

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Responsible Investment Sub-Committee
Date:	02 March 2023
Title:	Stewardship highlight report
Report From:	<i>Director of Corporate Operations</i>

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Purpose of this Report

1. This report provides information regarding the Pension Fund's investment managers' stewardship of the Pension Fund's assets, their engagement with the management of the companies the Pension Fund invests in, including how the investment managers have voted on behalf of the Fund during the period July to December 2022.

Recommendations

2. That the Pension Fund Responsible Investment Sub-Committee notes how the Pension Fund's investment managers have voted in the Fund's portfolios and engaged with the management of these companies as highlighted in this report and reported in the Fund's Stewardship Code update report attached to this report.

Executive Summary

3. The Pension Fund is a signatory to the UN Principles for Responsible Investment and the UK Stewardship Code 2020 and as such recognises its role of promoting best practice in stewardship, which is considered to be consistent with seeking long term investment returns. As a Pension Fund whose investments are externally managed, much of the day-to-day responsibility for implementing stewardship on behalf of the Fund is delegated to the Fund's investment managers, including engagement and casting shareholder votes for its equity investments, and the expectations of the investment managers are set out in the Fund's Responsible Investment Policy as part of the Investment Strategy Statement.

4. The Fund recognises that there are different expectations for its investment managers in terms of how they engage with companies, but as a minimum all are expected to engage with invested companies on areas of concern related to environmental, social and governance (ESG) issues and to also exercise voting rights particularly with regard to ESG factors, in a manner that will most favourably impact the economic value of the investments. In addition, the Fund's active investment managers are required to pro-actively consider how all relevant factors, including ESG factors, will influence the long-term value of each investment. Paragraphs 13 onwards of this report provide examples of how the Fund's active investment managers have engaged with the management of the companies the Fund is invested in.
5. As investors in common stock (equities), the Pension Fund (via the pooled funds it invests in) will have certain rights to vote on how the company it invests in is run. These include being able to vote in elections to the board of directors and on proposed operational alterations, such as shifts of corporate aims, as well as the right to vote on other matters such as remuneration policies and the appointment of auditors. In addition to these items, for which recommendations will be made by company management for shareholders to either agree or oppose, individual shareholders can propose their own subjects for the shareholders to vote on, but they are non-binding on the company's management in most instances.
6. Shareholder votes are an important tool for company engagement alongside more direct communication (such as meetings) with company management. Voting provides an ultimate sanction for shareholders to show their disapproval with how a company is operating.
7. How votes are cast by the Pension Fund will be determined by the voting policy, which for Hampshire varies depending on how the equity investment is held:
 - Equities directly held directly in the ACCESS pool (Acadian's Low Volatility portfolio, Baillie Gifford's Long-term Global Growth and Global Alpha portfolios and Dodge & Cox's Global Stock Fund portfolio) will be voted in accordance with ACCESS's voting guidelines, which were agreed by the ACCESS Joint Committee.
 - Equities in pooled funds of external investment managers (such as UBS-AM) will be voted in accordance with the investment manager's voting policy, which applies to all holdings within the fund.
8. As a result of the Pension Fund's policy there is a risk that its investment managers could cast their votes differently for the same shareholder resolution, and examples of these are described in Table 1. However, the Fund believes its current policy remains the best approach as it enables the Fund's investment managers to cast votes in line with the portfolio investment strategy that led to holding the stock.

9. The Pension Fund publishes its investment manager's voting reports online:

<https://www.hants.gov.uk/hampshire-services/pensions/responsible-investment>

Engagement highlights

10. In order for the Responsible Investment (RI) Sub-Committee to scrutinise the engagement activity of the Pension Fund's investment managers. The Pension Fund's Annual Stewardship Code report is attached to this report as Annex 1. The report sets out the Fund's approach to stewardship as required by the Code, as well as includes a number of recent engagement examples provided by the Pension Fund's investment managers.
11. The Pension Fund's investment managers have been challenged to provide engagement examples for the companies identified by MJ Hudson as the highest ESG risk, in the recent work that the Pension Fund commissioned. In addition the examples have been structure to try to better capture what the purpose and result of the engagement was.
12. In most instances the engagements are not one-off activities but an ongoing dialogue where the investment managers are attempting to influence the companies' activities. Investment managers have to carefully manage their relationships with company management therefore there are instances where to preserve an effective working relationship, the investment managers cannot publicly disclose the full details of their engagement or have asked to anonymise the examples they have provided.
13. The explanations provided by investment managers for their voting and engagements are provided for Members to evaluate the investment manager's stewardship and to challenge and follow-up as necessary in future interactions with the investment managers.

14. Voting highlights

15. In order for the RI Sub-Committee to scrutinise the voting activity for the Pension Fund's investments a summary of voting highlights for the period July to December 2022, which are contained in Appendix 1. The highlight report does not attempt to quantify the number of votes cast by the Fund's investment managers (which is significant) but focuses on providing examples of the types of issues where investment managers have voted against company management, resolutions of fellow shareholders, or on sensitive or topical issues.

16. The majority of votes cast against company management by the Fund's investment managers cover the following reasons:
- Nominees for company directors who are not sufficiently independent, have too many other outside interests, or who have a history of managing the company and ignoring shareholders' concerns.
 - Remuneration policies where the level of pay is felt to be excessive and/or short-term incentives are more valuable than long-term incentives and do not provide adequate alignment with shareholders' long-term interests.
 - The appointment of auditors where the incumbent audit firm has been in place too long or the disclosure of non-audit fees to the company were not clear.
17. In all these instances voting against the company management is in line with ACCESS's policy, which allows for the investment manager to exercise their judgement and to not follow the policy if they can provide a suitable rationale for doing so. The highlight report shows the sorts of instances where investment managers have exercised this discretion and chosen to support the company management on some of these issues, where they believe that there are compensating governance controls in place.
18. The review of voting records has highlighted instances where the Pension Fund's investment managers have voted differently on the same point; examples of these are in Table 1.

Table 1: Examples of instances where the Pension Fund's investment managers have voted differently			
Company	Resolution	Investment Manager 1	Investment Manager 2
Tesla	Appoint directors	<u>Baillie Gifford</u> - FOR – Supported individuals proposed by management as reasonable.	<u>UBS</u> - AGAINST - The Company has not met our expectations and principles in regard to gender diversity. Incumbent director who has failed to enact a proposal that gained a majority of shareholder vote.
Tesla	Adopt proxy access right	<u>Baillie Gifford</u> – AGAINST - We believe the resolution as stated would not be in the best interests of shareholders and could leave the company open to very	<u>UBS</u> – FOR - We will support proposals that increase shareholders' rights such as proxy access proposals when the conditions are reasonable

Table 1: Examples of instances where the Pension Fund's investment managers have voted differently

Company	Resolution	Investment Manager 1	Investment Manager 2
		small shareholders, with a very specific agenda, to target the company.	
Tesla	Adopt a Policy on Respecting Rights to Freedom of Association and Collective Bargaining.	<u>BAILLIE GIFFORD</u> – AGAINST - These rights are enshrined in the National Labor Relations Act and like any US company, Tesla must comply with the law and this is not a matter for company policy.	<u>UBS</u> – FOR - We will support proposals that seek to promote good corporate citizenship while enhancing long-term shareholder and stakeholder value.
Tesla	Report on Water Risk Exposure	<u>BAILLIE GIFFORD</u> – AGAINST - The company already provides detailed disclosure and has stated its intention to continue to increase the level of disclosure in future Impact Reports.	<u>UBS</u> – FOR - The request for additional reporting is reasonable, and would UBS Asset Management 34 Corporate governance - proxy voting from 01 Jul 22 to 30 Sep 22 Meeting Date Company (AGM/EGM) Resolution Vote cast Comments enable shareholders to have a better understanding of the company's approach.
Alibaba	Appointment of auditors	<u>BAILLIE GIFFORD</u> – FOR - We believe auditor tenure is an important issue however do not require a change in auditor after ten years. We instead focus on if the company has a process in place to tender for a new auditor over a suitable timeframe.	<u>DODGE & COX</u> - AGAINST - A vote against is warranted given that the current auditor's tenure exceeds 10 years.
FedEx	Report on Climate Lobbying	<u>UBS</u> – FOR - The proposal would enable shareholders to determine the strength of company policy,	<u>DODGE & COX</u> – AGAINST - Not material and may cause reputational harm

Table 1: Examples of instances where the Pension Fund’s investment managers have voted differently

Company	Resolution	Investment Manager 1	Investment Manager 2
		strategy and actions in regards to climate change.	
FedEx	Report on Racism in Corporate Culture	<u>UBS</u> – FOR - The request for additional reporting is reasonable, and would enable shareholders to have a better understanding of the company's approach.	<u>DODGE & COX</u> – AGAINST - The proponent is requesting a third-party racial equity audit of the company s policies and practices and not simply requesting data.
FedEx	Report on Alignment Between Company Values and Electioneering Contributions	<u>UBS</u> – FOR - We will not support company proposals allowing companies to make political donations and will support shareholder proposals requiring companies to be transparent concerning such donations.	<u>DODGE & COX</u> – AGAINST - Not material and may cause reputational harm
FedEx	Report on Lobbying Payments and Policy.	<u>UBS</u> – FOR - In general, we will support shareholder proposals seeking greater transparency on company lobbying except where covered by existing legislation and where the company meets such regulation, unless there is a direct reputational risk.	<u>DODGE & COX</u> – AGAINST - Not material and may cause reputational harm
Prosus	Appoint Auditors	<u>UBS</u> – FOR – Management’s proposal is reasonable	<u>DODGE & COX</u> - AGAINST - the auditor tenure exceeds 10 years.
VMWare	Appoint Auditors	<u>UBS</u> – FOR – Management’s proposal is reasonable	<u>DODGE & COX</u> - AGAINST - the auditor tenure exceeds 10 years.

Climate Change Impact Assessments

19. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.
20. The Pension Fund itself has a negligible carbon footprint, but it recognises that the companies and other organisations that it invests in will have their own carbon footprint and a significant role to play in the transition to a lower carbon economy. Therefore, the Pension Fund recognises the risk that environmental, social and governance (ESG) factors including the impact of climate change can materially reduce long-term returns. The Pension Fund has a role to play as an investor, in ensuring that its investment managers are suitably considering the impact and contribution to climate change in their investment decisions and acting as a good steward to encourage these companies to play their part in reducing climate change. This is explained further in the Pension Fund's RI policy [InvestmentStrategyStatementincludingRIpolicy.pdf \(hants.gov.uk\)](#).
21. This paper addresses how the Pension Fund's investment managers have considered ESG factors including the risk and impact of Climate Change have been considered in their stewardship of the Pension Fund's investments.

REQUIRED CORPORATE AND LEGAL INFORMATION:**Links to the Strategic Plan**

Hampshire maintains strong and sustainable economic growth and prosperity:	No
People in Hampshire live safe, healthy and independent lives:	No
People in Hampshire enjoy a rich and diverse environment:	No
People in Hampshire enjoy being part of strong, inclusive communities:	No
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because: For the ongoing management of the Hampshire Pension Fund.	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals do not directly affect scheme members.

Acadian (global equities) (ACCESS)

Stock	Proposal	Vote	Rationale
FSE Lifestyle Services Limited	Management - Approve PricewaterhouseCoopers as Auditor and Authorize Board to Fix Their Remuneration	Against	A vote AGAINST is warranted, due to the length of the auditors tenure.
FSE Lifestyle Services Limited	Management - Approve Issuance of Equity or Equity-Linked Securities without Pre-emptive Rights	Against	A vote AGAINST these resolutions is warranted for the following: The aggregate share issuance limit is greater than 10 percent of the relevant class of shares. The company has not specified the discount limit.
Tessengerlo Group NV	Management - Approve Capital Increase by Contribution in Kind of Shares in in Accordance to the Exchange Offer Agreement with Picanol NV	Against	A vote AGAINST is warranted because: We note that this is a similar transaction as the failed attempt in 2016 to merge TESB with PIC, and appears to be designed for the purpose of consolidating Luc Tack's businesses. The transaction is not supported by a compelling strategic rationale as TESB is acquiring a very distinct business. The proposed acquisition does not appear value distinct business. The proposed acquisition does not appear value accretive for the business as no obvious operational synergies were identified other than minor administrative expenses.
CITIC Telecom International Holdings Limited	Management - Approve Deposit Services Under the CITIC Bank Agreements	Against	A vote AGAINST this proposal is warranted because the proposed related-party transactions include a financial service agreement with the group finance company, which may expose the company to unnecessary risks.

Baillie Gifford – Long-Term Global Growth (global equities) (ACCESS)

Stock	Proposal	Vote	Rationale
Tesla	Shareholders – Social	For	We supported the resolution requesting additional disclosure on their efforts to address harassment and discrimination in the workplace. We believe quantitative disclosure would help us understand and monitor the company's efforts.
Tesla	Shareholders – Governance	Against	We opposed the resolution requesting a report on board diversity. We continue to have good discussions with the company on board refreshment and have confidence in their approach to identify quality directors.
Tesla	Shareholders – Social	Against	We opposed the resolution requesting a report on the company's policies will go to eradicate child labour in their battery supply chain by 2025. We think the company's efforts have already been very comprehensive in this area and view another report as unnecessary.
Alibaba	Management – Appointment of Directors	For	ACCESS guidelines recommend we oppose the election of a joint CEO/Chair. We are comfortable with the current CEO/Chair and therefore supported their election.

Baillie Gifford – Global Alpha (global equities) (ACCESS)

Stock	Proposal	Vote	Rationale
Ubisoft	Management – remuneration	For	ACCESS guidelines recommend opposing remuneration where the performance period is less than five years. We are comfortable with the remuneration arrangements at the company and therefore supported.
Snowflake	Management – appoint directors	For	ACCESS guidelines recommend we oppose the election of a joint CEO/Chair. We are comfortable with the current CEO/Chair and therefore supported their election.
Richemont	Shareholders – governance	Against	We opposed two shareholder resolutions to appoint a representative of category A shares due to a lack of compelling justification for the candidate nominated by the proponent. Instead, we chose to support the candidate proposed by the management.
Alibaba	Management – appoint auditors	For	ACCESS guidelines recommended opposing as the tenure of the audit firm was over ten years. We believe auditor tenure is an important issue however do not require a change in auditor after ten years. We instead focus on if the company has a process in place to tender for a new auditor over a suitable timeframe.
Microsoft	Shareholders - social	Against	We opposed a shareholder resolution requesting a report on the risks to the company of its perceived involvement in the development of weapons for the military. We don't view this to be a material risk for the business currently.
Estee Lauder	Management – remuneration	Against	We opposed the executive compensation due to continued practice of granting sizable one-off awards.

Dodge & Cox – Global Stock Fund (global equities)

Stock	Proposal	Vote	Rationale
VMWare	Management – appoint auditors	Against	A vote AGAINST is warranted given that the current auditor's tenure exceeds 10 years.
Axis Bank	Management – appoint directors	Against	A vote AGAINST is warranted, since the nominee is not subject to re-election by rotation at least every three years.
FedEx	Shareholders – report on climate lobbying	Against	Dodge & Cox report that this issue is not material and may cause reputational harm
FedEx	Shareholders – report on racism in corporate culture	Against	The proponent is requesting a third-party racial equity audit of the company's policies and practices and not simply requesting data.
Microsoft	Shareholders – report on tax transparency	Against	Tax policy and disclosure is a routine business item that falls under management's purview. Dodge & Cox considers the reputation, experience, and competence of a company's management and Board when it researches and evaluates the merits of investing in a particular security. In general, Dodge & Cox has confidence in the abilities and motives of the Board and management of the companies in which Dodge & Cox invests and typically will vote in accordance with them on routine issues when adequate information on the proposal is provided.

UBS-AM – passive equities

Stock	Proposal	Vote	Rationale
Diageo Plc	Management - Authorise Issue of Equity	Against	We will not support routine authorities to issue shares with pre-emption rights exceeding 20% of the issued share capital as they are potentially overly dilutive and therefore not in the interest of existing shareholders.
The Procter & Gamble Company	Management - Elect Director Angela F. Braly	Against	Candidate is not considered independent and the Audit Committee is not made up of at least 2/3 independent directors.
Paychex, Inc	Management - Advisory Vote to Ratify Named Executive Officers' Compensation	Against	Pay frameworks where long-term awards have a performance period of less than three years do not provide adequate alignment with shareholders' long-term interests. Greater than 50% of equity awards vest without reference to performance conditions.
Barratt Developments Plc	Management - Authorise Issue of Equity.	Against	We will not support routine authorities to issue shares with pre-emption rights exceeding 20% of the issued share capital as they are potentially overly dilutive and therefore not in the interest of existing shareholders.