of the Pensions Committee comprises 8 members of the County Council plus 1 co-opted district councillor representing the 6 district councils in Cumbria and 2 non-voting employee representatives. Equal weight is given to each member’s vote with the Chair having the casting vote should the need arise. Further details can be found at:

**<https://www.cumbria.gov.uk/council-democracy/constitution/part2/decisionmakingbodies/2h.asp>**

2.2.2. The Investment Sub Group (ISG): Membership of the ISG consists of (a) 3 members of the Pensions Committee (including the Chair of the Committee). Members, excluding the Chair, will be selected by the Pensions Committee; (b) the Independent Advisors (or investment consultants to the Pensions Fund at the invitation of the ISG if the independent advisors are unable to attend); and (c) 2 senior officers of the County Council with responsibilities for the management of the Pensions Fund including the Section 151 Officer and the officer with the responsibility of senior investment officer to the Pensions Fund.

2.2.3. Cumbria LGPS Local Pension Board (the LPB): The LPB is composed of 3 employer representatives (allocated: 1 to Cumbria County Council, 1 to the District Councils, and 1 for all other employers within the Cumbria Fund); and 3 member (current and former employees) representatives (selected to ensure all membership groups within the Fund are covered). Further details can be found at: **<https://www.cumbria.gov.uk/council-democracy/constitution/part2/otherpanels/2p.asp>**

2.2.4. Independent Advisors: As noted above, the Independent Advisors are appointed for their knowledge of investments and of pension funds; one advisor being primarily an investment specialist, the other complementing these investment skills with actuarial knowledge of the liability profile of the Fund.

Independent Advisor		Principle specialisms
<b>Mr AJ Sutherland</b>	Horizon Investment Advisory Limited	Investment Specialist
<i>resigned at the end of 2021/22 and replaced by :-</i>		
<b>Dr B Swarup</b>	Camdor Global Advisors Ltd	Investment Specialist
<b>Mrs C Scott</b>	Giffordgate Limited	Qualified Actuary (with extensive LGPS governance and investment experience)

2.2.5. S151 Officer and LGPS Pensions Officers: the experience, qualifications and structure of the team of officers supporting the Council in carrying out its functions as Administering Authority for the Cumbria LGPS Fund is included below. Additional resource was added to the Pensions Administration team in October 2021, and in March 2022 the Pensions Committee approved additional resource for the Investments and Governance team in recognition of the increasing workload in relation to responsible investment and ESG issues. Both posts strengthen the resourcing of effective stewardship of the Fund.

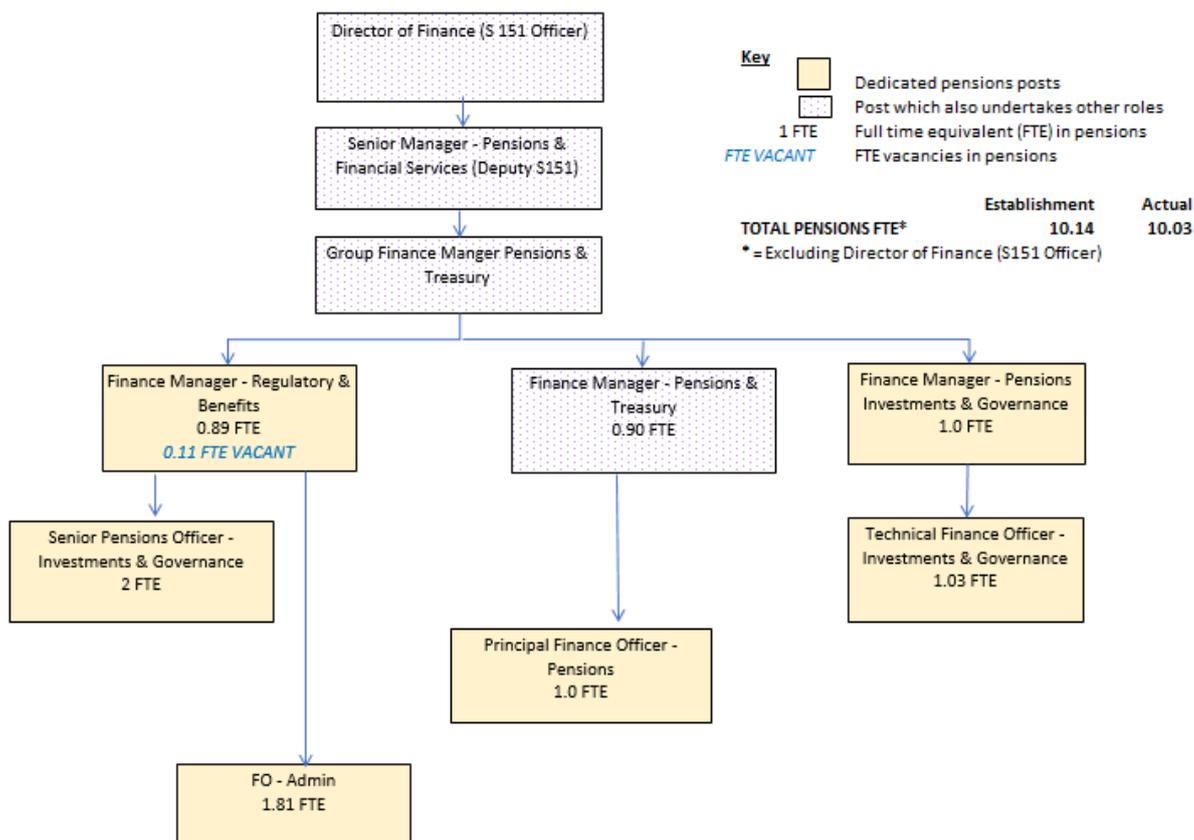
**Experience**

< 1 year experience	0%
1-5 years' experience	10%
6-10 years' experience	34%
11-15 years' experience	8%
> 15 years' experience	48%

**Relevant formal qualifications**

Formal qualification	60%
No formal qualification	40%

S151 Officer and LGPS Pensions Officers team structure (during 2021/22):



2.2.6. Diversity Neither the Fund nor the Council currently formally reports on workforce diversity although the Council does report on the Gender Pay Gap. The latest report on this can be found at: <https://cumbria.gov.uk/aboutyourcouncil/councilstructure/paygapreport2021.asp> . The council is committed to promoting

equality and diversity - as an employer, in the services we provide, in partnerships, and in the decisions we make. The council’s approach to Equality and Diversity is set out online at: <https://cumbria.gov.uk/equalities/default.asp>.

2.2.7. Training: A core principle of the Fund and a major factor in its governance and stewardship arrangements is ensuring Committee Members and Officers have appropriate skills and knowledge. Training helps build and maintain a strong culture of good governance; assists in the identification and implementation of investment beliefs, strategy; and ultimately supports and enables effective stewardship. In recognition of this, the Fund has a training policy and plan in place.

2.2.8. The plan and policy are designed to ensure that Officers and Members meet the knowledge and skills obligations and expectations set out in regulation and as articulated by relevant bodies such as the Pensions Regulator and CIPFA. In line with good practice the policy is designed to be dynamic and aligned to the work programme, national policy and regulatory changes. The plan and policy are considered and set by Committee annually in March, and the Committee receives a formal mid-year review of progress against the plan each December. Monitoring of progress against the plan is undertaken by officers informally throughout the year and any significant matters reported on an ad hoc basis to the Committee as appropriate. Details of training undertaken during the year are set out below at **2.5.3**.

2.2.9. Systems, processes, research and analysis: The Fund does not undertake any investments directly - it engages external managers to invest on its behalf. As such it draws on specialist systems, processes, research, analysis and reporting from its external advisors and investment managers to support its stewardship activities. To ensure that these external systems, processes etc. are operating effectively, the Fund undertakes a review of internal control reports from its key managers as part of its year-end accounting processes. Work undertaken as part of the 2021/22 year-end has identified that controls and processes are operating in line with expectations.

2.2.10. Other Advisors: The Fund’s principle professional advisors are summarised in the table below along with details of the key services they provided to the Fund during the year:

Specialism	Company	Key Services provided during the year
Actuary	Mercer Ltd	Work undertaken includes: IAS 19 valuations; preparation work for the triennial valuation; in addition to advice on bulk transfers, advice on admissions, input into the review of the Investment Strategy and provision of funding updates.
<b>Pensions Administration (a delegated function from Cumbria County Council to</b>	<b>Local Pensions Partnership Administration (LPPA)</b>	Work undertaken by LPPA includes the provision of core administration services such as the maintenance of member

Specialism	Company	Key Services provided during the year
Lancashire County Council) <sup>7</sup>		records, undertaking relevant pensions calculations and the provision of a Helpdesk and email facility for enquiries for both members and employers.
Auditor	Grant Thornton UK LLP	Annual statutory audit of the Fund's Financial Statements.
Bank	National Westminster Bank PLC	Banking services.
Custodian & Performance Monitoring	Northern Trust Company (from Oct 2020)	Record keeping/custody of the Pension Fund's pooled funds, passive funds and cash; settlement of subscriptions, redemptions, capital calls, distributions; investment accounting quarterly and annually to LGPS/IFRS regulations; ONS reporting; and performance reporting.
Investment Consultant	Isio	Review of the Fund's Target Investment Strategy.
Legal - LGPS	Eversheds Sutherland	Provision of specialist advice on aspects of the laws and regulations of England relevant to LGPS funds and pools, Administering Authorities, and scheme employers (in respect of their participation in the LGPS) e.g. investment work, benefit administration, employer bodies & governance work.
Legal – General	Cumbria County Council Legal Services	Provision of general advice on laws and regulations relevant to the Council and the Fund.
Legal – Class Actions	Institutional Protection Services (IPS) / Labaton Sucharow (class actions)	To file claims in opt out and opt in shareholder/non-shareholder anti-trust class actions, group investor actions and Direct actions on behalf of the Fund.
Performance Monitoring	PIRC - Local Authority Pension Performance Analytics	Peer Group Analysis: participation in the Local Authority Universe and customised analysis. IFRS Sensitivity Analysis: provision of sensitivity template to calculate potential volatility for annual report and accounts.

2.2.11. Investment Managers: As previously noted the Fund does not undertake any investments directly, it engages external managers to invest on its behalf. The below table sets out the managers currently engaged by the Fund to manage its investment assets and the proportion of assets invested with each manager. This includes BCPP which, as detailed below at **2.3**, is the Fund's chosen approach to meet the

<sup>7</sup> Further information can be found in Appendix A-3 of the Fund's Annual Report.

Government's requirement to pool investment assets in the LGPS in England and Wales.

Manager	Core Asset Class	% of Fund at 31/03/22
Aberdeen Standard Investments	Direct & Indirect property, UK corporate bonds and cash	6.4
Apollo Management International	Multi Asset Credit	4.6
Aviva	Long lease property	1.3
Barings	Private Loan Funds	1.5
BlackRock Investment Management <sup>8</sup>	Alternatives	0.1
BCPP – see section 2.3 below	Active UK & Global equities, Private Equity and Infrastructure	38.5
CQS	Multi Asset Credit	3.7
HealthCare Royalty Partners	Healthcare royalties	1.3
Hearthstone Investments (Langham Hall Fund Mngt)	Residential Property Fund	0.1
Insight Investments	Cash funds and securities	0.3
JP Morgan	Infrastructure	5.1
Legal & General Investment Management	Passive equities, gilts, cash and currency hedge	22.4
M&G	Real estate debt & long lease property	1.3
Pantheon Ventures	Private Equity	2.0
Partners Group	Infrastructure & Private Market Credit	4.9
PIMCO Investment Management	Multi Asset Credit	0.9
SL Capital Partners	Private Equity Secondaries, Infrastructure	2.1
Unigestion	Private Equity Secondaries	1.3
Various including Federated Investors and Northern Trust	Cash	2.2

### 2.3. Pool governance structure and resourcing:

2.3.1. As noted above, BCPP<sup>9</sup> is the Fund's chosen approach to meet Government's requirement to pool investment assets in the LGPS in England and Wales<sup>10</sup>. It is the

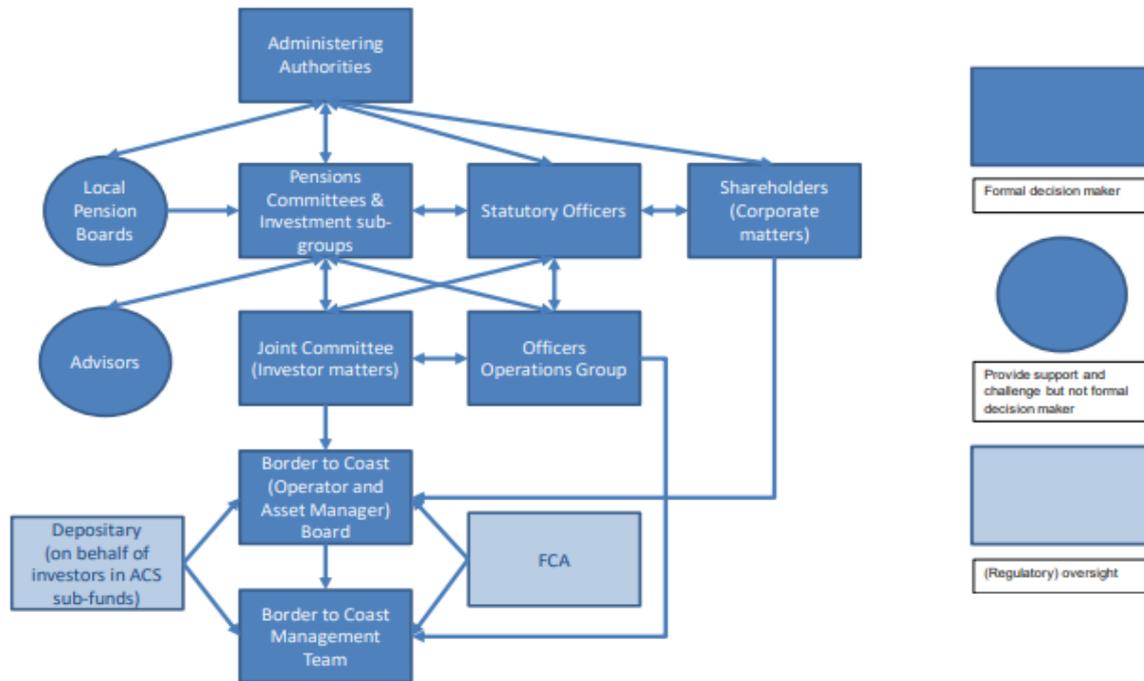
<sup>8</sup> BlackRock: to June 2012 – remaining funds held until maturity

<sup>9</sup> <https://www.bordertocoast.org.uk/about-us/>

<sup>10</sup> On 1<sup>st</sup> November 2016 the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force. These regulations and the associated statutory guidance require all of the Local Government Pension Scheme Funds (LGPS) in England and Wales to combine their assets into a small number of investment pools.

Fund’s intention to invest its assets via BCPP as and when suitable sub-funds become available.

2.3.2. The Fund is 1/11th equal shareholder in the company<sup>11</sup>, with the other equal shareholders being 10 other LGPS funds. The diagram below shows the governance structure in place to ensure that appropriate oversight of BCPP is carried out both from a shareholder and an investor perspective:



2.3.3. Further details of the Governance structure of the company can be found at: <https://www.bordertocoast.org.uk/wp-content/uploads/2022/03/Governance-Charter-2021.pdf>

2.3.4. From the Fund’s perspective, the key mechanisms enabling it to have appropriate oversight of the company and hold it to account so as to ensure the effective stewardship of the Fund’s assets invested with BCPP include:

- a) The Joint Committee: the Fund is represented on the Joint Committee (by the Chair of the Pensions Committee) where investment operations of the company are overseen. During 2021/22 the Vice Chair of the LPB was one of the two elected Scheme Member representatives on the Joint Committee.

The Secretary of State approved BCPP as meeting the requirements of the Investment Reform and Criteria document by letter dated 12<sup>th</sup> December 2016. At its meeting on 17<sup>th</sup> February 2017, the County Council resolved that BCPP be adopted as the Council’s chosen approach to meet the requirement to pool assets in the LGPS.

<sup>11</sup> <https://www.bordertocoast.org.uk/about-us/partner-funds/>

- b) Shareholder representative: the Chair of the Pensions Committee (Vice Chair to act in the Chair's absence) is appointed as Cumbria's appointed representative to exercise the rights of the Administering Authority as shareholder of BCPP<sup>12</sup>.
- c) The Officer Operations Group and Statutory Officer group: Officers of the Fund attend both of these groups.
- d) Non-Executive Directors: two shareholder-nominated (from partner funds) Non-Executive Directors have been appointed to the Board of the company who provide oversight of the Company.

2.3.5. In addition to this:

- a) The Fund monitors and reviews the investment performance of assets managed by BCPP, with Officers meeting with BCPP quarterly to discuss performance and formally reporting on performance to the Committee and ISG on a quarterly basis.
- b) Through its contractual arrangements, the Fund requires BCPP to maintain regular dialogue with companies, other investors and professional advisors, which allows them to monitor the development of company's businesses, corporate responsibility, financial performance, risk management (including those from environmental and social factors), capital structure, leadership team and corporate governance.
- c) The Fund in its capacity as a shareholder is able to influence the approach taken to incentives at the pool. The Fund supports BCPP's approach to reward at the pool, to ensure long term incentives are aligned with our objectives. As a shareholder, the Fund is able to consider and approve the amount of, or any increase in, remuneration payable to any directors at the Company.
- d) The Fund also supports BCPP's approach to engagement and voting rights to ensure the companies in which it invests are incentivised to deliver long term shareholder value. Further details of this can be found in the sections relating to **Principles 9, 11 and 12**.

### 2.4. Incentivising the integration of stewardship into investment decision-making:

2.4.1. As previously noted, the Fund does not directly invest itself. Instead, it appoints investment managers to do this on its behalf. As such, the Fund seeks to incentivise the integration of stewardship into investment decision-making both internally (i.e. when setting its Investment Strategy) and externally (i.e. when appointing specialist advisors

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<sup>12</sup> This was agreed by Full Council at its meeting on 16 February 2017 – minutes detailing agenda item 88 on page 9 at: <http://councilportal.cumbria.gov.uk/documents/g9996/Printed%20minutes%2016th-Feb-2017%2010.00%20County%20Council.pdf?T=1>

and investment managers to assist its governance processes and deliver its investment requirements).

2.4.2. Internal incentives: The key mechanism for motivating the integration of stewardship into investment decision-making internally is the Fund's governance structure. In particular, the setting of a clear Investment Strategy and investment beliefs and the ongoing monitoring of the performance of the Fund from the granular level (such as the performance of individual investments and the ESG activities of the investment managers), through to the strategic level (such as the triennial actuarial valuation and undertaking in-depth Investment Strategy reviews). The key activities undertaken in relation to this during the year ended 31<sup>st</sup> March 2022 are described at **2.5.2** below.

2.4.3. External incentives: the first step in this process is selecting external advisors and asset managers which are already closely aligned with the values of the Fund. As such, consideration of a provider's 'fit' with the Fund is a fundamental element of due diligence work prior to appointment. Furthermore, the Fund sets out clear requirements through its contracts / service level agreements. For example:

- In accordance with the Competition and Markets Authority (CMA) Investment Consultancy and Fiduciary Management Market Investigation Order 2019, the Fund has set clear objectives for its Independent Advisors and Investment Consultant. The objectives include setting a strategy based on the Fund's goals/objectives and providing advice and assistance to the Pensions Committee on any other relevant issues that could impact the Pension Fund's ability to meet its strategic objectives. During the year the Fund submitted its annual statement of compliance confirming that it has complied with the CMA's requirements. (See **Principle 8**)

2.4.4. Once appointed, the Fund incentivises providers to align the work they do for the Fund with the Fund's requirements and expectations in relation to stewardship through regular monitoring and evaluation of their performance and engaging with providers on an ongoing basis. For example:

- As noted in section **Pool governance structure and resourcing:(2.3)** above, the Fund in its capacity as a shareholder is able to influence the approach taken to incentives at the pool. The Fund supports BCPP's approach to reward at the pool, to ensure long term incentives are aligned with the Fund's objectives. As a shareholder, the Fund is able to consider and approve the amount of, or any increase in, remuneration payable to any directors at the company. The Fund also supports BCPP's approach to engagement and voting rights to ensure the companies in which the Fund is invested are incentivised to deliver long term shareholder value (further details on this are set out in the **Principles 9, 11 and 12** at **9.2, 11.1.1 and 12.2** respectively).

**2.5. Effectiveness of governance structures and processes in supporting stewardship**

2.5.1. The effectiveness of the Fund’s governance structures and processes has been demonstrated by their resilience during the ongoing COVID-19 pandemic. Key evidence of this is that all targets set within the 2021/22 Business Plan were achieved during the year with key tasks either completed, or ongoing work that is on track for completion and these have been delivered within the approved budget.

2.5.2. Core governance processes relating to the stewardship of its investment assets undertaken by the Fund during the year ended 31<sup>st</sup> March 2022:

Activity	Further information
<b>Production and monitoring of progress of the business plan for the year</b>	For further details please see <b>1.3.4</b> in <b>Principle 1</b> .
<b>Review of the Fund’s Target Investment Strategy</b>	For further details please see <b>1.3.4</b> in <b>Principle 1</b> .
<b>Review of BCPP’s Responsible Investment Policy &amp; Corporate Voting Guidelines</b>	Further details of this work can be found in <b>Principles 9</b> and <b>12</b> in this report. To assist in this review process, in January 2022 the Chair of the Committee held an informal workshop for members of the Committee.
<b>Formal annual review of Fund policies</b>	This is considered in detail in <b>Principle 5</b> .
<b>Overseeing performance of the Fund’s Investment Managers and BCPP</b>	This includes voting and engagement activities and is undertaken throughout the year with formal reporting to the Committee and ISG taking place on a quarterly basis.
<b>Production of the Pension Fund Accounts and Annual report</b>	The Accounts and Annual Report for the year ended 31 March 2021 were published in accordance with statutory timescales and can be found at: <a href="https://www.cumbria.gov.uk/elibrary/Content/Internet/536/654/1129/17170/17664/44530131117.pdf">https://www.cumbria.gov.uk/elibrary/Content/Internet/536/654/1129/17170/17664/44530131117.pdf</a> The Accounts and Annual Report for the year ended 31 March 2022 are currently being drafted and the final documents are due to be published in November and December respectively.
<b>Identifying and implementing appropriate investments to meet the requirements of the Fund’s Investment Strategy</b>	During the year the Fund identified and implemented a number of investments to meet the requirements of its Investment Strategy. These included: <ul style="list-style-type: none"> <li>• New investment commitments of £340m made to <b>BCPP private markets funds</b> (Border to Coast Infrastructure</li> </ul>

Activity	Further information
	<p>2022, Border to Coast Private Equity 2022 and Border to Coast Private Credit 2022);</p> <ul style="list-style-type: none"> <li>• A commitment to a <b>private market illiquid credit fund with a current manager</b> as the initial step towards achieving the Fund's increased strategic allocation to private debt from 4% to 14% of the Fund;</li> <li>• Reducing the Fund's holding in active UK equities (by c.4.5% of the Fund at that time) in favour of active non-UK equity (the <b>Border to Coast Overseas Developed Equity fund</b>) in order to reduce the significant concentration risks and sector biases in favour of a more diversified global exposure; and</li> <li>• A new investment made in the 'affordable housing' sub-sector of <b>residential property</b>.</li> </ul>
<p><b>Undertaking its role as a Shareholder of BCPP Limited</b></p>	<p>The Fund attended all Shareholder meetings (formal and informal) of the company. The Fund also attended all BCPP Joint Committee meetings. In addition, Officers attended other key governance meetings with BCPP including the Officer Operations Group, the Statutory Officers group and Responsible Investment workshops.</p>
<p><b>Training on relevant matters</b></p>	<p>For further details please see <b>2.2.7</b> above and <b>2.5.3</b> below.</p>
<p><b>Contributing nationally to the development of policy and regulation relating to the LGPS and wider public sector pensions policy.</b></p>	<p>During the year the Fund responded to the following consultations:</p> <ul style="list-style-type: none"> <li>• The Ministry of Housing, Communities &amp; Local Government (MHCLG) consultation - New best value statutory guidance: Special Severance Payments (August 2021); and</li> <li>• The Pension Regulator's consultation: The New Code of Practice (May 2021).</li> </ul>

2.5.3. Training: During the year ended 31st March 2022 the Fund agreed its training plan for the period at its meeting in March 2021<sup>13</sup>. In line with good practice the Fund undertakes a mid-year review of the training policy and this was considered by Committee in December 2021<sup>14</sup>. As anticipated in the mid-year report, all topics within the 2021/22 Training Plan were addressed during the year. In summary:

<sup>13</sup> Agenda item 11

<https://councilportal.cumbria.gov.uk/documents/s113397/PENSIONS%2016.3.21%20FUND%20POLICY%20DOCUMENT.pdf>

<sup>14</sup> Agenda item 10:

<https://councilportal.cumbria.gov.uk/documents/s119376/PENSIONS%2010.12.21%20TRAINING%20UPDATE%20AND%20FUTURE.pdf>

<b>Planned activity</b>
Provision of appropriate training for Committee members, LPB members and Officers to help build and maintain a strong culture of good governance; assist in the identification and implementation of investment beliefs, strategy; and ultimately support and enable effective stewardship.
<b>Actions taken</b>
<p>During the year ended 31st March 2022 the training plan focussed on six key themes, two of which are directly relevant to the stewardship of the Fund's investment assets. These, along with the activity undertaken in relation to them and the outcomes of that activity are summarised below:</p> <p><b>Themes:</b></p> <p>(B) Awareness of the revised UK Stewardship Code (2020) and how this links to shareholder engagement, responsible investing and the views of the wider community.</p> <p>(C) Consider the outcomes and implications of the Scheme Advisory Board's (SAB) 'Good Governance Review' for the Cumbria Fund.</p> <p><b>Activities:</b></p> <p>Training included:</p> <ul style="list-style-type: none"> <li>• In-house training sessions on:- <ul style="list-style-type: none"> <li>○ the RI landscape and direction of travel for officers and members.</li> <li>○ Roles &amp; responsibilities Re: Governance</li> </ul> </li> <li>• Officer &amp; Member attendance at a number of training events including the LAPFF Annual Conference &amp; LGA Annual LGPS Governance Conference.</li> <li>• Attendance at regular RI meetings held with BCPP and Partner Funds.</li> <li>• Attendance at regular meetings of the Scottish Asset Owners RI Group.</li> <li>• Webinar attendance - various e.g. Eversheds Cyber &amp; Data Breach training.</li> </ul>
<b>Outcomes</b>
<p>To assess the efficacy of the training (and to inform the next Training Plan) an annual Training Needs Assessment Questionnaire (TNA) is sent to all Members and Officers. It is based on the CIPFA Knowledge and Skills Framework. The questionnaire was updated in 2021/22 to ensure compliance with the new and expanded CIPFA Knowledge and Skills Framework. The original six areas of knowledge and skills have been expanded to eight areas that have been identified as the core technical requirements for those working in public sector pensions.</p> <p>The TNA asks them to score the level of their knowledge in each key area and the outcome of this has been fed into the Training plan for 2021/2022 with focus on those areas that score the lowest.</p> <p>Training has helped to build and maintain a strong culture of good governance; assisted in the identification and implementation of investment beliefs, strategy; and ultimately supported and enabled effective stewardship.</p>

We recognise that RI is an evolving area and the Fund is keen to continue to increase its knowledge and skills in this area and this will be reflected in future training plans.

## 2.6. Future improvements

- 2.6.1. In February 2021 the LGPS Scheme Advisory Board (SAB) published the Phase 3 outcomes of its review of governance in the LGPS<sup>15</sup>. The Fund has reviewed its governance processes against the recommendations made by the SAB and has identified areas where its governance structures and processes could be improved<sup>16</sup>. The LPB have been tasked with monitoring the Fund’s response to the Good Governance Review to help ensure the Fund complies with any amendments to the regulatory requirements for the LGPS arising from the Review and reports back on this to the Pensions Committee. All actions currently possible have been completed, with the remainder awaiting the publication of Statutory Guidance.
- 2.6.2. In preparation for the transfer of Administering Authority responsibilities as part of local government reorganisation in Cumbria, the Fund will be reviewing its governance arrangements. The findings of this work will form the basis for recommendations for the governance structure for the Fund post 31<sup>st</sup> March 2023.

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<sup>15</sup> <https://lgpsboard.org/index.php/good-governance>

<sup>16</sup> <http://councilportal.cumbria.gov.uk/documents/s115514/Good%20Governance%20Review%20Update.pdf>

**PRINCIPLE 3:** Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first

### **3.1. Conflicts of interest policies**

3.1.1. Conflicts of interest, including those relating to matters of investment stewardship, are currently managed according to Cumbria County Council's (as the Administering Authority of Cumbria LGPS Fund) Codes of Conduct. Members (i.e. of both the Pensions Committee and the LPB) and Officers of the Fund are required to observe the Council's Members' and Officers' Codes of Conduct respectively. The Codes are designed to promote and maintain high standards of conduct by Members and Officers of the Fund across all activities including the stewardship of the Fund's assets. They are out in the Council's Constitution and can be found at:

- Members' Code of Conduct and guidance: <https://cumbria.gov.uk/council-democracy/constitution/part4/4b.asp>
- Officers' Code of Conduct (including conflicts of interest): <https://cumbria.gov.uk/council-democracy/constitution/part6/6b.asp>

3.1.2. As noted below at **3.4.1**, once the anticipated further guidance is issued on implementing the outcomes of the Scheme Advisory Board's Good Governance Review, the Fund will look to introduce an LGPS specific conflicts of interest policy.

### **3.2. Identification and management of conflicts of interest**

3.2.1. The Council delegates responsibility for the management of the Fund to the Director of Finance (S151 Officer) and the Pensions Committee. This includes the overall responsibility to ensure that systems, controls and procedures are adequate to identify, manage and monitor Conflicts of Interest.

3.2.2. In order to be able to identify and manage potential and actual conflicts of interest, Members, Advisors and Officers responsible for governing the Fund need to have a clear understanding of them. As such, training is a key tool to ensure Members and Officers are aware of and understand their responsibilities in relation to the Fund, including the identification and management of conflicts of interest. Further details on the Fund's training policy and plan can be found in **Principle 2** at **2.5.3**.

3.2.3. Other key steps: the table below sets out the key steps employed by the Fund in the identification and management of actual and potential conflicts of interest relating to the stewardship of the Fund's assets. Case studies of how actual or potential conflicts have been addressed are set out at **3.3** below.

Identification	Management
<p><b>Members of the Pensions Committee and LPB ('Members'):</b> The Code of Conduct requires that all Members must declare any pecuniary or other registerable interests.</p> <p>The Code of Conduct requires that Members consider whether they have an interest in any matter on the agenda for a meeting and if so whether there is a need to disclose such an interest.</p> <p>All formal meetings of the Committee and LPB have 'disclosures of interest' as a standing item on the agenda. At that point each Member formally considers conflicts of interest they may have in any item on the agenda or during discussions throughout the meeting and the outcome is declared in the public minutes.</p>	<p>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 e.g. the Chair of the Pensions Committee:</p> <p><b><a href="https://councilportal.cumbria.gov.uk/mgDeclarationSubmission.aspx?UID=157&amp;HID=1256&amp;FID=0&amp;HPID=38765077">https://councilportal.cumbria.gov.uk/mgDeclarationSubmission.aspx?UID=157&amp;HID=1256&amp;FID=0&amp;HPID=38765077</a></b></p> <p>Full details of the process for the management of declarations of interests at meetings are set out in Part 4B section 3 of the Constitution (<b><a href="https://www.cumbria.gov.uk/council-democracy/constitution/part4/4b.asp?row=6">https://www.cumbria.gov.uk/council-democracy/constitution/part4/4b.asp?row=6</a></b>).</p> <p>Unless a dispensation has been granted, they must then leave the meeting room and may not participate in any discussion, vote on, or discharge any function related to the matter.</p>
<p><b>Advisors to the Fund:</b> In accordance with the Council's Constitution<sup>17</sup> on appointment Independent Advisors are required to sign a declaration statement outlining any potential conflicts they may have.</p> <p>Once appointed they must immediately report any changes of circumstance directly to the Chair of the Committee for their consideration and further action should this be necessary.</p>	<p>Post appointment: where a matter arises, which presents a potential or actual conflict of interest then the action taken to manage the conflict is considered by the Chair of the Committee in consultation with Fund Officers. Examples may include requiring the Advisor to not participate in the relevant discussion or to leave the meeting during the consideration of the matter.</p> <p>Narrative about consideration of conflicts during the appointment process is detailed at <b>3.3.2</b> below.</p>
<p><b>Officers of the Fund ('Officers'):</b> The Officers' Code of Conduct requires that Officers make a formal declaration about any financial or non-financial interests which could bring about a potential or actual conflict of interest. Such declarations should be discussed with their line manager and submitted using the Council's online reporting tool.</p>	<p>Where a potential or actual conflict of interest is identified then the Officer is removed from the relevant workstream.</p> <p>In line with the Officers Code of Conduct the interactions of officers with Investment Managers is subject to the requirement for any gifts or hospitality to be declared and captured by the Fund. Any promotional material from Investment managers is collected and raffled annually with proceeds being donated to charity.</p>
<p><b>Investment Managers:</b> The Fund expects the asset managers it employs to have effective stewardship policies including</p>	<p>The Fund collaborates with other Partner Funds and BCPP on an ongoing basis through Responsible Investment workshops and by feeding into the annual</p>

<sup>17</sup> Part 2H, Section 3.2(f) <https://www.cumbria.gov.uk/council-democracy/constitution/part2/decisionmakingbodies/2h.asp>

Identification	Management
<p>conflicts of interest and voting &amp; engagement, and that these are all publicly available on their respective websites.</p> <p>These are considered as part of due diligence work undertaken prior to the appointment of a manager and manager policies are informally considered as part of the annual review process (see <b>Principle 8</b>).</p>	<p><b>RI policy</b> review to facilitate the alignment of our approaches to stewardship where possible. See also <b>3.3.3</b> below.</p> <p>The Fund is also working to improve how it engages with its other investment managers on their approach to stewardship.</p> <p>Work to date includes entering into an Investment Oversight Agreement with BCPP whereby the company provides Funds with an oversight service in relation to Legal &amp; General’s (LGIM) management and stewardship of the passive funds including the provision of a comparison of LGIM and BCPP’s Responsible Investment Policy and Corporate Governance &amp; Voting Guidelines (highlighting any differences between these policies).</p>
<p><b>Other service providers to the Fund:</b> Consideration of potential and actual conflicts of interest is undertaken both prior to entering into a contract for service provision (i.e. at the procurement stage) and throughout the duration of the contract.</p> <p>For example, the requirement to undertake a conflict check to confirm that no conflicts of interest were present in the tender process completed in 2020/21 for Legal Services re-tender.</p>	<p><u>Procurement:</u> The Fund adheres to the Council’s Contract Procedure Rules<sup>18</sup> which set out a clear framework for the procurement of goods and services. The Rules state that Officers must comply with measures put in place by the Council to identify, prevent and remedy conflicts of interest which arise during procurement.</p> <p><u>Contract management:</u> Where a conflict is identified the steps taken will depend on the type of service provider. For example, if the Legal Services provider for the Fund is engaged to provide advice for a different client which creates a conflict of interest or a significant risk of one; then the Fund would ensure that the provider adheres to their obligations in relation to both parties’ conflicts of interest policies.</p>
<p><b>Political Interests and beliefs:</b> The primary mechanism for the identification of potential and actual conflicts relating to political matters is for Members of the Committee (particularly the Chair and Vice Chair who are members of different political parties), Members of the LPB, Officers (including the Democratic Services Officer who supports the Committee) and the Independent Advisors to the Fund to consider all matters from a neutral position focused on what</p>	<p>Whilst not formally stated as such, the Committee makes decisions on a politically neutral basis in order to deliver the overriding objective of the Fund (i.e. to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due).</p> <p>Senior Officers posts that are capable of influence within the Fund are politically restricted by regulation<sup>19</sup>.</p>

<sup>18</sup> <https://www.cumbria.gov.uk/council-democracy/constitution/part5/5h.asp>

<sup>19</sup> Part 1 of the Local Government and Housing Act 1989:

<https://www.legislation.gov.uk/ukpga/1989/42/part/II/crossheading/political-restriction-of-officers-and-staff>

Identification	Management
serves the best interests of clients and beneficiaries of the Fund.	

3.3. Outcomes

3.3.1. All Conflicts of Interest have been managed effectively during 2021/22 and some examples are detailed below.

3.3.2. Advisors to the Fund: In both 2020 and 2022 the Fund progressed the appointment of two new Independent Advisors. In 2020 the outcome of the procurement exercise was that the successful tenderer held a position with another partner fund in the BCPP ‘pool’. Both Officers and the Advisor were conscious that this presented a potential conflict and Officers reviewed the matter accordingly. The outcome of the review was that the nature of the Advisor’s role with the partner fund was clearly different to their role with the Fund (their role for the partner fund is as an advisor to its LPB which is a governance oversight body rather than a decision-making body). The difference between the roles effectively precluded a conflict materialising, particularly in relation to the investment and stewardship of the assets of the Fund. In 2022, the successful tenderer held a position with another LGPS Fund but there was deemed to be no Conflict of Interest. This is kept under close review.

3.3.3. Management of Stewardship Policies with BCPP: As owners of BCPP, all partner funds are involved in the development of the key stewardship policies within BCPP, namely the Responsible Investment Policy and the Corporate Governance and Voting Guidelines. There is a comprehensive and collaborative joint governance process to ensure that BCPP and each Pension Fund's own policies on Responsible Investment and Corporate Governance are aligned, to reduce the possibility of any conflicts in stewardship activity and ensure that RI activity undertaken by the Pool represents all partner funds beliefs. The annual governance process involves BCPP officers, partner fund officers, the Joint Committee, BCPP Board and the individual Fund Pension Committees (for further details see **Principle 9** section **9.2.3**). The latest BCPP Stewardship Policies were approved by the Pensions Committee at their meeting on 10 December 2021<sup>20</sup> as detailed in the minutes at item 29.

3.4. Future improvements

3.4.1. Fund-specific Conflict of Interest Policy: The Good Governance Review Phase 3 Report published by Hymans Robertson in February 2021, states that each fund must produce and publish a conflicts of interest policy. Following the implementation of the statutory guidance, the Fund will be required to publish a LGPS specific conflicts of interest policy based on the published Guidance and include conflicts for Pensions Committee members, LPB members and officers. The Fund will also consider the inclusion of

<sup>20</sup> <https://councilportal.cumbria.gov.uk/documents/g11922/Printed%20minutes%2010th-Dec-2021%2009.30%20Cumbria%20Pensions%20Committee.pdf?T=1> (Item 29)

## **PURPOSE & GOVERNANCE**

## **PRINCIPLE 3 – Conflicts of interest**

advisors and key contractors within this policy. Consideration will also be given as to how best to present and publish the Conflicts of Interest policy to ensure that it is easily accessible to users.

PRINCIPLE 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system

4.1. Identification of systemic & market-wide risks

4.1.1. The identification of and response to systemic and market-wide risks by the Fund is a key tool in its approach to addressing barriers to effective stewardship. For example, the incorporation of ESG considerations, such as climate change, into investment decisions can help improve long-term value by minimising the risk of, for example, stranded assets and the impact of regulatory change.

4.1.2. The Fund's risk management process is in line with that recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA). This is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities, which includes systemic and market-wide risks in addition to Fund-specific risks. Risk identification is enhanced through liaison with investment managers, other administering authorities and regional and national groups, including the SAB, CIPFA, and various investor collaborations and initiatives (see **Principle 10**).

4.1.3. Once identified, material risks are documented on the Fund's risk register, which is the primary control document for the subsequent analysis and classification, control and monitoring of those risks. The register is formally reviewed on a quarterly basis by the Committee and LPB.

4.2. Response to systemic & market-wide risks (examples are summarised from Cumbria LGPS risk register 2021/22)

Risk	Response
<p><b>Performance:</b> Adverse market movements impact on the Fund's long-term performance: e.g. Russian invasion of Ukraine, increases in inflation etc.</p>	<ul style="list-style-type: none"> <li>• Adherence to the Fund's Investment Strategy ensures that the assets of the Fund are invested in a diverse portfolio of investments, the impact on overall performance is therefore not as extreme as that experienced in any one asset class alone.</li> <li>• Potential new investments are closely scrutinised by officers and Fund Advisors to assess if the product meets the investment criteria of the Fund.</li> <li>• 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 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.</li> </ul>

Risk	Response
	<ul style="list-style-type: none"> <li>• <b>Inflation risk:</b> Recent revisions to the Fund’s target Investment Strategy included increasing the percentage of the Fund invested in inflation linked investments. Furthermore, as part of the 2022 valuation work, the Fund’s Officers and Advisors undertook a “sense check” of the Fund’s Investment Strategy to assess whether any changes are required in response to the impact of inflation – the conclusion was that no changes were currently required.</li> <li>• <b>Russian Invasion:</b> The Fund’s direct holdings in Russia, Belarus and Ukraine are less than 0.1% of the Fund however the impact of Russia’s invasion of Ukraine may impact more widely on global investment markets, e.g. due to the impact on fuel and food prices. Following the results of the 2022 valuation, a review of the investment strategy will be undertaken to consider any amendments required to ensure it remains fit for purpose. This review will consider the impact of all global events at that time, including the impact of the Russian invasion of Ukraine.</li> </ul>
<p><b>Regulatory Changes:</b> There is a risk that the LGPS is mandated to invest in particular markets or risks that may otherwise impact onto the sovereignty of the Fund.</p> <p>This may be caused by government policy or amendments to regulations.</p>	<ul style="list-style-type: none"> <li>• Officers of the Fund respond to government consultations where relevant to help influence policy.</li> <li>• Where relevant, the Fund will support lobbying or lobby directly to ensure that its voice is heard in the development of national policy.</li> <li>• Officers within the Fund ensure that they are aware of impending amendments to regulations and advise Pensions Committee and the LPB (and, where relevant, employers and scheme members) in a timely way as to any amendments and their impact to the Fund.</li> </ul>

**4.3. Working with other stakeholders and industry initiatives to promote a well-functioning financial system**

4.3.1. The Fund is a relatively small participant in the financial system and markets. As such, it is best placed to promote the continued improvement of the functioning of financial markets by working in partnership with other stakeholders and industry initiatives and by focussing on specific areas of risk.

4.3.2. During 2022, the Russian invasion of Ukraine was a key area of focus for working in partnership. Section 4.4 below sets out how the Fund has worked with its principal partner (BCPP) to address this. In addition to this, through its membership of and engagement with LAPFF the Fund has also supported work undertaken by the Forum to scrutinise the structure of wider market regulation within the UK as described at 4.5 below.

#### 4.4. BCPP and the Russian invasion of Ukraine

- 4.4.1. As previously noted, the LGPS is a defined benefit scheme which is open to new members, as such LGPS pension benefits are not impacted by short term market events and BCPP, as an LGPS pooling company, is therefore a long-term investor. In recognition of this the company continues to maintain focus on what it believes is a sustainable investment strategy to protect the long-term interests of its beneficiaries. Its investment strategy and approach were largely unaffected.
- 4.4.2. Activity: on 1<sup>st</sup> March 2022 BCPP strongly condemned the invasion and in response suspended any further investments in Russia, and continue to review existing holdings, including their approach to exiting as and when markets permit.
- 4.4.3. They also took the decision to suspend voting at Russian company meetings. This decision was taken following consultation with Robeco, as their Voting & Engagement partner and other industry participants and reflects their assessment of the risks involved in taking active decisions on exercising rights at that time.
- 4.4.4. Outcome: At the time of writing the war and its impact on markets are ongoing. As such both the Fund and BCPP continue to monitor the situation. From a Fund perspective, as well as continuing to monitor the situation the forthcoming detailed review of its investment strategy will consider the impact of all global events at that time, including the impact of the Russian invasion of Ukraine.

#### 4.5. LAPFF & Market Regulation

- 4.5.1. Activity: LAPFF has done a significant amount of work scrutinising the structure of wider market regulation within the UK. As reported in its 2020 *Annual Report*, LAPFF identified the role and structure of the Financial Reporting Council (FRC) as a root cause to a well-functioning market and campaigned for an overhaul of this body. LAPFF also engaged with the Financial Conduct Authority (FCA) for a period of time on this matter.
- 4.5.2. Outcome: In March 2019, the government announced that the FRC would be replaced by a new regulator, the Audit Reporting and Governance Authority (ARGA). LAPFF sees this as an opportunity to create a more stable, transparent and effective regulatory environment to promote a well-functioning market that will allow members to align their investments better with stewardship goals.
- 4.5.3. LAPFF have continued with this work during 2021/22. Further to Brexit, International Accounting Standards are now subject to endorsement by the UK. That function has been delegated to the UK Accounting Standards Endorsement Board (UK EB). LAPFF have been reviewing the Board's criteria for endorsement and raising concerns with them. Significant issues with its composition have been raised in Parliament.

**4.6. Future improvements**

- 4.6.1. During 2021/22 BCPP published their first standalone Climate Change Policy in collaboration with Partner Funds. The policy sits alongside the company's Responsible Investment Policy and other associated policies. During 2022/23 the Fund will continue to work with BCPP and its partner funds to evolve its approach to addressing climate risk and implementing metrics and targets to move towards net zero emissions by 2050, or sooner.

PRINCIPLE 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities

### 5.1. Introduction

5.1.1. The Fund's policies are the mechanism through which the Fund expresses and implements its investment beliefs, strategy and culture. They provide the framework for effective governance and stewardship – both of the Fund assets and of the Fund as a whole. The current Fund Policy document can be found at: <https://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp>

5.1.2. The following explain how the Fund addresses the three key elements of stewardship (**Responsible Allocation**; **Management**; and **Oversight**)<sup>21</sup> through the review of its policies (5.2), how it gains assurance in relation to its stewardship and why (5.3); and how the Fund has ensured its stewardship reporting is fair, balanced and understandable (5.4).

### 5.2. Policies

#### 5.2.1. Overview

- A. **Investment Strategy Statement:** This sets out how the Fund ensures the responsible allocation (i.e. investment) of its assets (**Responsible Allocation**) and how the investment risk and return issues have been managed relative to the Fund's investment objectives (**Management**). It sets out the Fund's compliance with the updated Myners' Principles and the Financial Reporting Council's UK Stewardship Code (**Oversight**).
- B. **Funding Strategy Statement:** This identifies how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities (**Responsible Allocation** and **Management**). It is subject to consultation with employers (**Oversight**).
- C. **Training Policy & Plan:** This supports the Fund's investment decision-making process (**Responsible Allocation**) as well as its **Management** and **Oversight** function by ensuring those involved in those functions for the Fund are appropriately skilled and knowledgeable.
- D. **Administration Strategy & Communications Policy:** This supports the Fund's communications with key stakeholders including beneficiaries of the Fund. This supports its **management** function by ensuring beneficiaries needs and views are

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<sup>21</sup> In line with the definition of stewardship as being "the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society" <https://www.frc.org.uk/investors/uk-stewardship-code#:~:text=Stewardship%20is%20the%20responsible%20allocation,economy%2C%20the%20environment%20and%20society>.

heard and understood by the Fund. It also supports informal *oversight* by ensuring that stakeholders are able to access information about the Fund and feed their views back to it.

E. **Admission & Termination Policy:** This seeks to ensure that the interests and rights of employers in the Fund (who are key stakeholders in the Fund) are protected when new employers are admitted to, and existing employers exit the Fund. (*Management*).

#### 5.2.2. Review Process

5.2.3. To ensure that the aforementioned core stewardship-related policies remain fit for purpose (i.e. continue to reflect the Fund’s purpose and investment beliefs as well as meeting regulatory requirements) the Fund updates them when required throughout the year. The review process seeks to ensure that the policy document complies with the requirement that it is fair, “balanced and understandable”. As such, it incorporates both fundamental changes, e.g. due to regulatory and/or legal changes, and more minor ‘housekeeping’ amendments for example to reflect the change to the financial year, to simplify language and to correct spelling, grammar and punctuation.

5.2.4. The first step of the review process is undertaken by Fund officers. The proposed changes to individual Policies are considered and approved at the next quarterly meeting of the Pensions Committee. In addition to this the Fund follows best practice and the Pensions Committee formally reviews the Fund Policy Document at least annually.

5.2.5. In addition to this, the LPB, in their role in assisting the administering authority to ensure the efficient and effective governance of the Cumbria LGPS, review all Pensions Committee papers at their quarterly meetings. Whilst the LPB has no remit as a decision-making body, as the Fund’s Policies are a key governance tool, it is important that they give Fund Policies appropriate consideration. This is included in the formal Work Plan for the Board which is reviewed on a quarterly basis to ensure it captures any arising issues.

5.2.6. The Fund’s review of its policies is reported as follows:

- Annual policy review: The review of the policies that were in place for the 2021/22 year was undertaken in March 2021, and can be found at:  
<https://councilportal.cumbria.gov.uk/documents/s113397/PENSIONS%2016.3.21%20FUND%20POLICY%20DOCUMENT.pdf>
- Ad hoc policy review: these are reported as part of the reports and minutes at the relevant Committee meeting. At the September 2021 meeting, amendments to the Admission & Termination Policy, and the Discretions Policy were approved:  
<https://councilportal.cumbria.gov.uk/mgAi.aspx?ID=63800>

### 5.3. How the Fund gains assurance in relation to its stewardship and why

- 5.3.1. Cumbria Local Pension Board (LPB): As detailed in **Principle 2**, the LPB's role is to assist CCC to fulfil its functions in relation to all aspects of governance, administration and stewardship of the Pension Fund. As such, it plays an integral part in providing assurance (**oversight**) that the Fund is undertaking its governance and stewardship (including the **responsible allocation** and **management** of its capital) effectively and appropriately. For further details of the LPB please see **2.2.3**
- 5.3.2. External Audit: The annual Fund Accounts for the Cumbria LGPS are subject to external audit (**oversight**) by Grant Thornton. The External Auditor prepares an 'Audit Findings Report' (AFR)<sup>22</sup>. This work provides assurance that the financial statements of the Fund, which include details of investment performance and other core stewardship information (**Responsible Allocation** and **Management**) such as expenditure in relation to budget, present a true and fair view of the financial transactions during the reporting year and of the amount and disposition of the Fund's assets and liabilities at the end of that year.
- 5.3.3. Internal Audit: Internal controls are in place to ensure procedures and policies, which provide the framework for effective governance and stewardship, are followed. Internal Audit undertake an audit (**oversight**) of the control environment (**Management**), subject to a pre-agreed remit, to provide an assessment on the internal controls in operation and whether they are applied consistently.
- 5.3.4. Actuary: The Actuary prepares the valuation and sets the contribution rates to ensure Fund solvency and long-term efficiency with due regard to LGPS Regulations (**Management**). The Actuary is instrumental in assisting the Fund in the production of its Funding Strategy Statement and the Actuary's valuation assumptions play a key role in the development of the Investment Strategy Statement (both of which are key stewardship policy documents). Importantly, the valuation is a key tool in assessing the appropriateness - thereby providing assurance (**oversight**) - of the Fund's Investment Strategy (**Responsible Allocation**).
- 5.3.5. Independent Advisors: The Fund appoints two external Independent Advisors, whose remit includes the provision of clear, concise and understandable investment and governance advice (**Responsible Allocation** and **Management**) to the Committee and the ISG; and supporting the Committee, ISG and Officers in developing and reviewing the Investment Strategy Statement relevant to the Fund's current funding level and risk appetite. Their input into and challenge of the Fund's approach to the stewardship of its assets is integral to providing assurance (**oversight**) to the Committee that the Fund's approach to stewardship is efficient and effective.

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<sup>22</sup> The AFR is prepared in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

## 5.4. Reporting

5.4.1. The Fund employs a variety of methods to seek to ensure its stewardship reporting is fair, balanced and understandable. In addition to the sources of assurance set out above at 5.3 these include:

- Tailoring information to the target audience – for example reports to the ISG are designed to reflect the technical nature of the Group whilst this report and the Fund’s Annual Report are written for a more general audience and look to employ plain English throughout. Please see **Principle 6** section 6.7.1 for more detail on Fund communications.
- Seeking external feedback – for example during the year ended 31st March 2022 the Fund consulted on changes made to its Contribution Review Policy (which forms part of its FSS) and its Admissions and Termination Policy in response to regulatory changes (see 6.5.8).
- Internal review – reports to the Committee, ISG, Board and publicly available reports are all subject to robust internal review by at least two officers other than the author.

## 5.5. Outcomes during 2021/22

5.5.1. Review of Policies: Key changes to the Fund’s policies as a result of the previously described review process include:

Policy	Notes
Investment Strategy Statement	Updated to reflect the Fund’s revised set of interim investment targets. In addition, previous references to the 2012 Stewardship Code have been replaced with details regarding the Fund’s 2020-21 Stewardship report. Further details of this are set out in <b>Principle 1</b> at 1.3.7 A in this report.
Training Policy & Plan	To ensure continued compliance with TPR’s expectations in relation to acquiring and maintaining an appropriate degree of knowledge and understanding the training plan has been updated to incorporate areas highlighted following the completion of the annual training needs assessment questionnaires. See 2.2.7 in <b>Principle 2</b>
Administration Strategy & Communications Policy	Updated to better illustrate the key roles and responsibilities of the Administering Authority, Local Pension Partnership Administration (LPPA) and the scheme employers, and includes details around deficit contributions, employer discretions and terminations.
Admission & Termination Policy	Updated to clarify details regarding the assessment of risks at the point of admission and the potential requirement for guarantee, see 5.4.1. above.
Stewardship Report	This document - a key mechanism for reporting the stewardship activities and outcomes of the Fund – has been updated to reflect stewardship activities and outcomes in 2021/22.

5.5.2. Assurance: no material areas of concern were raised in relation to the Fund as a result of the previously described assurance work undertaken both internally and externally during 2021/22. An unqualified opinion (“clean”) was given by external audit in relation to the 2020/21 Financial Statements of the Fund and the Audit Findings Report<sup>23</sup> noted no audit recommendations and that “the Accounts have been produced to a very high standard”.

## 5.6. Future improvements

5.6.1. As previously noted the LGPS Scheme Advisory Board has undertaken a Good Governance Review and the recommendations arising following this work include the introduction of a biennial Independent Governance Review of administering authorities’ governance arrangements. Once the details have been confirmed and the anticipated guidance supporting this has been issued, the Fund will work to implement the process. This should provide a further level of assurance that the Fund’s governance processes are operating efficiently and effectively.

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<sup>23</sup> Cumbria LGPS Audit Findings Report 2020/21:

<https://www.cumbria.gov.uk/elibrary/Content/Internet/536/654/1129/17170/17664/44482144221.pdf>

## INVESTMENT APPROACH

### PRINCIPLE 6 – Signatories take account of beneficiary needs and communicate etc.

PRINCIPLE 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

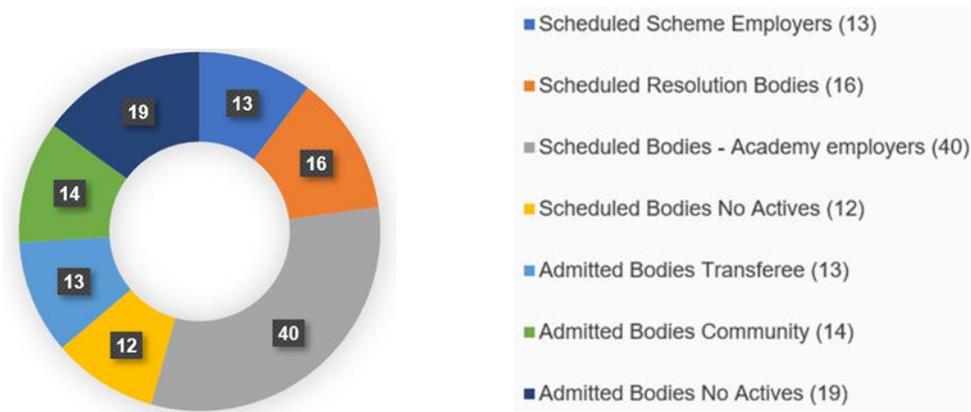
6.1. **Scheme structure:** Details of the scheme structure are set out in section 1.1 of Principle 1.

6.2. **Beneficiaries - scheme members and employers**

6.2.1. Scheme members are predominantly employees and ex-employees of local public sector organisations including local authorities, the police authority (non-uniformed), schools, and academies. Additionally, a small number of scheme members are employees and ex-employees of either community bodies or private companies to whom services and therefore staff have been contracted out. Membership as at 31<sup>st</sup> March 2022 was:

	Active Members	Deferred Members	Active Pensioners	Total Beneficiaries
People	19,782	22,351	18,179	60,312
Percentage	32.8%	37.1%	30.1%	100%
Average age <sup>24</sup>	50.4	50.9	71.3	n/a

6.2.2. As at 31<sup>st</sup> March 2022 there were 127 employers in the Fund:

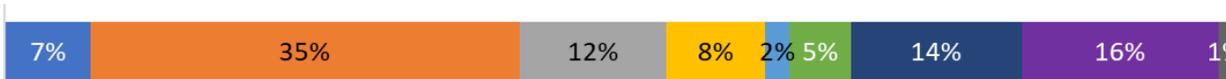


6.3. **Assets under management**

6.3.1. Asset Classes: The Fund's Investment Strategy Statement (ISS) articulates how the Fund will responsibly allocate its investments in order to create long-term value for beneficiaries and meet its funding requirements. The ISS includes details of the Fund's target investment asset allocation, as summarised below along with the actual amounts invested as at 31<sup>st</sup> March 2022.

<sup>24</sup> Pension weighted as at the most recent actuarial valuation date (31<sup>st</sup> March 2019)

Target investment asset allocation:

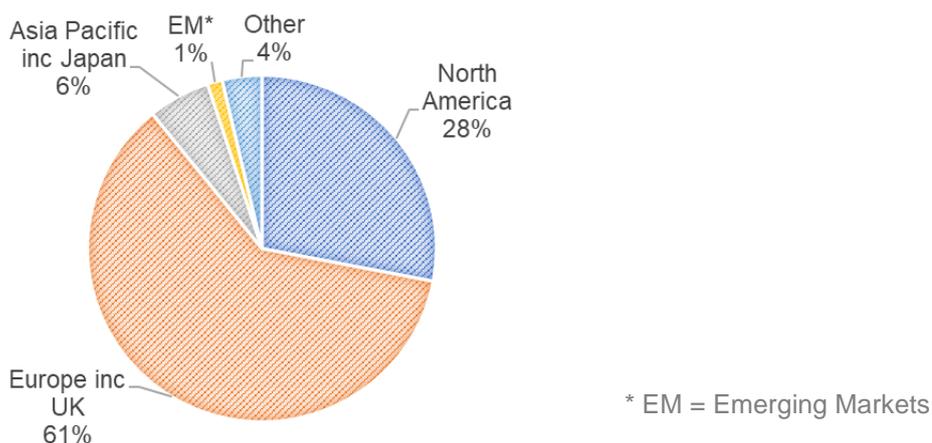


Actual investment asset allocation as at 31<sup>st</sup> March 2022:



	Actual (March '22)	Target Investment Asset Allocation
Private Equity	8%	7%
Public Equity	35%	35%
Infrastructure Equity	10%	12%
Commercial Property	9%	8%
Residential Property	0%	2%
Multi-Asset Credit	14%	5%
Private Debt	5%	14%
Government Bonds	17%	16%
Cash / short-dated credit	2%	1%

**6.3.2. Geographical breakdown of the Fund’s investments:**



**6.4. Investment time horizon & how the needs of beneficiaries have been reflected in stewardship & investment aligned with an appropriate investment time horizon**

6.4.1. The Fund is a defined benefit pension scheme which is open to new members. This means that pension benefits are payable over a considerable timescale and that timescale continues to extend as new benefits accrue. As such the needs of the beneficiaries are long-term and, in recognition of this, the Fund’s investment time horizon is long-term.

6.4.2. To ensure that it is able to meet the needs of its beneficiaries over this long timeframe, the Fund seeks to achieve sustainable, risk-adjusted performance of its investments over the long-term. This is reflected in the Fund’s approach to stewardship and investment as set out in the Fund’s Funding Strategy Statement (FSS) and investment beliefs (summarised at 1.2.4).

6.4.3. Whilst its ultimate investment horizon is very long-term, the overriding objective of the Fund is to achieve a 100% solvency level over a reasonable time period and maintain sufficient assets in order for it to pay all benefits arising as they fall due. To assist it in achieving this and to inform it of its progress in relation to this objective, the Fund sets a deficit recovery period as part of its triennial valuation.

6.4.4. The triennial actuarial valuation relevant to 2021/22 was undertaken as at 31<sup>st</sup> March 2019 and the deficit recovery period agreed by the Fund and its Actuary at that time was an average recovery period of 12 years. The Fund is currently in the process of completing the 2022 triennial actuarial valuation which will again include a review of the average recovery period.

### 6.5. Seeking the views of beneficiaries – how and the reason for the chosen approach:

6.5.1. The Fund's framework for communications and its communication programme is set out in its Administration and Communications policy<sup>25</sup>. This includes information relating to both methods and frequency of communications to beneficiaries (which are referred to as 'stakeholders' in the policy).

6.5.2. The ultimate beneficiaries of the Fund are its scheme members. However, as scheme member benefits are determined by regulation rather than the performance of the Fund's assets (benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members), the Fund recognises that employers in the Fund (a significant proportion of which are funded by local taxpayers) are key beneficiaries. This is because, from an investment stewardship perspective, employers bear the majority of the financial risk and reward.

6.5.3. The nature of the Fund's beneficiaries is reflected in the key channels it uses for seeking the views of its beneficiaries in relation to the stewardship of its investment assets. These are summarised below at **6.5.4** to **6.5.8**.

6.5.4. Pensions Committee: As detailed in **principle 2 (2.1.3)** the core strategic functions of the Administering Authority are delegated to the Pensions Committee. As such, it is the key strategic decision-making body for the Fund. The membership of the Committee reflects risk and responsibility of the Fund's beneficiaries as discussed at **6.5.2** above. In the main, the Fund seeks the views of the Committee through formal quarterly meetings<sup>26</sup>. The members of the Committee can, however, meet informally under

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<sup>25</sup> In accordance with regulation 61 of the Local Government Pension Scheme Regulations 2013 the Fund prepares, maintains and publishes a written statement of its policy concerning communication with members, representatives of members and employing authorities ('the Policy'). The Policy forms part of the Fund's Administration Policy and can be found at section 3 of its Policy Document at:

<https://www.cumbria.gov.uk/elibrary/Content/Internet/536/654/1129/17170/17664/446449495.pdf>

<sup>26</sup> The Committee is what is often referred to as a 'Section 101' Committee (as per section 101(1) of the Local Government Act 1972) and it must therefore adhere to the requirements of that Act.

certain circumstances e.g. in January 2022 members of the Committee met informally for a workshop on responsible investment.

- 6.5.5. Investment Sub Group: In recognition of the complex and technical nature of some elements of stewardship information (particularly in relation to investment asset performance) more detailed consideration of certain matters is undertaken by the Section 151 Officer in consultation with the ISG. Further details of the ISG are set out in **principle 2 (2.1.3)**
- 6.5.6. Local Pension Board (the LPB): As detailed in **principle 2 (2.1.3)**, the LPB's role is to assist CCC to fulfil its functions in relation to all aspects of governance and administration of the Pension Fund. As such, whilst it is not a decision-making body, it performs a core governance function an important element of which is being representative of scheme members and employers. This is reflected in the membership of the LPB and the appointment process for the LPB. In the main, in accordance with good practice, the Fund seeks the views of the LPB through formal quarterly meetings.
- 6.5.7. Cumbria Pensions Forum (the Forum): As detailed in **principle 2 (2.1.3)**, the purpose of the Cumbria Pensions Forum is to seek the views of stakeholders within the Cumbria LGPS and provide information on performance across the management disciplines of the Fund and discuss items of common interest in relation to pensions. The Forum meets annually and consists of both Employer and Employee Representatives as detailed in the Constitution.
- 6.5.8. Formal consultations with employers: In addition to the above channels for communications with beneficiaries, the Fund also undertakes formal and informal consultations with employers including:
- where it is proposing material changes to its Administration Strategy;
  - where it is proposing material change to its Funding Strategy Statement (FSS); and
  - during the triennial valuation process.
- During the year ended 31<sup>st</sup> March 2022 the Fund consulted on changes made to its Contribution Review Policy (which forms part of its FSS) and its Admissions and Termination Policy in response to regulatory changes.
- 6.5.9. Wider stewardship i.e. communications relating to administration: The purpose of the Fund is to provide pension benefits for its members and communications about member benefits are therefore fundamentally important. As such, the Fund's administrator – Local Pensions Partnership Administration Ltd (LPPA) – has a clear plan of core communications to members on matters such as annual allowances, member annual benefit statements and pensions increase. In addition to this, LPPA provides members with an annual newsletter which provides information on key issues and news in relation to LGPS pensions.

**6.6. Assessment of the effectiveness of the Fund’s chosen approach to understanding the needs of beneficiaries**

6.6.1. Feedback during 2021/22 and beyond from the channels referenced in section 6.5 indicates that the Fund’s chosen approach is effective. However it was noted that the Fund’s online presence wasn’t as strong or as user-friendly as it could be. In response to this the Fund is currently building a Fund-specific website. This will be designed to improve both the accessibility of Fund information (including its stewardship activities) and its ability to engage in dialogue with its stakeholders.

**6.7. What has been communicated to beneficiaries and what actions have been taken as a result**

6.7.1. The following tables set out some key examples of the communication of matters relating to the stewardship of the Fund’s assets (where possible reports that are presented to the Committee and LPB are available on the Council’s website for to public to review<sup>27</sup>) and actions taken as a result of the feedback from those communications:

<b>Investment performance (at Fund and manager level)</b>	
To whom?	ISG, Committee & LPB*
When?	Quarterly
How?	A detailed written paper and supporting report from the Fund’s Custodian along with performance reports from the Fund’s key Investment Managers is presented to the ISG. A summary report, including the ISG report, is presented to the Committee on a quarterly basis.
Outcomes & actions	<p>Key actions and outcomes in 2021/22 included:</p> <ul style="list-style-type: none"> <li>• Following on from initial ‘sense check’ work undertaken during 2020/21 on the Fund’s Investment Strategy (in response to concerns raised by the ISG and the Committee in light of the impact of the pandemic on global investment markets) an implementation plan was considered by both the ISG and the Committee (November /December 2021). The outcome of this was that a number of tactical changes were agreed including a reduction in the Fund’s standalone holding in UK public equities to bring it more closely towards the global market capitalisation weighting for the UK; and a change in the Fund’s approach to currency hedging.</li> <li>• Progress in relation to this along with monitoring against strategic asset allocation targets was reported to the ISG and Committee during 2021/22.</li> </ul>

\* Pensions Committee papers are all made available to the LPB and a summary paper, detailing the key matters considered and decisions taken, is presented to the LPB on a quarterly basis.

<sup>27</sup> <https://councilportal.cumbria.gov.uk/ieListMeetings.aspx?CId=150&Year=0>

<b>The Fund’s approach to Responsible Investment and voting &amp; engagement activity</b>	
To whom?	Everyone: information on the Fund’s approach to RI is available on the Fund’s website under the heading ‘Responsible Investment Statement’ at: <a href="https://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp">https://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp</a>
When?	The RI document is available online at all times. Voting and engagement activity is reported on a quarterly basis.
How?	The Fund’s approach to RI was formulated in consultation with the Committee, and was most recently considered through a workshop in January 2022. The Fund’s voting activity is published online under the heading ‘Share Voting Record’ at: <a href="https://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp">https://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp</a> A summary of activity is also reported in a quarterly paper presented to the Pensions Committee.
Outcomes & actions	Key areas of discussion during the workshop included climate change, and wider RI issues including the Fund’s approach to RI and Human Rights in response to increased activity in that area. The outcomes of the workshop were fed into discussions with BCPP on RI and corporate voting and did not require any material changes to the Fund’s published approach to RI. Details of the actions taken and outcomes of voting and engagement activity are set out in <b>Principles 9</b> and <b>12</b> in this report

**6.8. Circumstances where managers have not followed the Fund’s stewardship and investment policies**

6.8.1. There were no instances where the Fund’s managers didn’t follow the Fund’s stewardship and investment policies during 2021/22.

PRINCIPLE 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities

### 7.1. Introduction

7.1.1. As detailed in **Principle 1**, the Fund's investment beliefs and approach to assessing investments are set out in its Investment Strategy Statement. This includes our belief, as long-term investors, that integrating ESG considerations into the investment management process improves risk adjusted returns. As such, the Fund seeks to systematically integrate stewardship and investment to fulfil its responsibilities as set out below.

### 7.2. Investing with BCPP

7.2.1. As previously noted, BCPP is the Fund's chosen approach to meet Government's requirement to pool LGPS investment assets. A significant benefit of the BCPP pool is that it has an in-house dedicated responsible investment team along with an external specialist stewardship partner – Robeco<sup>28</sup>. This means that it is able to effectively integrate responsible stewardship throughout its investment process.

7.2.2. Details of how BCPP does this are set out in its Responsible Investment (RI) Policy (section **9.2.3** of this report describes how the policy has been formulated in conjunction with partner funds including Cumbria), key elements of which are summarised below.

7.2.3. Overall approach: ESG factors are fully incorporated into BCPPs investment decisions across all investment portfolios and asset classes.

7.2.4. Factors considered: BCPP focusses on those which could cause financial and reputational risk. Of particular relevance are factors which could cause environmental and reputational risk ultimately leading to a reduction in long-term value. Issues considered include, but are not limited to:

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<sup>28</sup> To fulfil stewardship objectives BCPP has appointed Robeco as its voting and engagement service provider. Robeco provides active ownership services to institutional investors such as BCPP in accordance with agreed corporate voting guidelines.

<b>Environmental</b>	<b>Social</b>	<b>Governance</b>	<b>Other</b>
Climate change Resource & energy management Water stress Single use plastics Biodiversity	Human rights Child labour Supply chain Human capital Employment standards	Board independence/diversity Executive pay Tax transparency Auditor rotation Succession planning Shareholder rights	Business strategy Risk management Cyber security Data privacy Bribery & corruption Political lobbying

7.2.5. Integration into internally managed listed equities: ESG data and research from specialist providers is used alongside general stock and sector research; it is an integral part of the research process and when considering portfolio construction, sector analysis and stock selection. The Head of RI works with colleagues to ensure they are knowledgeable and fully informed on ESG issues. Information from engagement meetings is shared with the investment team to increase and maintain knowledge, and ensure voting and engagement is not detached from the investment process.

- A recent example of the outcome of this process was the decision not to invest in the initial public offering of Deliveroo in 2020/21 due to the very aggressive valuation, governance concerns regarding the share class structure and the treatment of employees.

7.2.6. Integration into externally managed listed equities: RI is incorporated into the external manager appointment process including the ‘request for proposal’ (RFP) criteria and scoring and the investment management agreements. The RFP includes specific requirements relating to the integration of ESG by managers into the investment process and to their approach to engagement. BCPP expect to see evidence of how material ESG issues are considered in research analysis and investment decisions.

The monitoring of appointed managers by BCPP includes assessing stewardship and ESG integration into the investment process and ongoing management of the investments held in accordance with the approved policies. Both the BCPP Investment Committee and the Funds Pensions Committee require that all asset managers report on stewardship and ESG matters on a regular basis and be responsive to any queries.

7.2.7. Integration into Private Markets: ESG issues are considered as part of the due diligence process for all private market investments. This includes assessing a manager’s ESG strategy through a specific ESG questionnaire and supplementary interviews. Managers are requested to report annually on the progress and outcomes of ESG related values and any potential risks and ongoing monitoring includes identifying any possible ESG breaches and following up with the managers concerned.

- An annual monitoring questionnaire was issued to all private market managers in January 2022 and all responded. There was a notable increase in the quality of responses compared to the previous year. 100% of underlying managers have an ESG policy in place and all but one manager has ESG as a standing item on

Investment Committee papers. 88% of underlying managers are signatories to the Principles for Responsible Investment (PRI). The Fund will continue to work with these managers to encourage them to develop their RI practices.

- During the year BCPP also implemented their internally developed ESG Scorecard which allowed them to further evaluate managers' ESG capabilities and target areas for improvement.

### 7.3. Investing with other Investment Managers

7.3.1. The Fund considers the ESG credentials, policies and procedures as part of the appointment process for all prospective managers with the aim of ensuring that ESG is well established in the managers appointed. All Managers were required to be a signatory to the 2012 Stewardship Code and are now either signatories to or working towards the new requirements of the Stewardship Code 2020. The Fund expects its Managers to incorporate ESG factors into their investment process and demonstrate the outcomes being achieved through this activity. The Fund continues to develop how it incorporates RI within the ongoing monitoring of all managers, including private markets. See **Principle 8** for further details.

7.3.2. The Fund monitors the asset manager's stewardship activities, including their involvement in collaborative engagement activities, such as supporting the Transition Pathway Initiative (TPI), and Climate Action 100+. For further information relating to Collaborations see **Principle 10** at **10.4**.

7.3.3. The Fund has developed a questionnaire to draw out how managers incorporate ESG factors into decision-making for new investments as well as ongoing monitoring of managers and the underlying investments especially in the less established asset classes of private markets, which they will continue to send out on an annual basis.

7.3.4. Examples of how the Fund and its other Investment Managers integrate stewardship and investment include:

#### **A. Passive Global Equity – Legal & General (LGIM):**

Although LGIM do not actively choose the investments in the underlying companies within the index, they aim to use their influence and scale to promote better regulation to improve the entire market as a key driver of long-term growth. This includes working with key policymakers, such as governments and regulators, and collaborating with asset owners to bring about positive change. A key pillar of their approach to index strategies is active ownership: encouraging companies to consider sustainability risks, develop resilient strategies and consider their stakeholders. Further information regarding their approach to ESG integration in relation to indexed funds can be found in the following report at: [https://www.lgim.com/landg-assets/lgim/\\_document-library/esg/lifting-the-lid.pdf](https://www.lgim.com/landg-assets/lgim/_document-library/esg/lifting-the-lid.pdf)

LGIM have developed proprietary ESG scores for companies (<https://esgscores.lgim.com/srp/documents-id/dc2ca5ef-933d-4748-b221-7085515bfa04/Methodologyforratingcompanies.pdf>) through a partnership between the Index and Investment Stewardship teams, and have made them publicly available for thousands of companies who can identify and tackle gaps in their strategies and their disclosures, thereby contributing to better market outcomes. Their Stewardship Code 2021 can be viewed at [https://www.lgim.com/landg-assets/lgim/\\_document-library/capabilities/active-ownership-report-2021-uk-eu-middleeast.pdf](https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/active-ownership-report-2021-uk-eu-middleeast.pdf) which provides further examples of their ESG integration.

**B. Direct property portfolio - Aberdeen Standard Investments (ASI):**

ASI have developed an Impact Dial tool which the Fund plans to access. ASI’s ESG Impact Dial tool groups material sustainability indicators into four main categories:

PLANET	PEOPLE	PROCESS	PROGRESS
Environment and Climate Change	Demographics	Governance and Engagement	Technology and Infrastructure
Biodiversity	Vulnerability & Inclusion	Diversity & labour Rights	Digital Connectivity
Land and Water Contamination	Affordability	Occupier Engagement	Physical Connectivity
Outdoor Air Quality	Accessibility and Experience	Occupier Quality	Smart Connectivity
Noise Pollution	Employment, Skills and Enterprise	Partnerships	
Public Realm & Cultural Value	Occupier Wellbeing		
Carbon and Energy Reduction			
Water Efficiency			
Waste and Circularity			
Climate Resilience			

These categories inform the Real Estate ESG House View. This approach will allow the identification and promotion (where relevant) of material ESG risks and opportunities relevant to a fund’s investment strategy, sector and geography. These will guide the prioritisation and integration of ESG factors at the fund and asset level, whilst providing a structure for engagement with, and reporting to stakeholders.

Further detail is included in their Stewardship Code 2021 which can be viewed at <https://www.abrdn.com/docs?editionId=50636955-103f-47cb-86e2-036aec4d30d4> Pages 37 & 38 include an ESG Impact Dial case study which provides an example of the output of using this analysis.

**C. Infrastructure - JP Morgan (JPM) Infrastructure Investment Fund (IIF)**

JPM use a 10-metric framework for ESG integration when evaluating opportunities. In 2021 IIF updated its ESG policy to include this ‘ESG in Action’ framework. This framework prioritises key components of ESG that fit within the organisations strategy, risk management systems and culture namely safety; culture; customer; community; cyber and climate.

Examples of how JPM has worked with some of the assets held in the Global Infrastructure portfolio to maintain and improve ESG activities include:

- El Paso Electrical (USA) – In 2021 the company focussed on furthering ongoing diversity efforts, which already include diversity and equity analysis reporting. They increased knowledge and awareness throughout the management team providing specific training facilitated by the University of Texas and the El Paso Diversity Resilience Center. The company also successfully completed an audit lead by the Office of Corporate Compliance Program within the US Department of Labor that focussed on employment practices for individuals with disabilities.
- Nortegas (Spain) - In 2021, the Board approved the Nortegas cybersecurity policy. This document is part of the Nortegas Security policy which was developed to ensure information and industrial security and reduce possible damages caused by security incidents. The company also developed an annual cybersecurity awareness campaign for all employees to reinforce the skills and abilities of users to detect and react in cyber situations or cyberattacks.

Further information regarding their approach to ESG integration can be found in the following report at <https://am.jpmorgan.com/content/dam/jpm-am-aem/global/en/sustainable-investing/esg-integration-approach.pdf>

#### 7.4. Future improvements

7.4.1. The Fund plans to continue to work with Investment Managers to make improvements in asset classes that are less developed in this area, for example:

- The Fund will maintain a dialogue with Investment Managers about the extent to which ESG factors are incorporated into RFPs for Alternatives etc, & plan to enhance this going forward; and
- The Fund will continue to develop the annual ESG questionnaire it sends to managers (7.3.3 above) See **Principle 8**.

**PRINCIPLE 8:** Signatories monitor and hold to account managers and/or service providers

### 8.1. Introduction

8.1.1. As described in **Principle 7** ESG integration involves assessing, monitoring and engaging with investment managers. The monitoring aspect is covered in more detail within this Principle. By closely monitoring investment managers and other service providers, the Fund can continuously review their policies, procedures and portfolio positioning to ensure alignment with the Fund's underlying investment beliefs and objectives. The Fund monitors its investment managers and service providers, to hold them to account in the following ways:

### 8.2. Investment Managers

8.2.1. Ongoing performance is reviewed quarterly in addition to the annual and longer-term investment performance being reviewed in detail. The Fund operates a three tier performance monitoring framework:

8.2.2. Tier 1: Officers and Advisors undertake detailed monitoring of Investment Managers. This includes the following activities, the outcomes of which are subsequently summarised and reported at tier two and three as appropriate.

- a. Quarterly monitoring of investment performance of the Investment Managers against both benchmark and target returns.
- b. Monitoring ESG activities - since 2021 the Fund has sent out an annual RI-ESG questionnaire to all investment managers for completion. The questions were designed to assist with production of this Stewardship Report, whilst at the same time improving the Fund's current level of understanding of their Investment Managers activities in this area. All Managers responded within the given timescale and the information provided has been reviewed internally. This questionnaire is updated on an annual basis to further enhance the Fund's understanding of the work undertaken on our behalf by Investment Managers across all asset classes.
- c. Annual meeting with key Investment Managers - Officers and Advisors meet with managers which hold greater than 4% of the total Fund investments including future commitments formally at least annually and report their findings from these meetings to the ISG.
- d. An annual review of Investment Manager Internal Control Reports - this review seeks to ensure that Managers exercise reasonable care and due diligence in its

activities on behalf of the Fund. Any concerns identified are reported to the Committee and the managers are challenged to explain any weaknesses.

- e. All investment managers have clear written mandates, governed by the Fund's strategic objectives and Pension Investment Regulations and are reviewed regularly by officers and the Committee.
- f. Local Authority Pension Performance Analytics (LAPPA): Using LAPPA (through PIRC) enables the Fund to view its investment performance within a long-term, peer group context and provides some insight on the degree of skill that is being brought to bear on the Funds management, enhancing governance and improving decision making. The peer group Universe constructed by LAPPA currently comprises 63 funds with an aggregate value of almost £250bn (over two-thirds of local authority pension fund assets). The Fund receives quarterly reports.
- g. CEM Benchmarking: CEM benchmarking compares cost, performance and risk against a universe of local and global public and private pension funds. The annual CEM report provides an independent means to validate strategy and provide accountability.

8.2.3. Tier 2: the ISG monitors individual manager performance on a quarterly basis. The ISG is responsible for the establishment and review of performance benchmarks and targets for investment. The ISG receives a quarterly report covering every manager, which sets out performance results and a broad range of metrics. Should there be any items of concern, the ISG escalates such matters to the full Committee.

8.2.4. Tier 3: The Committee review the total Fund investment performance against its bespoke total benchmark return and receive a report on performance from the ISG (both on a quarterly basis). The Committee is responsible for strategic decision making and oversight; and makes 'hire/fire' decisions of managers or holds a review meeting with managers if escalated from the ISG.

### 8.3. **Monitoring of the Fund's chosen pooling provider - BCPP:**

In recognition of the important role that BCPP plays, the Fund – along with its partner funds in the pool - has enhanced monitoring arrangements with the company. These are described in **Principle 2** at sections **2.3.4** and **2.3.5** of this report.

#### 8.4. Monitoring other Service Providers

- 8.4.1. Investment Advisors: Committee members are surveyed regularly for their views on quality of advice given by the Investment Advisors. Furthermore, the Investment Advisors are monitored annually against an agreed set of objectives. Monitoring during 2021/22 identified that the service provided met the needs of the Fund.
- 8.4.2. Investment Consultants: In line with good practice, Pensions Regulator guidance and the Competition and Markets Authority requirements, the Fund's Investment Consultants are monitored annually against an agreed set of objectives. These objectives are reviewed on a regular basis. For example, prior to Isio commencing additional work on the Fund's Investment Strategy Review (the work was undertaken in response to the Pandemic in 2020), the Fund revised Isio's objectives in order to ensure that it continued to be able to assess their performance to date. Monitoring undertaken during 2021/22 identified that the service provided met the needs of the Fund.
- 8.4.3. Custodian: The Fund appointed Northern Trust Company (previously State Street Bank & Trust Co) from 1 October 2020 as custodian. Performance is assessed on a quarterly basis against a number of key performance indicators (KPIs) and on at least an annual basis in a formal review meeting. Monitoring during 2021/22 identified that the service provided met the needs of the Fund.
- 8.4.4. Pensions Administration: The Fund meets with senior officers of Local Pensions Partnership – Administration (LPPA) on a quarterly basis to review the performance against a number of key performance indicators. The Operations Director at LPPA attends the LPB on a quarterly basis to provide an update to LPB members on key issues within LPPA and across the LGPS. Outside of these formal meetings, Officers liaise with LPPA managers on a regular basis to keep updated on developments and understand any emerging issues. Monitoring during 2021/22 identified that the service provided met the needs of the Fund and provided Officers with the opportunity to challenge LPPA where appropriate.
- 8.4.5. Actuary: Monitoring takes place via annual review meeting with officers and regular feedback during the year. Monitoring during 2021/22 identified that the service provided met the needs of the Fund.
- 8.4.6. Legal Advisors: Monitoring takes place via annual review meeting with officers and regular feedback during the year. Monitoring during 2021/22 identified that the service provided met the needs of the Fund.

**PRINCIPLE 9: Signatories engage with issuers to maintain or enhance the value of assets**

**9.1. Introduction & rationale for the Fund’s approach to engagement**

9.1.1. A key tenet of the Fund, as set out in its ISS, is that 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 ESG factors (including climate change) into investment decisions, can help to improve the long-term value for investors.

9.1.2. 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 recognises that, as a medium-sized pension fund, it has limited resource and is one voice among many shareholders. Furthermore, the Fund employs external fund managers through which it makes its investments. As such, to ensure that it achieves the best outcomes in relation to active engagement, the Fund works collectively with others. The Fund does this through three key means:

- Working with BCPP and our partner funds to agree well-informed and precise objectives for engagement;
- Working with the Fund’s other investment managers to ensure that their approach to engagement is in line with the expectations of the Fund; and
- Through the Fund’s membership of the Local Authority Pension Fund Forum (LAPFF).

**9.2. Working with BCPP and our partner funds**

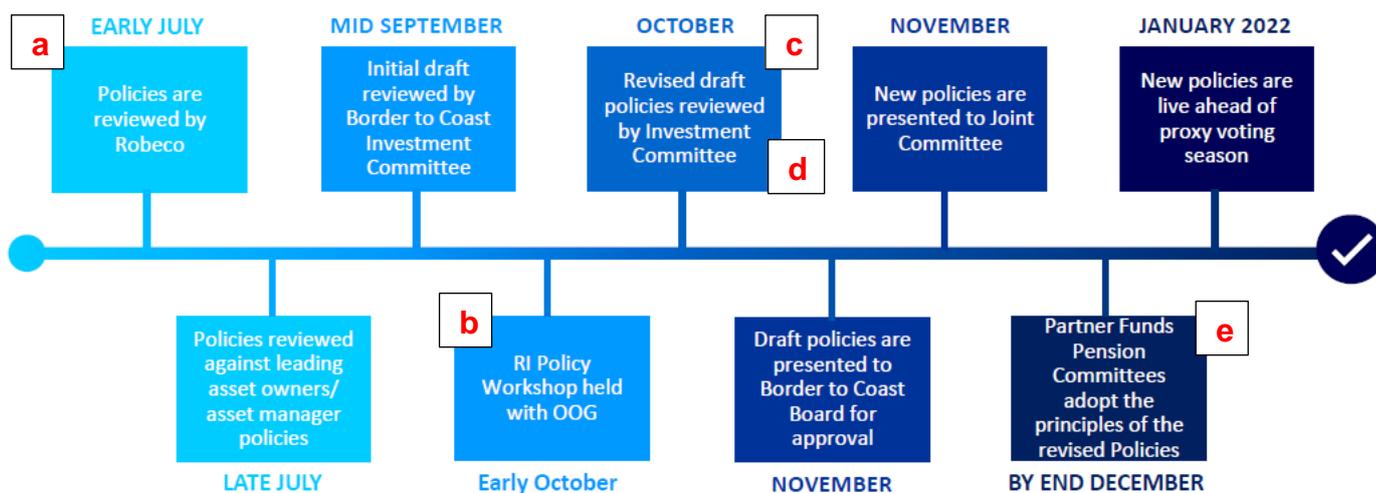
9.2.1. One of the key benefits of pooling for the Fund is the ‘collective voice’ that pooling assets with other like-minded LGPS funds can bring. To achieve this the Fund has worked with BCPP and partner funds to formulate the company’s approach to RI and active engagement to ensure that (a) it is aligned to the policies of the partner funds (including Cumbria), and (b) that there is appropriate monitoring and challenge to ensure the company’s approach continues to be in line with partner fund requirements.

9.2.2. As previously noted in this report, full details of the BCPP’s approach to responsible investment can be found at: <https://www.bordertocoast.org.uk/sustainability/>. This includes the company’s *RI policy* and *Corporate Voting Guidelines* which form the framework through which BCPP undertakes engagement and voting work on behalf of Cumbria and other partner funds in the pool.

## ENGAGEMENT PRINCIPLE 9 – Engaging with issuers to maintain or enhance asset value

9.2.3. BCPP - developing and reviewing objectives: BCPP’s RI and Voting policies were originally developed by BCPP in 2017 in conjunction with its partner funds (including Cumbria). Since then, the policies have been formally reviewed annually to reflect developments in best practice and regulation. In addition to this, the policies are also reviewed and revised in response to material developments such as changes in regulations.

9.2.4. The annual review process is as follows:



Notes on process diagram:

- a** The review process includes an evaluation by Robeco (BCPP’s voting and engagement advisor) considering the global context and best practice. In 2021/22 this included consideration of the International Corporate Governance Network<sup>29</sup> (ICGN) Global Governance Principles, the UK Corporate Governance Code and the UK Stewardship Code. The policies of best in class asset managers and asset owners considered to be RI leaders were also reviewed to determine how best practice has developed.
- b** To assist in the review process, the company has held a number of meetings, workshops & training sessions with Officers and Members from the 11 Partner Funds. This included:
- a workshop for partner fund Officer Operations Group (OOG) and Advisors on the policy review (5<sup>th</sup> October 2021); and
  - a seminar for the BCPP Joint Committee to discuss in depth the proposed revisions to the policies (16<sup>th</sup> November 2021).

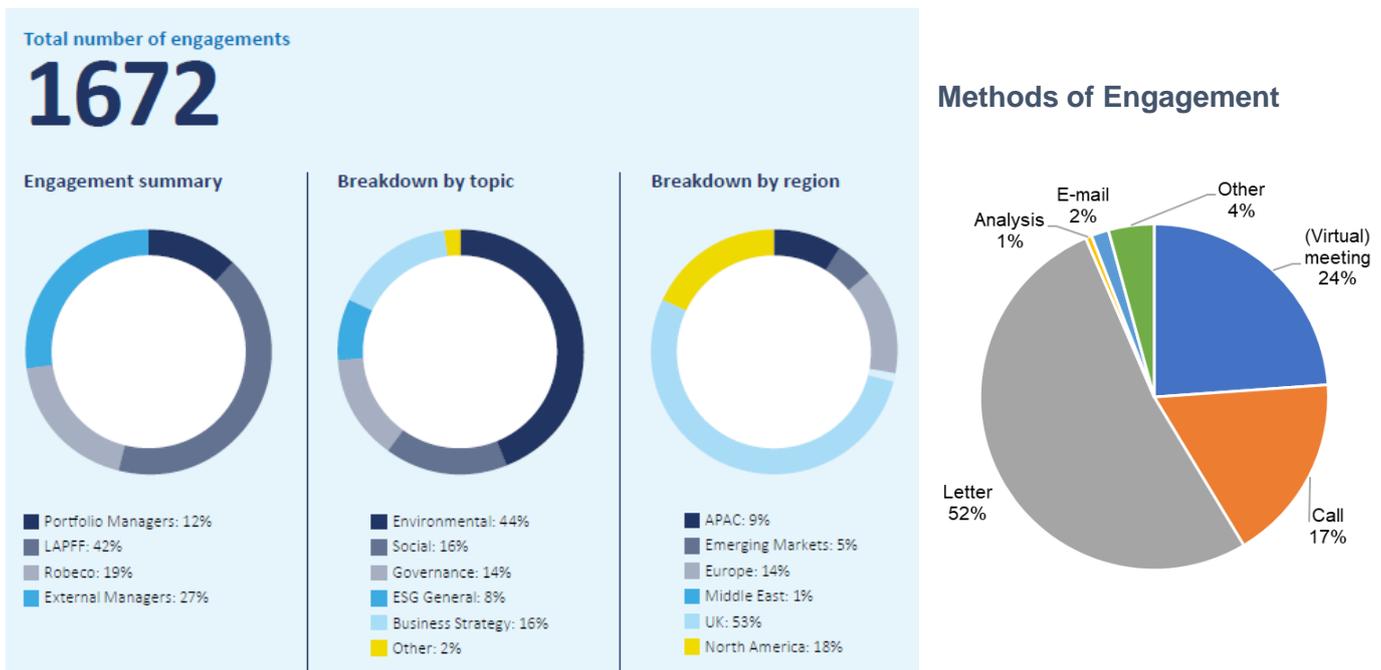
<sup>29</sup> International Corporate Governance Network - investor-led organisation to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies world-wide.

**ENGAGEMENT PRINCIPLE 9 – Engaging with issuers to maintain or enhance asset value**

- d** The output of this work was then reflected in the policies and the revised documents were both considered by the BCPP Joint Committee (23<sup>rd</sup> November 2021). At that meeting the Committee agreed to support the revised policies being taken to partner fund Pensions Committees for comment and for them to consider adoption of the principles in their own RI policies in line with industry best practice.
- e** At its meeting on 10<sup>th</sup> December 2021 the Cumbria Pensions Committee considered the two revised policies and noted that the policies continued to be aligned to the underlying principles of the Fund’s Investment Strategy Statement<sup>30</sup>.

9.2.5. BCPP - Methods of engagement: BCPP’s approach to engagement varies depending on the asset class and ownership structure. As such their strategy for engagement includes several different strands:

- Direct engagement by BCPP’s internal portfolio managers with companies within their portfolios;
- External managers and Robeco engaging with companies on BCPP’s behalf; and
- Working with a number of RI initiatives. These include Climate Action 100+. The 30% Club Investor Group and the Taskforce on Climate-related Financial Disclosures (TCFD), as detailed in **Principle 10 (10.4.2)**.



Sourced from BCPP Stewardship Report 2021/22

In addition to this, RI criteria are integrated into BCPP’s due diligence process within Private Markets and the company prioritises engagement with the general partners ahead of investment to ensure managers meet its requirements in this area. Key

<sup>30</sup><https://councilportal.cumbria.gov.uk/ieListDocuments.aspx?CId=150&MId=11922&Ver=2021%2009.30%20Cumbria%20Pensions%20Committee.pdf?T=1> Agenda item 29

## ENGAGEMENT PRINCIPLE 9 – Engaging with issuers to maintain or enhance asset value

engagement themes are reviewed on a three-yearly basis using their Engagement Theme Framework. The key engagement themes set following the 2021 review are:-

- Systemic: Low Carbon Transition
- Environmental: Waste & Water Management
- Social: Social Inclusion through Labour Management; and
- Governance: Diversity of Thought.

The company used the themes in deciding its priorities: in working with Robeco; in considering which collaborations to join; to give focus to its reporting; and in aspects of its investment process for both internally and externally managed mandates.

- 9.2.6. **BCPP - Outcomes of engagement:** BCPP produces regular reporting on the active engagement it undertakes<sup>31</sup> on behalf of the Fund and our partner funds. Details of this can be found at: [https://www.bordertocoast.org.uk/?dlim\\_download\\_category=engagement](https://www.bordertocoast.org.uk/?dlim_download_category=engagement). The reports found at this link provide further detail of engagement activities undertaken by BCPP on behalf of the Fund, and the example below provides a flavour of engagement work undertaken and the outcomes:

### ***Engagement with BP plc (listed equity)***

- ***Reason for engagement:*** Carbon data of portfolios is monitored on an ongoing basis; this helps understand the climate-related risks inherent in portfolios. Adequate disclosure by companies is, therefore, an important part of this process. The Carbon Disclosure Project (CDP) is a leading initiative for climate data management and as such BP, as a major emitter of greenhouse gas emissions, would be a welcome addition to the CDP carbon database.
- ***Objectives:*** To seek enhanced carbon data and emissions disclosure from BP.
- ***Scope and process:*** Engagement with the company took place over a number of months, instigated initially by a letter, with follow up meetings also held with the company's Investor Relations Team.
- ***Outcome:*** BP was open to engagement and emphasised that it aimed to be recognised as an industry leader in reporting transparency. The company has made good progress in this space and is listening to feedback. Following increasing investor focus in this area, BP confirmed it would be responding to the CDP disclosure questionnaire

## **9.3. Working with the Fund's other investment managers**

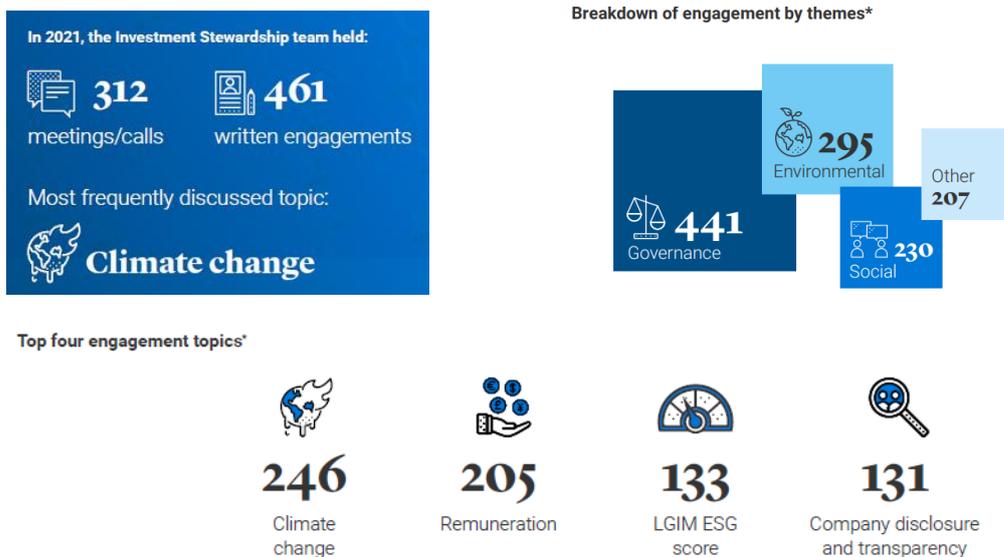
- 9.3.1. In addition to investing through BCPP, the Fund currently also invests with a number of other investment managers. The second largest investment manager in terms the value of the Fund's investments with them is LGIM – as at 31<sup>st</sup> March 2022 the Fund had approx. £739m of assets with LGIM and approx. £1,276m with BCPP.

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<sup>31</sup> BCPP uses Robeco Active Ownership services to do this.

## ENGAGEMENT PRINCIPLE 9 – Engaging with issuers to maintain or enhance asset value

- 9.3.2. As an investment manager with approximately £1tn+ assets under management, LGIM has a significant voice. Like the Fund, LGIM believes that RI is crucial to mitigate risks, capture opportunities and strengthen long-term returns. As such active engagement with companies and policy-makers is a key component of LGIM’s approach to RI<sup>32</sup>.
- 9.3.3. Given LGIM’s scale, it is able to engage with the companies it believes can set an example in their sectors but also, crucially, with the regulators and policy-makers that set the rules. Particularly given the scale of their assets in index funds (in which Cumbria is an investor), LGIM sees working to promote better regulation to improve the entire market as a key driver of long-term growth.
- 9.3.4. During the most recent annual reporting period (to March 2022) LGIM actively engaged in a number of areas as summarised below – full details of these activities can be found at: [https://www.lgim.com/landg-assets/lgim/\\_document-library/capabilities/active-ownership-report-2021-uk-eu-middleeast.pdf](https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/active-ownership-report-2021-uk-eu-middleeast.pdf)



\*Note: an engagement can cover more than a single topic  
Sourced from: LGIM Active Ownership report

- 9.3.5. LGIM - Outcomes of engagement: In June 2021, LGIM announced the results of the fourth Climate Impact Pledge engagement programme ([https://www.lgim.com/landg-assets/lgim/\\_document-library/responsible-investing/climate-impact-pledge-brochure-uk-eu-2021.pdf](https://www.lgim.com/landg-assets/lgim/_document-library/responsible-investing/climate-impact-pledge-brochure-uk-eu-2021.pdf)) and were encouraged to see a positive trend in scores across most regions and sectors. In October, they launched the fifth cycle of company meetings, continuing to target influential companies that are not yet meeting best practice in terms of emissions reduction

<sup>32</sup> Details of LGIM’s Global Corporate Governance and Responsible Investment Principles can be found at [https://www.lgim.com/landg-assets/lgim/\\_document-library/capabilities/lgim-global-corporate-governance-and-responsible-investment-principles.pdf](https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-global-corporate-governance-and-responsible-investment-principles.pdf).

## ENGAGEMENT PRINCIPLE 9 – Engaging with issuers to maintain or enhance asset value

targets, governance and climate change policies. Over 75% of companies have responded to their engagement requests so far.

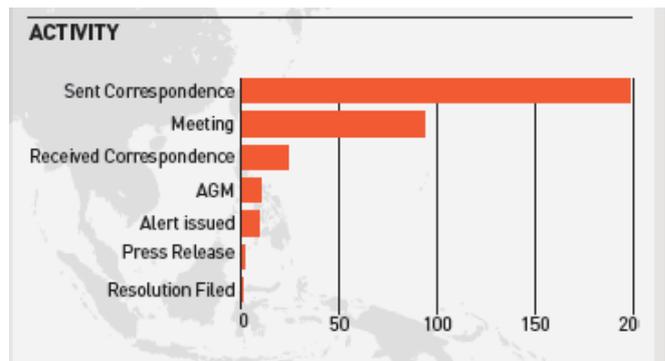
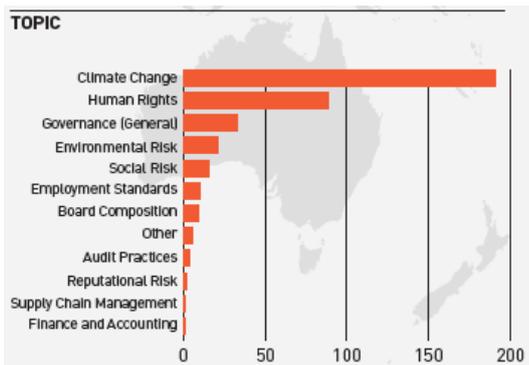
LGIM have seen a much-needed step-change in banks and other large financial institutions recognising their key role in accelerating the transition to a low-carbon economy. Initially a ‘laggard’ sector under our annual Climate Impact Pledge rankings, in 2021 they saw more banks signing up to the Net-Zero Banking Alliance and publishing decarbonisation commitments. Following multi-year engagement with **JPMorgan Chase** (with an ESG score: 67; +3 – please see 7.3.4 for further details re ESG scores) they have seen positive change at the bank gather pace, with a commitment to Paris alignment across the financing of a number of high-emission sectors, and the 2021 publication of their interim targets towards decarbonisation. As one of the largest global financiers across geographies – including important emerging markets – they will continue to monitor the bank’s progress in this area.

### 9.4. Membership of the Local Authority Pension Fund Forum (LAPFF)

- 9.4.1. Cumbria LGPS is a member of LAPFF. LAPFF is a collaborative shareholder engagement group which brings together 85 local authority pension funds and 7 pools (including BCPP) from across the UK with combined assets of over £350 billion. As such the Fund is able to enhance its own influence in company engagement by collaborating with other Pension Fund investors through the Forum. LAPFF is a network organisation and a service provider, not an asset owner or asset manager, so it has no conflicts of interest in terms of company ownership. LAPFF seeks to protect the investments of its members by promoting the highest standards of corporate governance and corporate social responsibility (i.e. responsible action by the companies in which its members invest) on ESG issues.
- 9.4.2. LAPFF’s approach to engagement is to build relationships with companies, where possible, and provide robust challenge. It also aims to engage with a broad range of stakeholders to understand as fully as possible the complete set of operational, reputational, legal, and financial risks facing companies and investors.
- 9.4.3. LAPFF - Developing and reviewing objectives: The LAPFF Executive Board discusses new development areas in its annual strategy meeting, and how they can be addressed through Engagement. These areas are then presented to LAPFF Members where input is sought on the most pressing engagement issues for the forthcoming year, potential policy developments, and comments on fund manager voting policies as an example. LAPFF hold quarterly business meetings and an Annual Conference which a representative of the Fund regularly attends to ensure the Fund has a full understanding of the work undertaken and to facilitate input into the work programme of LAPFF.

**ENGAGEMENT PRINCIPLE 9 – Engaging with issuers to maintain or enhance asset value**

9.4.4. LAPFF - Methods of engagement: Like BCPP, LAPFF uses a number of methods of engagement. During 2021 LAPFF engaged with 171 companies on a range of different Environmental, Social and Governance issues, with Climate Change continuing to remain high on the agenda. Its methods of engagement and stewardship activities consisted of:



Sourced from: LAPFF Annual Report 2021

9.4.5. LAPFF - Outcomes of engagement: LAPFF’s long-term engagement with ArcelorMittal continued throughout the year, and included meeting the CEO, Aditya Mittal, and Bruno Lafont, the lead independent director. They heard about the exploration of partnerships with other companies to work towards using renewable power in manufacturing green steel, with ArcelorMittal producing the first steel using hydrogen from renewables in 2020. Into 2021, meetings sought to ascertain if there was an increased focus on hydrogen as opposed to processes reliant on carbon capture and storage (CCS), and to ask if the company would consider a ‘Say on Climate’ vote at its 2022 AGM.

9.4.6. The long-awaited publication of the second Group Climate Action report was followed by another meeting to discuss company progress. This progress was evident in the new group-wide emission intensity reduction target for 2030 of 25%, and 35% for Europe. LAPFF commended the strengthening of targets and announcements of zero carbon steel plants in Spain, where the Sestao plant is set to become the world’s first full-scale zero carbon-emissions steel plant. There is also a new plant in Canada. Additionally, on request the report included mapping company progress against the CA100+ benchmark which can inform investor voting.

9.4.7. As the company did not have an AGM in 2020 that was open to shareholders, LAPFF had pushed for more access in 2021, which took place as a virtual meeting giving open and transparent access to dialogue with both the Chair and CEO. The meeting also afforded the opportunity to press for the outcome on consulting shareholders on putting a transition plan vote to the 2022 AGM.

PRINCIPLE 10: Signatories, where necessary, participate in collaborative engagement to influence issuers

### 10.1. Introduction

10.1.1. Effective collaboration forms an important part of the Fund's approach to investment and is incorporated in the Funds investment beliefs as described in **Principle 1** at **1.2.4**. Accordingly, the Fund collaborates in a number of ways through different organisations and arrangements as summarised below.

### 10.2. LAPFF

10.2.1. As noted in **Principle 9** at **9.4** LAPFF is a key mechanism through which the Fund seeks to participate in collaborative engagement. Through its membership of the Forum the Fund is involved in a range of engagement activities and these include wider collaborations such as:

10.2.2. Asia Collaborative Engagement Platform for Energy Transition: LAPFF joined this collaboration during the year, which is co-ordinated by Asia Research and Engagement (ARE). This initiative has brought about engagement with the region's largest listed financial institutions, as well as buyers and producers of fossil fuels. The first AGM of note was that of Mitsubishi UFJ Financial Group, where members were advised to vote in favour of a resolution for disclosure of the group's strategy to align financing and investments with the goals of the Paris Agreement. In May, the bank made a net zero declaration and joined the net zero banking alliance.

10.2.3. IIGCC and CA100+: LAPFF is joint lead investor on ArcelorMittal and National Grid under these initiatives, as well as being part of wider collaborative groups with several other companies. One such company is Lyondell Basell, where LAPFF chair Cllr McMurdo participated in the AGM, asking the chair to put the company climate strategy to a vote at the 2022 AGM and annually thereafter.

10.2.4. This year, LAPFF joined a collaborative engagement effort headed by the Access to Nutrition Index. Alongside a host of other investors, LAPFF has written to key companies in the food and beverage sector which featured on the Index. These engagements seek to provide better levels of governance and accountability by introducing remuneration metrics linked to nutrition targets and what marketing companies are doing to encourage better eating habits.

10.2.5. LAPFF has also started engagement with ShareAction's Healthy Markets Initiative and engaged with Tesco to discuss the filing of a shareholder resolution. This request would require Tesco to disclose metrics in relation to the volume of health products it sells, as well as setting targets to increase the share of health products by 2030. In

response to this engagement and potential resolution, Tesco committed to increase its sales of healthier food and drink products across all of its group retail business and the resolution was subsequently withdrawn.

**10.3. BCPP**

- 10.3.1. As previously noted the Fund collaborates with BCPP and other partner funds on an ongoing basis. This includes quarterly RI workshops with BCPP and partner funds which work collaboratively to consider RI issues and coordinate responses to maximise the impact of the partner funds. At these workshops current RI issues and engagements are discussed and proposed responses to consultations and initiatives shared. There are opportunities to share resources to maximise the impact of partner funds and BCPP through a collaborative approach to our shared interests. More recently partner funds have developed a Working Group to work collaboratively and share ideas to assist with drafting their individual Stewardship Codes. Going forwards the group will continue to meet to consider how partner funds can continue to work together to address key RI matters.
- 10.3.2. In addition to working collaboratively with partner funds on RI and engagement matters, BCPP has also been involved in wider collaborative engagement including:
- 10.3.3. Cybersecurity: BCPP are members of a collaboration led by Royal London Asset Management focused on cybersecurity. The World Economic Forum has identified cybersecurity as the fifth most likely risk to impact globally. It poses a significant threat to society, companies and investors, and this risk has crystallised with the impact of COVID-19 and the massive shift to home working.
- 10.3.4. The engagement is seeking to engage with over 35 companies across a number of sectors including retail, utilities, banks and healthcare. Phase one of the engagement involved writing to all the companies with some follow-up meetings. This has been positive with 65% of the target companies responding, allowing a baseline for best practice and disclosure to be established. Phase two of the engagement started towards the end of 2020 with additional companies identified in high-risk sectors.
- 10.3.5. The Workforce Disclosure Initiative ('WDI'): BCPP became a supporter of the initiative in 2018 as they believe having access to data on how companies manage human capital in their direct operations and supply chains is important for investors. This has been emphasised by the pandemic and the differing responses of companies.
- 10.3.6. WDI uses an annual survey to request comparable data from companies. The 2021 survey saw responses from 173 global companies, a 23% increase on 2020. 50 FTSE100 companies disclosed employee data up from 39 in 2018. In October 2021 the WDI joined the Secretariat supporting the Project Taskforce on European

Sustainability Reporting Standards, working towards compiling a series of recommended indicators to ensure companies properly account for how they treat their staff and suppliers.

10.3.7. Net Zero Asset Managers Initiative: Following its commitment to achieving net zero across its investments by 2050, or sooner, in November 2021 BCPP joined the global Net Zero Asset Managers Initiative. The initiative seeks to mobilise action by the asset management industry to drive the transition to net zero and provides a forum to share best practice and overcome barriers to achieving it. BCPP also signed a statement to Governments ahead of COP26 backed by 732 other institutional investors from around the world. The 2021 Global Investor Statement to Governments on the Climate Crisis called for measures to end fossil fuel subsidies, phase out thermal coal electricity, and mandate climate risk disclosure.

**10.4. Other collaboration and future improvements:**

10.4.1. Scottish LGPS Investment and Governance Group (IGG)/RI Group: The Fund is also a member of the Scottish Asset Owners RI Roundtable: a collaborative initiative between mainly Scottish Asset Owners. Members include local authority funds, Universities, and corporate defined-benefit and defined-contribution pension funds. The group has a wide remit and aims to share best practice with the aim of improving RI standards throughout the industry.

10.4.2. Indirect Collaboration: Through its membership of LAPFF and ownership of BCPP the Fund is indirectly involved in the following collaborative organisations:

- Climate Action 100+
- Task Force on Climate-related Financial Disclosures (TCFD)
- Workforce Disclosure Initiative (WDI)
- Institutional Investors Group on Climate Change (IIGCC)
- Transition Pathway Initiative (TPI)
- 30% Club
- United Nations supported Principles for Responsible investment (PRI)
- Investor Mining and Tailings Safety Initiative
- The Local Government Pension Scheme Advisory Board Code of Transparency
- Investment Association

10.4.3. Future improvements: The Fund is also working to improve how it engages with its other investment managers (see **Principles 7 & 8**) on their approach to collaborative engagement and exploring participation in further collaborative initiatives during 2022/2023.

PRINCIPLE 11: Signatories, where necessary, escalate stewardship activities to influence issuers

### 11.1. Activity

11.1.1. **BCPP**: to ensure its expectations regarding stewardship activities are met by BCPP the Fund works closely with the company and partner funds to develop and review BCPP's *RI policy* and *Corporate Voting Guidelines*. Further details of working with BCPP and our partner funds is set out in **Principle 9 (9.2)**. The company's agreed approach to escalation is set out in section 6.2.2 of its *RI policy* and is as follows:

*BCPP believe 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 and filing/co-filing a shareholder resolution. If the investment case has been fundamentally weakened, the decision may be taken to sell the company's shares.*

11.1.2. **LGIM**: Voting alerts are issued to members when it is felt that engagements need to be escalated. They issued 18 during the year to December 2021 (see **11.2** below).

11.1.3. **Other Investment Managers**: in the case of other Investment Managers, the Fund recognises that its scale means that it has limited 'levers to pull' to materially beneficially influence the overarching policies of its Investment Managers. Instead, the Fund seeks to ensure that its expectations regarding stewardship activities including escalation are met through selecting and appointing 'best in class' managers and monitoring them on an ongoing basis. For example,

- During the year, the Fund approved a new investment of £35m to Hearthstone Residential Fund 2. This manager specialises in UK suburban private rented housing, and focusses on homes for families, key workers and young professionals. As part of the due diligence work undertaken to assess the investment opportunity, the Fund considered the Investment Manager's approach to stewardship. Hearthstone's commitment to responsible investing and ESG is clear and transparent and demonstrated a good fit with the views and beliefs of the Fund. They invest in homes with lower operational carbon footprints and generate a positive social impact.

- They have an overarching ESG policy setting out their position and guidelines for the decision-making process. They track ESG metrics with a selection of these being routinely included in client reports and presentations. All Investment Committee papers for new acquisitions include a section on sustainability. They are a signatory to the UN PRI.

11.1.4. In addition to this, as previously noted the Fund seeks to further expand its ability to influence issuers through its membership of LAPFF. Details of LAPFF’s approach to escalation are set out in its *Annual Report* but in summary:

- LAPFF’s approach to engagement and escalation is bespoke to individual circumstances; sometimes, a clear escalation plan is in place, but sometimes the immediacy of the issue or the uncertainty of the engagement context mean that the escalation plan develops as the engagement progresses.
  - For example, a standard escalation plan would be to write a letter requesting a meeting with the company chair, hold a meeting, assess the meeting outcomes, and determine if further engagement is necessary. If it is, a determination is made whether a further meeting is required or if the situation suggests that a voting alert, media campaign, or shareholder resolution would be more effective routes. However, in the case of Rio Tinto and Juukan Gorge in 2020/21, it was clear that the company would not take a meeting on the issue, so a media campaign seemed the best course of action in that case.

## 11.2. Outcomes

11.2.1. **LGIM:** In 2022, LGIM began voting against the Chair of the Board of UK companies and the Chair of the Nomination Committee at US companies with no ethnic diversity representation. LGIM had communicated their minimum expectation for ethnic diversity on corporate boards in 2020 with an engagement campaign, focusing initially on S&P 500 and FTSE 100 companies.

11.2.2. In August 2020 they sent individual notices to 79 companies (35 UK & 44 US) that appeared to have no board ethnic diversity; one year later, they sent notices to 37 Companies (20 UK & 17 US) that were still below their expectations. In the 2022 proxy season they expect to vote against 7 companies (2 UK & 5 US) as part of their escalation policy to encourage their minimum expectations to be met in this area.

11.2.3. **BCPP:** Escalation example at an Integrated Mining Company – This reporting year saw the closure of an unsuccessful engagement with one of their portfolio companies. The company was highlighted for advanced engagement due to several high profile environmental health and safety issues. During engagement, objectives were set for the company around their policies, transparency, mitigation, and risk management

systems. Unfortunately, insufficient progress was made against the objectives and significant concern remained regarding the lack of oversight and lapses in risk management at the company.

In response BCPP:-

- *Assessed the materiality of the holding, including the size of the position, its weight in the benchmark and its overall contribution to risk;*
- *Held meetings internally with the Portfolio Manager, Research and RI team;*
- *Contacted other large shareholders to understand their stewardship approach to monitoring and mitigating associated ESG risks to increase their knowledge;*
- *Held a meeting with the company to discuss specific ESG risks, the progress and improvements made, and the future strategy to further mitigate risks; and*
- *Discussed the findings with their Investment Strategy Committee meeting to determine the appropriate action.*

Following conclusion of the above escalation process, they recognised the company's progress whilst acknowledging there was further work required. The decision was taken by the Portfolio Manager to reduce the position in the company.

## **EXERCISING RIGHTS & RESPONSIBILITIES**      **PRINCIPLE 12 – Exercising rights & responsibilities**

### **PRINCIPLE 12: Signatories actively exercise their rights and responsibilities**

#### **12.1. Introduction**

12.1.1. Exercising **Shareholder rights and responsibilities** is fundamental to improving investment outcomes. As an asset owner, the Fund must make best use of these rights in order to manage a sustainable and solvent Local Government pension fund on behalf of current and future members of the Fund.

12.1.2. The Fund recognises that there are regional differences in corporate governance standards and company behaviour. Furthermore, there are also differences between asset classes. The Fund exerts its influence through voting and other means with the aim of getting the best outcomes in the context of each market and asset class it is invested in. Paragraph **12.3** below summarises the Fund and its investment managers' approach to listed equities, whilst para. **12.6** below summarises the approach to other asset classes.

#### **12.2. Expectations of asset managers**

12.2.1. The Fund's expectations of asset managers are aligned to its statement of investment beliefs. The Fund's investment beliefs are detailed in our ISS but in summary, our key expectations are:

- A. As a long-term investor, Environmental, Social and Governance (ESG) considerations should be a fundamental element of the investment process (both in terms of risk and reward).
- B. Investment managers are responsible for stock selection however the Fund recognises that it cannot delegate its responsibility and is accountable for effective stewardship. As such the Fund monitors investment manager performance against appropriate benchmarks and undertakes manager reviews to ensure managers continue to meet its expectations.
- C. It is important that managers take a long-term perspective, but also recognise the implications of shorter-term market volatility.
- D. Good governance improves the quality of decision-making and this tenet should be reflected in the investment approach taken by managers..
- E. All investments have a degree of financial risk, but financial risk should only be accepted where a manager has a strong belief that the investment will be rewarded for it – financial risk includes ESG considerations.

F. Investment risks that are not sufficiently compensated should be mitigated, managed or avoided if possible.

G. Managers should continually consider all risks in their investment process by *investing responsibly*, including ESG factors:

- i. ESG factors, such as climate change, can have a material impact on the value of financial assets in the long term. Managers should be a responsible investor and incorporate ESG factors into investment decisions to help to improve the long-term value for investors.
- ii. We believe that the best way to be a responsible investor and to influence policy change is not through divestment but through active engagement. We expect managers to apply this approach to the funds we invest in unless explicitly stated otherwise
- iii. Managers should lead by example by ensuring they are an active shareholder.

### 12.3. Listed equity assets – the Fund

12.3.1. The Fund does not directly hold shares – its investments in listed equities are made through investment managers into **pooled investment funds**. As such the Fund votes on shareholder resolutions through **proxy voting** arrangements (as set out at **12.3.4**, **12.4.2** and **12.5.2** below). The Fund's holdings in listed equities are managed as follows:

- **Actively managed equities** – by BCPP (the pensions pooling company jointly owned by the Fund and 10 other Partner Funds); and
- **Passively managed equities** - by LGIM.

12.3.2. Investment managers are expected to approach the subject of voting with the same care and attention as other matters which influence investment decisions and voting should be undertaken where it is believed to be in the best interests of the Fund. Where a resolution is put forward which is deemed to be controversial, investment managers should liaise with the Fund as appropriate. The Fund's investment managers are required to report quarterly on their voting actions for every appropriate investment. Any responses received from companies concerned should also be reported. Both should hold and make available to the Fund a full voting audit trail.

12.3.3. Officers hold regular Review meetings in addition to ongoing dialogue with asset managers, in which they communicate expectations of the Fund in respect of either voting (listed equities) or holding them to account (privately held companies). Effective stewardship is an integral part of performance reviews of all asset managers.

12.3.4. Fund voting policy: The Fund's voting policy is set out in its ISS (section 4.8). As per the policy, responsibility for the exercise of voting rights is currently delegated to the

investment managers, however, with BCPP, the Fund has the opportunity to override votes if considered appropriate. This is set out in the Stewardship section of BCPP's *RI policy*. However, as this Policy has been created to reflect the views of Partner Funds in the pool including Cumbria such a situation is extremely unlikely to occur.

- 12.3.5. Monitoring shares and voting rights: The Fund formally monitors what shares and voting rights it has on a quarterly basis. Key steps include obtaining and reviewing detailed stock listings and voting reports from its investment managers and quarterly monitoring meetings with managers. The outcome of this quarterly process is reported to the Pensions Committee as part of the quarterly monitoring reports which are a standing item on the Committee agenda.
- 12.3.6. Reporting: The Fund publishes its voting activities on its website at: [https://www.cumbria.gov.uk/ Finance/finance/sharevotingrecord.asp](https://www.cumbria.gov.uk/Finance/finance/sharevotingrecord.asp). In addition to this, the Pensions Committee is kept informed on relevant corporate governance issues arising during the period and details of this, including voting activity, is formally reported to it on a quarterly basis.
- An example of the reporting during the year ended 31<sup>st</sup> March 2022 can be found at section 7 of agenda item 11 of the Committee held on 18<sup>th</sup> March 2022<sup>33</sup>:  
The Fund's Annual Report also incorporates disclosure of its voting and engagement activity. The Annual Report for the year ended 31<sup>st</sup> March 2022 is due to be published by 1<sup>st</sup> December 2022 and will be available on the Fund's website<sup>34</sup>.

### 12.4. Listed equity assets – BCPP

- 12.4.1. Voting policy: BCPP's *Corporate Voting Guidelines* set out the parameters for how votes are cast. The document is reviewed and updated annually following dialogue with partner funds including Cumbria. The policy is also reviewed by Robeco, using the International Corporate Governance Network Global Principles, the UK Stewardship Code and the UN Principles for Responsible Investment as benchmarks. The *Corporate Voting Guidelines* (which should be read in conjunction with BCPP's *RI policy*) set out the voting approach in term of key areas of corporate governance e.g . Climate Change; Company Board compositions; Directors remuneration; and other issues including stakeholder engagement, auditor independence, political donations, lobbying and shareholder rights.
- 12.4.2. Proxy voting arrangements: BCPP uses a proxy voting platform, with proxy voting recommendations produced for all meetings voted, that is managed by Robeco as the Voting & Engagement provider. Robeco's proxy voting advisor (Glass Lewis. Co)

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<https://councilportal.cumbria.gov.uk/documents/s121660/PENSIONS%2018.3.22%20MONITORING%20REPORT%20FOR%20THE%20QUARTER%20ENDED%2031%20DEC%202021.pdf>

<sup>34</sup> <https://www.cumbria.gov.uk/finance/finance/cumbrialgps.asp>

## EXERCISING RIGHTS & RESPONSIBILITIES

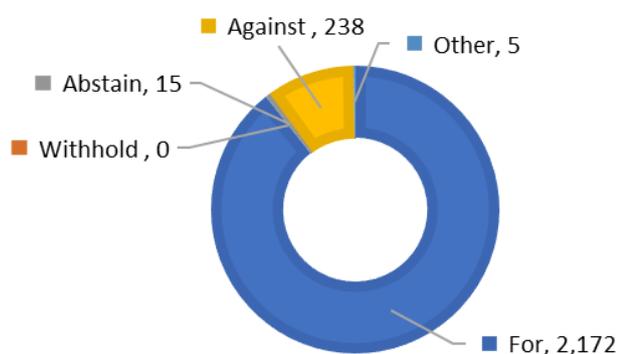
## PRINCIPLE 12 – Exercising rights & responsibilities

provides voting recommendations based upon BCPP's *Corporate Voting Guidelines*. All of Robeco's voting recommendations are reviewed by the BCPP RI team and portfolio managers prior to votes being executed.

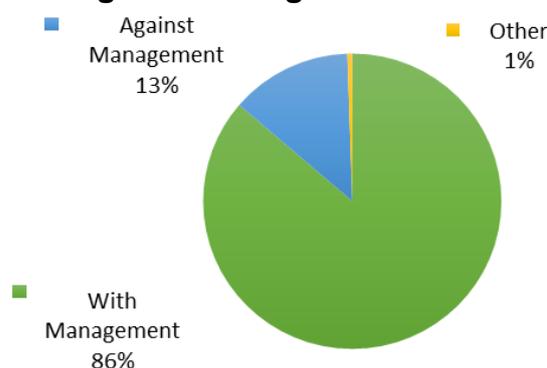
- 12.4.3. Stock lending: BCPP has an active stock lending programme. Where stock lending is permissible, lenders of stock do not generally retain any voting rights on lent stock. Procedures are in place to enable stock to be recalled prior to a shareholder vote. Stock will be recalled ahead of meetings, and lending can also be restricted including but not limited to, if the resolution is contentious, the holding is of a size which could potentially influence the voting outcome or BCPP has co-filed a shareholder resolution.
- 12.4.4. Reporting: Details of the voting activity undertaken by BCPP can be found at: **BCPP Investments RI - Voting Reports**. During the reporting period BCPP voted on 97.95% of their shareholdings across their equity holdings. The reports covering the voting activity during the year 2021/22 for the two listed equity funds Cumbria is invested in are summarised below:

### BCPP Global Equity Alpha Fund (165 meetings voted at)

#### Votes cast <sup>35</sup>:



#### For / against management:



- 12.4.5. Details of votes withheld and abstentions are included in the quarterly voting reports. Examples include:
- Votes withheld: re-election of directors where the nominee is Chair of the Nomination Committee & the Board has insufficient female directors at Fiserv Inc, Haliburton Co, Charter Communications Inc & Berkshire Hathaway Inc.
  - Abstentions: the re-election of Directors at Prada S.p.A. due to governance concerns and insufficient information being provided in relation to Nestle SA Additional or Amended Shareholder Proposals.

<sup>35</sup> 'Other' refers to any voting option that does not fall into the traditional For, Against, Abstain, or Withhold categories. In the US for example, you may have to vote on a 'Say on Pay Proposal' which determines the frequency of when the remuneration policy is put up for vote. The vote options here are usually one, two, or three years. These votes would fall under 'other'.

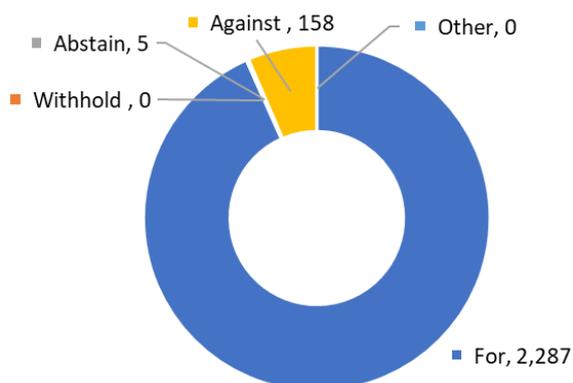
## EXERCISING RIGHTS & RESPONSIBILITIES

## PRINCIPLE 12 – Exercising rights & responsibilities

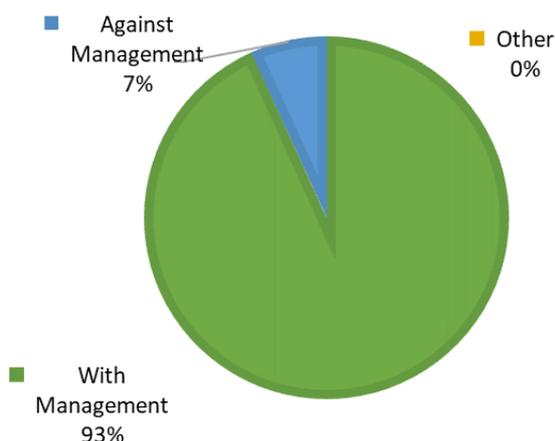
12.4.6. Details of all votes against management are included in the quarterly voting reports. Key areas included Board independence & diversity; Audit Committee independence; and Remuneration (including compensation / long term awards).

### BCPP UK Listed Equity Fund (141 meetings voted at)

#### Votes cast:



#### For / against management:



12.4.7. Details of abstentions are published on BCPP's website. One example during the year related to Royal Dutch Shell plc:

- At Royal Dutch Shell's 2021 AGM both management and shareholders put forth separate climate proposals. BCPP recognised that certain aspects of Shell's plan had been challenged and would require further disclosure, however, they supported this proposal along with 89% of shareholders. They abstained from voting on the shareholder resolution, although they recognised its value in providing impetus to the company to progress its plans. This shareholder proposal received 30% of votes in favour.

12.4.8. Details of all votes against management are included in the quarterly voting reports. Key areas of votes against management were:

- the appointment of Auditors where the tenure and/or the fees were considered to be excessive;
- Board appointments where Boards were deemed to lack sufficient diversity; and
- opposing all political donation due to reputational risks and democratic implications.

## 12.5. Listed Equity Assets - LGIM

12.5.1. Voting policy: LGIM notes that its voting activity forms an important part of its engagement strategy and that enables it to escalate its concerns through the use of shareholder rights. LGIM believes the most efficient and effective way of achieving

mutual goals through voting and engagement is to speak with one strong voice. Further information relating to LGIM's voting can be found in the links below:

- The voting disclosure page: <https://vds.issgovernance.com/vds/#/MjU2NQ==/>
- The quarterly ESG impact reports are uploaded at:

<https://www.lgim.com/cgupdate/>

Details of LGIM's stewardship policies can be found at: <https://www.lgim.com/uk/en/capabilities/investment-stewardship/>. The Cumbria Fund is invested in LGIM's World Equity Index.

12.5.2. Proxy voting: LGIM has a general stewardship policy supplemented by specific market policies. LGIM uses voting research from Institutional Shareholder Services (ISS) and Institutional Voting Information Service (IVIS), and voting decisions incorporate their own research analysis and engagement activities where appropriate. LGIM uses the ISS voting platform "ProxyExchange" to vote its shares. Details of how LGIM uses proxy advisory services can be found at: [https://www.lgim.com/landg-assets/lgim/\\_document-library/capabilities/how-lgim-uses-proxy-voting-services.pdf](https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/how-lgim-uses-proxy-voting-services.pdf).

12.5.3. Stock lending: Where there are no legal or practical impediments, LGIM aim to vote with every share they hold. There is currently no stock lending undertaken by LGIM in the UK market, so all shares are available for voting.

For other markets, their stock-lending policies differ, with limits on the number of shares lent per fund and per stock. Nonetheless they have always retained a number of shares in each voteable stock to be able to note their approval, or dissent, through a vote via the shareholder meeting. Moreover, they retain the right of immediate recall of shares, should they deem this necessary or expedient.

In practice, they do not typically recall lent stock for voting on routine company meetings. However, if there were a material vote – for example, a potential takeover of a company that they owned at a price which they did not believe was in the best interests of shareholders, they would recall any stock that was out on loan in order to vote with 100% of their holding.

With regards to "empty voting" (i.e. the practice of borrowing shares with the primary purpose of voting those shares at a forthcoming AGM), as part of the programme LGIM's counterparties are not allowed to borrow for voting purposes.

12.5.4. Reporting: Details of the voting activity undertaken by LGIM across all its investments<sup>36</sup> can be found at: <https://vds.issgovernance.com/vds/#/MjU2NQ==/>. Details of vote

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<sup>36</sup> The figures in the charts reflect the voting activities across LGIM – i.e. they are not limited to the Fund's holdings in LGIM's World Equity Index pooled fund.

## **EXERCISING RIGHTS & RESPONSIBILITIES**      **PRINCIPLE 12 – Exercising rights & responsibilities**

instructions are disclosed by LGIM on a per-meeting basis with the rationale for all votes cast against management available via the above link.

### **12.6. Fixed income and other asset classes**

12.6.1. For assets other than listed equities, actively exercising rights and responsibilities is generally more challenging. This is because the Fund doesn't engage in direct investment itself but instead invests through external investment managers with the majority of these investments made via pooled funds. As such, the Fund has little or no ability to influence granular investment matters such as seeking amendments to terms and conditions in indentures or contracts; impairment rights; and seeking access to information provided in trust deeds. Instead, the Fund has sought to actively exercise its rights and responsibilities through investing with 'like-minded' investment managers and through the pooling of its investment assets with BCPP.

12.6.2. For example:

- As previously noted, the assessment of ESG issues is integrated into BCPP's investment process for all private market investments.
- BCPP note that a manager's ESG strategy is assessed through a specific ESG questionnaire, agreed with BCPP's Head of Responsible Investment, and reviewed by the company's Alternatives investment team.
- In 2021/22 BCPP implemented their internally developed ESG Scorecard which allows them to evaluate managers' ESG capabilities and target areas for improvement.
- Managers are requested to report annually on the progress and outcomes of ESG-related values and any potential risks. Ongoing monitoring includes identifying possible ESG breaches and following up with the managers concerned, as well as tracking improvements and targets met.
- Further details of the governance structure of BCPP and how this enables the Fund to have appropriate oversight of the company and hold it to account so as to ensure to the effective stewardship of the Fund's assets invested is set out in **Principle 2 at 2.3**

12.6.3. In addition to ensuring investment managers are the right 'fit' at the point of their appointment, the other key tools used by the Fund to exercise its rights and responsibilities for investments in assets other than listed equities are ongoing engagement with and the monitoring of its investment managers. The Fund has a long history of monitoring and engaging with investment managers on their investment performance. However, the Fund recognises that its approach to engagement with its investment managers on ESG and RI matters is an area which could be strengthened.

## **EXERCISING RIGHTS & RESPONSIBILITIES      PRINCIPLE 12 – Exercising rights & responsibilities**

- An example of how the Fund is seeking to improve its engagement with investment managers on RI matters is the creation, during March 2021, of an ESG questionnaire which is sent out to the Fund's investment managers on an annual basis. This was further improved during 2022 with additional questions included around their net zero commitments and climate-related risks. The Fund uses the information gathered through this process to ensure that managers are meeting its expectations in relation to RI and the exercising of rights and responsibilities on behalf of the Fund. The Fund had a 100% response rate and there was a marked improvement this year in the quality of responses received from managers and additional information provided.

### **12.7. Examples of outcomes of resolutions voted on in the year to 31st March 2022**

12.7.1. BCPP & Microsoft Corporation (Global Equity Alpha): At the 2021 AGM, BCPP supported the proposal asking the company to report on median pay gaps across race and gender.

- **BCPP View:** This proposal raised the importance of ensuring equal work for equal pay, no matter the gender or racial background. Despite some progress being made in closing the gender pay gap, recent research shows there is still both gender and race pay inequity in the tech industry. BCPP recognised that the company is disclosing the steps it is taking to promote pay equality, but they also consider it highly important for companies to take further action to resolve the issue.
- **Voting Outcome:** The proposal received over 40% support from shareholders, reflecting the importance of the topic.

12.7.2. BCPP & BHP Group Plc (UK Listed Equity & Global Equity Alpha): At its 2021 AGM BCPP voted against the Climate Transition Action Plan.

- **BCPP View:** Even though BHP's Climate Transition Plan provided thorough discussion of its climate-related considerations and capital expenditure, BCPP had concerns regarding the level of ambition of the emissions reduction targets and their alignment with the goals of the Paris Agreement. In particular, the plan had limitations on how it will achieve its emissions reduction targets on scope 3 emissions. Also, the plan references the use of offsets to meet all its targets while remaining unclear of the quality and amount of offsets that will be used.
- **Voting Outcome:** The proposal received around 85% in shareholder support at the AGM; substantially lower than some other Transition Plans. However, BHP

have been open to constructive engagement and BCPP expect this to continue through direct dialogue as well as engagement via CA100+ and LAPFF.

12.7.3. LGIM & McDonalds Corporation: At its 2021 AGM LGIM voted for a shareholder resolution requesting that the company produce a Report on Antibiotics and Public Health costs.

- **LGIM View:** Antimicrobial Resistance (AMR) is a key focus of the engagement strategy of LGIM's Investment Stewardship team. They believe that without coordinated action AMR could prompt the next global health crisis. LGIM believe that the proposed study will inform shareholders and other stakeholders of the negative ramifications of sustained use of antibiotics in the company's supply chain and its impact on global health. Whilst LGIM applaud the company's efforts over the past few years in this area they believe that it is a financially material issue for the company and other stakeholders, and they wanted to signal the importance of this topic to the company's Board of Directors.
- **Voting Outcome:** 11.3% of shareholders supported this resolution. LGIM will continue to engage with the company and monitor progress. LGIM took the step of publicly pre-declaring this vote before the AGM.

## APPENDIX A: GLOSSARY

**Active Management** – Approach to investment management which aims to outperform a particular market index or benchmark through asset allocation and/or stock selection decisions. (*Also see Passive Management*).

**Actuary** – An independent consultant who advises the Fund and every three years formally reviews the assets and liabilities of the Fund and produces a report on the Fund's financial position, known as the Actuarial Valuation.

**Actuarial Valuation** – An actuary formally reviews the assets and liabilities of the pension Fund and produces a report on the Fund's financial position.

**Admitted Body** – Private contractors that are admitted to the LGPS to protect member pension rights following a TUPE transfer, or a body which provides a public service which operates otherwise than for the purposes of gain. These bodies can be categorised as Transferee or Community Admission bodies.

**Alternatives** – Investment products other than traditional investments of stocks, bonds, cash or property. The term is used for tangible assets such as infrastructure; property; art, wine etc., and financial assets such as commodities, private equity, hedge funds, venture capital; royalties / patents and derivatives.

**Asset Allocation** – Distribution of investments across asset categories, such as cash, equities and bonds. Asset allocation affects both risk and return; and is a central concept in financial planning and investment management.

**Authorised Contractual Scheme (ACS)** – an ACS is a type of structure in which institutional investors (including Pension funds) can hold their pooled investments. The ACS is the investment vehicle chosen by BCPP to hold the public market quoted investments for the twelve partner funds; and provides a tax efficient means for managing all the equity and bonds held by the company.

**Auto Enrolment** - UK employers have to automatically enrol their staff into a workplace pension if they meet certain criteria. The law on workplace pensions has now changed and every employer must comply.

**Benchmark** – A yardstick against which the investment policy or performance of a fund manager can be compared, usually the index relating to the particular assets held. (*Also see Target*).

**Beneficiaries (in relation to Stewardship)** – In this context we are referring to Scheme Members and Scheme Employers, please see separate definitions below.

**Bid price** – Price at which a security or unit in a pooled fund can be sold.

**Bonds** – Certificate of debt issued by a government or company, promising regular payments on a specified date or range of dates, usually with final capital payment at redemption.

**Buy and Hold Credit** - An approach to bond investment that is very different to an index-tracking or traditional active approach. In the case of “buy and hold” investing, the starting point of the portfolio construction process is not the index weight of the bonds, but a basket of bonds that the manager believes have a high probability of honouring the payment obligations due. As such the investor’s return expectation has a “margin of safety” and is not dependant on a change in sentiment in credit markets. The intention is typically to hold the bonds until maturity (and to be prepared to sell bonds if the default risk increases). Constant duration portfolios are also available.

**Career Average Revalued Earnings (CARE) Scheme** – The pension at retirement will relate to your average salary over your career (while paying into the pension scheme). More precisely for the LGPS, it is based on pensionable earnings, increased in line with inflation as measured by the Consumer Price Index (CPI).

**CIPFA** – Chartered Institute of Public Finance & Accountancy.

**Class Action** – An action where an individual represents a group in a court claim. The judgement from the suit is for all the members of the group (class). This is often done when shareholders launch a lawsuit against a company, mainly because it would be too expensive for each individual shareholder to launch their own lawsuit.

**Conflicts of Interest** - Real or apparent instances where a person or firm has an incentive to serve one interest at the expense of another. Some of these conflicts are inherent in any large, diversified organisation, while others stem from the nature of the services offered to clients. These conflicts are managed through disclosure and with policies and procedures that are designed to protect client’s interests. The appearance of a conflict of interest is present if there is a potential for the personal interests of an individual to clash with fiduciary duties.

**Consumer Price Index (CPI)** - The rate of increase in prices for goods and services. CPI is the official measure of inflation of consumer prices of the United Kingdom.

**Coronavirus (COVID-19)** – The World Health Organisation (WHO) declared the outbreak of Coronavirus to be a global pandemic on 11 March 2020. Investment markets have seen significant volatility as a result of concerns relating to the Coronavirus Pandemic.

**Corporate Governance** - The system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of the many stakeholders in a company - these include its shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining a company’s objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

**Counterparty** - The other party that participates in a financial transaction. Every transaction must have a counterparty in order for the transaction to go through. More specifically, every buyer of an asset must be paired up with a seller that is willing to sell and vice versa.

**Currency Hedge** – This is one way for pension funds to reduce the volatility of their foreign currency exposures, by using derivatives to convert exposures back to the domestic currency. Open funds with a long term focus commonly hedge 50% of their exposure to mitigate the worst effects that any adverse currency movement would have on the value of the Fund.

**Custodian** – Organisation which is responsible for the safekeeping of asset, income collection and settlement of trades for a portfolio, independent from the asset management function.

**Deficit recovery period** – A reasonable period of time over which a pension fund will aim to repair it's funding level to meet it's statutory objective of 100% solvency, taking into account employer circumstance where possible.

**Defined Benefit** – An employer-sponsored retirement plan where employee benefits are assessed based on a formula using factors such as salary history and duration of employment. Public sector pension schemes, including the LGPS, were defined benefit prior to the introduction of the Career Average Revalued Earnings (2014) Scheme.

**Defined Contribution** – A retirement plan in which a certain amount or percentage of money is set aside each year by a company for the benefit of the employee. There are restrictions as to when and how you can withdraw these funds without penalties. There is no way to know how much the plan will ultimately give the employee upon retiring. The amount contributed is fixed, but the benefit is not.

**Derivative** – Financial instrument whose value is dependent on the value of an underlying index, currency, commodity or other asset.

**Designated Body** – Also known as Resolution body – please refer below.

**Diversification** – Risk management technique which involves spreading investments across a range of different investment opportunities, thus helping to reduce overall risk. Risk reduction arises from the different investments not being perfectly correlated. Diversification can apply at various levels, such as diversification between countries, asset classes, sectors and individual securities.

**Diversified Credit** – Also known as Multi Asset Credit – please refer below.

**Divestment or divestiture** – The reduction of some kind of asset for financial, ethical, or political objective. A divestment is the opposite of an investment. For investors, divestment can be used as a social tool to protest particular corporate policies.

**DLUHC** – Department for Levelling Up, Housing and Communities. Prior to September 2021 this was the Ministry of Housing, Communities and Local Government (“MHCLG”).

**EBITDA** – Earnings Before Interest, Tax, Depreciation and Amortisation – is a measure of a company's operating performance. Essentially, it's a way to evaluate a company's performance without having to factor in financing decisions, accounting decisions or tax environments.

**Emerging Markets** – Developing economies in Latin America, Africa, Asia and the Middle East as well as areas of Europe and the Far East. Investment returns within these markets tend to be more volatile than those in more established markets.

**Engagement** - A series of actions investors can take to reduce environmental, social and governance risks. This can include raising concerns or making proposals about company practices directly to its directors via correspondence, face-to-face meetings, attendance and voting at shareholder meetings.

**Equities** – Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

**ESG (Environmental, Social and Corporate Governance)** - A set of standards for a company's operations that socially conscious investors use to screen investments. Environmental criteria looks at how a company performs as a steward of the natural environment. Social criteria examines how a company manages relationships with its employees, suppliers, customers and the communities where it operates. Governance deals with a company's leadership, executive pay, audits and internal controls, and shareholder rights. ESG is the catch-all term for the criteria used in what has become known as socially responsible investing. Socially responsible investing is among several related concepts and approaches that influence and, in some cases govern, how asset managers invest portfolios. See also Socially Responsible investing.

**Exchange Traded Fund (ETF)** - Fund that tracks an index; but can be traded like a stock.

**Fiduciary Duty** - A legal obligation of one party to act in the best interest of another. The obligated party is typically a fiduciary, that is, someone entrusted with the care of money or property.

**Final Salary** – Another term for the defined benefit pension schemes where employee benefits are based on the person's final salary when they retire. The LGPS 2014 Scheme has moved from this to a CARE (career average) scheme.

**Fixed Interest Securities** – Investments mainly in government but also company stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange in the meantime.

**Funding Level** – The ratio of a pension fund's assets to its liabilities. Normally relates to defined benefit pension funds and used as a measure of the fund's ability to meet its future liabilities.

**Futures Contract** – A contract that is traded on an organised exchange and subject to rules of the exchange. It is an obligation that the buyer and seller settle the contract through purchase or sale of an underlying asset at the future date.

**Gilts** – These are the simplest form of UK government bond. A conventional gilt is a bond issued by the UK government which pays the holder a fixed cash payment (or coupon) every six months until maturity, at which point the holder receives his final coupon payment and the return of the principal.

**Governance** - The procedures and practice associated with decision-making, performance and control, which provide structures and satisfy expectations of accountability in large, mainly commercial, organisations.

**IFRS** – International Financial Reporting Standards. Aim to standardise the reporting and information disclosed in the financial accounts of companies and other organisations globally.

**Index-linked Gilts** – UK government stock where the interest payments and the final redemption proceeds are linked to the Retail Price Index. Such stocks provide protection against inflation.

**Index-Tracking Fund (Managed Fund)** – Pooled investment vehicle which aims to match the returns on a particular market index. The fund may hold all stocks in the index or select a sample that will perform closely to the index. Investors can buy and sell units of the fund on an on-going basis.

**Infrastructure** - The public facilities and services needed to support residential development, including highways, bridges, schools, and sewer and water systems. A term usually associated with investment in transport, power and utilities projects.

**Investment Strategy** – Investor's long-term distribution of assets among various asset classes taking into consideration, for example, goals of the investor, attitude to risk and timescale etc.

**Joint Committee** – this is the term used to refer to the committee of Partner Fund councillors. Its primary purpose is to exercise oversight over investment performance of the collective investment vehicles comprised in the BCPP Pool.

**Liabilities** – Financial liabilities are debts owed to creditors for outstanding payments due to be paid. Pensions liabilities are the pensions benefits and payments that are due to be paid when someone retires; the LGPS is a 'final-salary' scheme where pension relates to years service and final salary and so the pensions liability can be estimated by the actuary.

**Loans and Receivables** – are also known as 'Financial assets held at amortised cost' in the context of IFRS9 (International Financial Reporting Standards)

**Long term cost efficiency** – Implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

**Market Value** – The price at which an investment can be bought or sold at a given date.

**MHCLG** – The Ministry of Housing, Communities and Local Government. Prior to January 2018 this was Department for Communities and Local Government (“DCLG”). Now called Department of Levelling Up, Housing and Communities (“DLUHC”).

**Multi-Asset Credit** – MAC is a term used for a fund investing in a range of investments that are classed as ‘credit’ i.e. fixed income, and will often include corporate debt, loans directly to companies, absolute return bonds, emerging market debt, asset-backed securities, real-estate debt and high yield bonds. The MAC fund will aim to be diversified across many asset types (also known as Diversified Credit).

**Myners Review** – Review carried out by Paul Myners on behalf of the Chancellor of the UK government. The review, published in March 2001, investigated the challenges facing institutional investment decision making.

**Other Registerable Interests** – Including the receipt of gifts or hospitality worth over £100; and membership / being in position of general control or management of a body to which they are appointed or nominated by the Council.

**Over-the-Counter (OTC)** - A security traded in some context other than on a formal exchange such as the London Stock Exchange, New York Stock Exchange, etc. The phrase "over-the-counter" can be used to refer to stocks that trade via a dealer network as opposed to on a centralized exchange. It also refers to debt securities and other financial instruments such as derivatives, which are traded through a dealer network.

**Partner Funds** - The term we use to describe the 10 other LGPS Pension Funds who are equal owners of BCPP along with Cumbria. A list of our partner funds can be found at: <https://www.bordertocoast.org.uk/partner-funds/>

**Passive Management** – Portfolio which aims to replicate a particular market index or benchmark and does not attempt to actively manage the portfolio. (*Also see Active Management*).

**Pecuniary Interests** – Including the ownership of securities and other assets, any employment, office, trade, profession or vocation carried out for profit or gain.

**PIRC** – Pensions & Investment Research Consultants

**Pooled Investment Fund** – A fund managed by an external Fund Manager in which a number of investors buy units. The total fund is then invested in a particular market or region. The underlying assets the funds hold on behalf of clients are quoted assets

such as fixed interest bonds and equity shares. They are used as an efficient low-risk method of investing in the asset classes.

**Pooling** – In the context of the LGPS, this is the collaboration of several LGPS Funds to pool their investment assets in order to generate savings from economies of scale thereby, as requested by DCLG: ‘significantly reducing costs whilst maintaining investment performance’.

**Portfolio** – Block of assets generally managed under the same mandate.

**Private Equity** – Shares in unquoted companies. Usually high risk, high return in nature.

**Private Equity Secondaries** – Shares in unquoted companies that were pre-existing investor commitments to private equity which have since been sold in a secondary market. Usually high risk, high return in nature.

**Proxy Voting** – Also known as Shareholder Voting – please refer below.

**Retail Price Index** – Measure of price inflation in the UK used as a guide for pensions updating. A basket of representative goods in the market is priced on a regular basis to monitor the rate of inflation. (The Government is also publishing details of the Consumer Prices Index).

**Real Estate Debt** – Commercial property loans; the debt is secured against commercial property or portfolios of property, eg. hotels, shopping centres, offices.

**Resolution Body** – Employers who, under Schedule 2 Part 2 of the Local Government Pension Scheme Regulations 2013 (as amended), have the automatic right but not the requirement to be an employer within the LGPS (also referred to as a Designated body).

**Return** – Increase in value of an investment over a period of time, expressed as a percentage of the value of the investment at the start of the period.

**Risk** – Likelihood of a return different from that expected and the possible extent of the difference. Also used to indicate the volatility of different assets.

**S151 Officer** – Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a S151 Officer, also known as a Chief Financial Officer (CFO), to have responsibility for those arrangements.

**Scheduled Body** – Public sector employers or resolution bodies that have an automatic right and requirement to be an employer within the LGPS.

**Scheme Employers** – employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations (as amended)) would not need to designate eligibility, unlike the Part 2 Scheme Employers.

**Scheme Members** – are predominantly employees and ex-employees of local public sector organisations including local authorities, the police authority (non-uniformed), schools, and academies. Additionally, a small number of scheme members are employees and ex-employees of either community bodies or private companies to whom services and therefore staff have been contracted out.

**Settlement** – Payment or collection of proceeds after trading a security. Settlement usually takes place sometime after the deal and price are agreed.

**Shareholder Rights & Responsibilities** - Rights exist primarily through shareholdings (but can be derived through other means). The shareholder role includes responsibilities for appointing directors and auditors and ensuring that appropriate governance structures are in place. Good governance is about ensuring that company policies and practices are robust, and its operations are effective and responsibly delivered in relation to its stakeholders.

**Shareholder Voting** - Shareholders are people and organisations who buy shares in UK companies. In large companies, shareholders are overwhelmingly large institutional investors, such as pension funds, insurance companies, mutual funds or similar foreign organisations.

Shareholders have the right and responsibility to vote on matters of ‘corporate policy’ at the underlying company’s AGM (Annual General Meeting). UK shareholders have the most favourable set of rights in the world in their ability to control directors of corporations. UK company law gives shareholders the ability to;

- remove the board of directors with a simple majority of votes;
- change the company constitution with a three quarter vote (unless a higher figure is in the constitution);
- wind up (i.e. liquidate) the company with a three quarter vote; and
- veto any sale of a significant percentage of company assets.

The number of votes corresponds to the number of shares owned. The shareholder does not need to be present at the meeting, and many shares are voted ‘by proxy’. Managers invariably hand over the process of voting to proxy voting agencies.

In practice many shareholders delegate the voting function to Investment Managers (who have stewardship of their assets).

*Resolutions which are voted upon include:*

*Approval of Annual Report and Accounts*

*Approval of Remuneration Policy, and Remuneration Report*

*Election/Re-election of Directors*

*Appointment/Re-appointment of auditors*

*Approve dividend*

*Approve political donations*

Voting is the key to exercising ownership rights, and influencing investee company policy

**Socially Responsible Investing** – An investment that is considered socially responsible because of the nature of the business the company conducts. Common themes for socially responsible investments include avoiding investment in companies that produce or sell addictive substances (like alcohol, gambling and tobacco) and seeking out companies engaged in social justice, environmental sustainability and alternative energy/clean technology efforts. See also ESG.

**Solvency** – A level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

**Stewardship** - The responsible allocation, management and oversight of capital to create long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

**Stock Lending** – Lending of stock from one investor to another that entitles the lender to continue to receive income generated by the stock plus an additional payment by the borrower.

**Stranded Assets** – are defined as assets that have been prematurely devalued or converted to liabilities. In recent years, the issue of stranded assets caused by environmental factors, such as climate change and society's attitudes towards it, has become increasingly high profile.

**Supranational Institutions** – Owned or established by governments of two or more countries, usually established by international treaties and generally not subject to commercial law; they include multilateral insurance companies, monetary funds and regional public policy institutions.

**Target** – Managers are set a target for investment performance such as 1% above benchmark per year over three year rolling periods.

**Triennial Actuarial Valuation** – Every three years the actuary formally reviews the assets and liabilities of the Cumbria LGPS Fund and produces a report on the Fund's financial position.

**Unit Trust** – A specific type of pooled investment fund.

**Unquoted (Unlisted) Stock** – A company share that is not available for purchase or sale through the stock market.

**Venture Capital** – Investment in a company that is at a relatively early stage of development and is not listed on a stock exchange.