Building a Brighter Future

East Sussex Pension Fund Submission to the UK Stewardship Code

Reporting date 31 December 2021

East Sussex Pension Fund

ESPF UK Stewardship Code, 2021 Submission

Contents

How East Sussex Pension Fund addresses the Stewardship Code

The Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders.

The Fund defines the concept of stewardship in the same way as the Financial Reporting Council (FRC).

'Stewardship aims to promote the long-term success of companies in such a way that the ultimate providers of capital also prosper. For investors, stewardship is more than just voting. Activities may include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings" (Financial Reporting Council 2020).

Introduction

The East Sussex Pension Fund (the Fund or ESPF) is part of the Local Government Pension Scheme (LGPS), a statutory scheme, established by an Act of Parliament, the Superannuation Act 1972 and since April 2014 the Public Service Pensions Act 2013. The Local Government Pension Scheme Regulations 2013 came into force on 1 April 2014. Membership of the LGPS is open to all employees of local authorities except teachers, fire fighters and police, who have their own separate schemes. It is also open to employees of other employers specified within the legislation.

The Fund is administered by East Sussex County Council and provides retirement benefits for East Sussex County Council employees, employees of Brighton & Hove City Council, the five borough and district councils, academies, universities, colleges, public authorities, and staff transferred to admitted bodies. The Fund has 140 employers within the Fund and over 80,000 members.

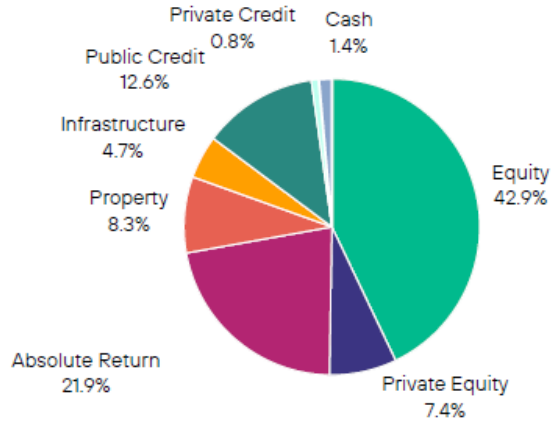
The scheme is designed to provide financial security for the Fund's members and dependants, both while they are working and during their retirement.

The Fund's asset value at the reporting date was £4,741m.

The Fund recognises that Environmental, Social and Corporate Governance (ESG) issues can have a material impact on the long-term performance of its investments. ESG issues can impact the Fund's returns and reputation. Given this, the Fund is committed to an ongoing development of its Statement of Responsible Investment Principles (SRIP) to ensure it reflects latest industry developments and regulations.

The Fund's Investment Strategy Statement (ISS) states that the investment objective of the Fund is to achieve a return on Fund assets which is sufficient, over the long-term, to meet the funding strategy objectives on an ongoing basis. One of the Fund's investment beliefs is that Responsible Investment (RI) can enhance long-term investment performance.

Asset Allocation – 31 December 2021



The Fund recognises that through active shareholder engagement it can influence those companies it is invested in to improve their corporate behaviour. Improvements made by these engagements can lead to an increase in the long-term value of the Fund's investments. The Fund believes that these can be maximised by collaborating with other like-minded investors to increase the pressure for change and encourage improvements to be made.

Principle 1

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long term value for clients and beneficiaries leading to sustainable benefits for the economy the environment, and society.

Overview

The East Sussex Pension Fund is part of the Local Government Pension Scheme The purpose of the Fund is to provide pension and lump sum benefits for members or their beneficiaries on a defined benefits basis - in accordance with the requirements of the LGPS legislation. There were approximately 80,000 members from 140 employer bodies in the scheme in December 2021.

The Fund has a long-standing commitment to responsible asset ownership and believe that Responsible Investment supports the purpose of the Fund. Stewardship is an integral part of asset ownership and therefore of the investment code and requires the same commitment from investment managers. The Fund's stewardship objectives and commitments are set out in the Fund's Investment Strategy Statement. The Fund's approach to stewardship is explained in detail in this document. The sections that follow show how our stewardship approach relates to the twelve principles of the UK stewardship code set out by the FRC.

ESPF Stewardship Objectives

The Fund Aims To:

1. Generate sustainable long-term investment with its asset allocation decisions made in consultation with its advisers.
2. Apply long-term thinking to deliver long-term sustainable returns.
3. Seek sustainable returns from well-governed assets.
4. We will use an evidence-based long term investment appraisal to inform decision-making in the implementation of RI principles and consider the costs of RI decisions consistent with our fiduciary duties.
5. We will evaluate and manage carbon exposure to mitigate risks to the Fund from climate change.
6. The Fund prefers a philosophy of engagement, which it believes to be a more effective approach in addressing ESG concerns and driving long lasting change. To be effective, it is best done in conjunction with other parties.

Activity

East Sussex Pension Fund beliefs underpinning the Stewardship Approach

The Fund believes that investors with long-term time horizons are more exposed to certain risks and requires that its investment managers be aware of and consider these when making investments. However, long-term investors are also less susceptible to short-term volatility which means it can take on investments that require longer duration positions or where engagement activities can help influence a company to support a just transition.

The Fund laid out its beliefs underpinning stewardship and RI in its Statement of Responsible Investment Principles (SRIP) within the Investment Strategy Statement. This document is reviewed annually. Within the SRIP the Fund details its stewardship approach through the lens of the Principles of Responsible Investment (PRI) six guiding principles.

Approach to implementing and monitoring stewardship at External Management level

The practical application of the Fund's policy is achieved through a combination of activities including, but not limited to 1) dialogue and liaison with investment managers on key issues directly and through collaborative engagement groups, 2) engagement activity direct with underlying companies as is carried out through membership of the Local Authority Pension Fund Forum (LAPFF). LAPFF meet with the Board of Directors of many companies where Local Authorities are invested to discuss and challenge activity.

The Fund is a signatory to the Principles of Responsible Investment (PRI) and Institutional Investors Group on Climate Change (IIGCC) and expects its investment managers to also be members of these organisations.

As a PRI signatory the Fund have agreed to the PRI signatories' commitment.

"As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time)."

We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

- **Principle 1:** We will incorporate ESG issues into investment analysis and decision-making processes.
- **Principle 2**: We will be active owners and incorporate ESG issues into our ownership policies and practices.
- **Principle 3**: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- **Principle 4:** We will promote acceptance and implementation of the Principles within the investment industry.
- **Principle 5**: We will work together to enhance our effectiveness in implementing the Principles.
- **Principle 6:** We will each report on our activities and progress towards implementing the Principles.

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social, and corporate governance issues to investment practices. The United Nations Secretary-General convened the process.

In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.

We encourage other investors to adopt the Principles."

The Pension Committee meets with investment managers for engagement and training activities. Officers of the Fund meet managers regularly to challenge investment approach in relation to complimenting the Fund's investment beliefs. Officer and advisers can discuss relevant developments in detail with Investment managers to cover all stewardship and RI activity. All investment managers are required to report on a quarterly basis to the Fund, including details of votes cast on corporate resolutions and company engagement for holdings in relevant portfolios. These activities are then published quarterly on the website for beneficiaries and stakeholders to access. The Fund challenges managers to ensure voting activity is aligned with the Fund's priorities and that all relevant risks have been considered.

The Fund has appointed investment consultants to provide specialist expert advice to decision makers. In addition, the Fund has an Independent Adviser who supports the Pension Committee to deliver the investment strategy in the interest of pension beneficiaries. This combination delivers effective returns with a social and environmental consciousness.

The Fund believes that professionally managed companies with awareness and focus on governance, resource efficiency and robust people systems, provide long-term value creation and that the Fund's stakeholders will benefit from these investments as strong investment returns improve the Fund's overall funding position. Which keeps the pension scheme affordable in terms of employer contribution rates.

The Fund appointed an external consultant to conduct an ESG assessment of the Fund where a number of recommendations were set out in 2020, many of which have been implemented to improve stewardship. Outstanding recommendations continue to be reviewed and implemented where possible.

Monitoring, and reporting

Performance of all investment are monitored and reported quarterly. Investment Managers are expected to report on performance, engagement and voting activity quarterly to the Fund and its advisers.

ESPF Stewardship Beliefs

The Fund Believes that:

1. ESG and Climate Risk (CR) can present material financial risks to asset values and returns.
2. Implementation of effective RI policies can reduce risk and has potential to enhance returns.
3. Engagement with investment managers ("IMs") and investee companies can be effective in protecting and enhancing the long-term value of investments.
4. Collaboration with other asset owners and IMs will help improve the effectiveness of engagement on ESG and CR issues.
5. Effective oversight of RI requires monitoring of ESG and CR metrics and the actions of IMs and investee companies.
6. RI is aligned with ESPF's fiduciary responsibilities in the management and oversight of ESPF's investments.

The Fund then consider:

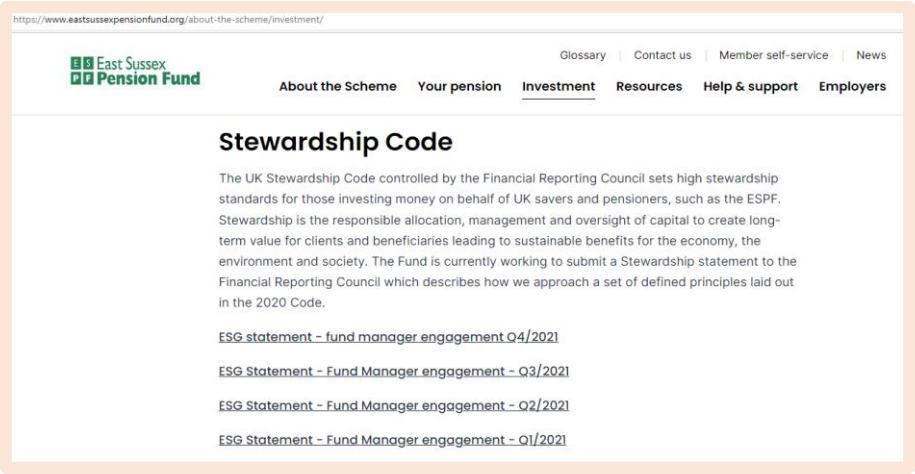
- How managers have integrated ESG in their investment activities
- How managers have exercised the Fund's voting rights and to explain where there is deviation from voting guidelines or voting alerts
- What engagement activities have been completed in the quarter
- What RI policies are in place.

The Fund meets with investment managers in addition to the ongoing review and engagement that the investment consultant conducts for the Fund. This is to ensure the managers are complying with the requirements on them set by the Fund and ability of the manager to invest in the best interests of the Fund beneficiaries. During direct manager meetings with officers an area of the agenda always includes ESG for discussions on holdings, activities, polices and developments.

The Fund report the stewardship activity of the investment managers and of the Fund in a quarterly report which is published on the website. The Fund also publish an implementation statement within its annual report to show how its RI beliefs have been embedded within the Fund's investment activities during the year.

The Fund's investment consultant carry out an annual impact assessment on all the investment managers where they are allocated an ESG score with an action plan set out for each manager (updated annually as part of the review).

The Fund invests through investment managers who conduct detailed research on the prospects for individual companies and industries. Due to the scale of investment under management, the managers have access to underlying company management teams including their executive boards. Dependant on asset class the investment manager has a seat on the advisory board of the underlying company. On selection of an investment manager the Fund ensure the manager is aligned with our stewardship beliefs through a detailed set of evaluation criteria for ESG and Stewardship.



Embedding beliefs

Training opportunities are provided to Committee Members and Officers to ensure decision makers and those that implement and monitor investment activity understand how their stewardship responsibilities can be implemented and to understand risks and responsibilities. Training is laid out in the Fund's training strategy which is reviewed every two years supported by a training coordinator. The Fund has a training and strategy day embedded into the annual meeting plan in addition to standard Committee meetings.

New Committee members are given an induction programme to help develop knowledge understanding of all their responsibilities. Training links and details are provided at least monthly by the Fund's designated training officer. Training is picked up at all Pension Committee and Pension Board meetings through the work plan and a report on training is covered twice a year.

In 2021 the Pension Committee members attended the following training sessions and conferences where stewardship was a key focus of the training.

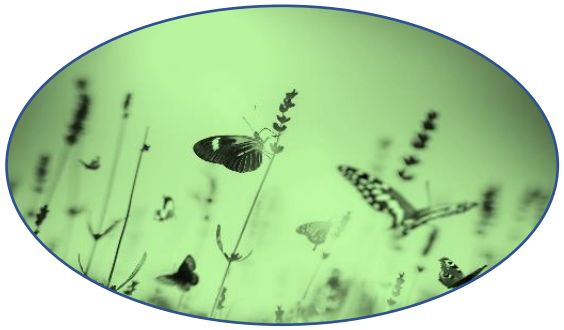
Title of Training/Briefing	Detail	Date
PLSA Investment Conference 2021	PLSA three-day investment conference, consisting of keynote speeches, intimate roundtable discussions and educational sessions built around key themes and hot topics covers every investment angle, from geopolitical factors influencing markets, to investment strategy to individual asset classes.	March 2021
PLSA Local Authority Conference	Two-day programme with a mix of keynote speeches, roundtable discussions and educational sessions. Sessions will cover governance, investment, administration and communications challenges of the LGPS.	May 2021
Pension Committee Induction	2 hour training session for new Pension Committee members. Also open to officers, all elected members and Pension Board members for information. Session content – Roles and Responsibilities, Investment Strategy, Actuarial	June 2021
Infrastructure Training	In house session with guest presentations from Pantheon and GLIL	July 2021
Fixed Income Training and Investment Strategy Training	In house session run by Consultants Isio to support the investment strategy discussions at the upcoming committee	July 2021
PLSA Annual conference	The PLSA Annual Conference we'll be asking what the road to economic recovery looks like, analysing the hurdles for pensions and revealing the opportunities to lead the race. o Retirement Living Standards o ESG Guidance o Guided Retirement Income Choices o UK pension climate regulation and investment o DB Funding code	October 2021
ATLAS Infrastructure - Investment Overview	Overview of infrastructure manager mandate and methodology including ESG overlay with climate modelling	October 2021
LGPS Climate Summit	• The Economics of Climate Change • From Risk to Opportunity • TCFD and the LGPS • Ensuring an inclusive Net Zero transition • What next after COP26? • Pooling and Climate Risk • Which truth? Data Malaise from Pandemic to Climate Crises • Addressing Greenwashing Risks: How Can the LGPS Steer Clear? • Driving the Transition: Effectively Investing in The Transition of Carbon Intensive Industries • How is Climate Change Shaping Private Equity and Venture Capital Investments? • Looking beyond – Biodiversity as an Investment Opportunity • Expectations for the LGPS 10 Years from Now	November 2021
Embedding ESG into Pension Scheme Decision-Making - a toolkit for pension trustees	Key elements of the A4S toolkit and how it can be used by trustees to drive consensus across their Board, and by advisers to share with their clients	November 2021
ESPF Employer forum	• WHEB Investment Manager • Compliance and Governance update • Administration Manager Update • Engagement and Website update • I-Connect update	November 2021
Evaluating the ESG Capabilities of Your Service Providers	Top tips and examples of good practice on procuring the right service providers to deliver your ESG objectives and assessing their continuous performance.	November 2021

Outcome

As a result of a strong stewardship policy, the Fund has been able to implement a number of additional activities in the year including a quarterly ESG report publication, more robust challenge to Investment managers and implementation of resource efficient index investment vehicles where the Fund has more conviction in the underlying investments from a stewardship perspective.

The Fund has been able to progress on work it has carried out building its knowledge, monitoring, and reporting in this area, with officers, Pension Committee members and Pension Board members all taking time to increase knowledge and skills on this complex and ever-changing topic.

The Fund reported against the framework set out by the Taskforce for Climate related Financial Disclosures (TCFD) for the first year after a commitment in its SIRP and conducted its second year of carbon foot printing which also assessed energy transition alignment of the Fund's underlying companies. By integrating stewardship and RI into investment decisions data is essential in helping to inform which investment managers to challenge more regularly and which holdings require robust reasoning within the portfolio to protect the beneficiaries pension pots but ensuring managers are considering the investment case while embedding ESG factors to ensure the full risk of the investment is considered.



The Fund was able to report against the implementation of its beliefs in the annual report and accounts 2020/21 where it identified integration and gaps to build on in the next year. Progress will continue to be made and tracked. All the Fund's investment managers have aligned with the Fund's stewardship expectations and are PRI and IIGCC signatories with several joining in 2021. Many managers and Fund advisers have also reported under the Stewardship Code with more expected in 2022.

The Fund's development of its Statement of Responsible investment Principles (SIRP) has been assessed against the Fund's LGPS pool colleagues, with the ESPF process scoring highest in its peer group. As a result, the Fund has been recognised as a leader within the pool on ESG issues and the chair of the Committee was nominated as ESG spokesperson for the pool. The Fund has identified areas where it can improve its SIRP and will continue to evolve and embed principles over time.

The Fund has been competitive in its return performance both before and after implementing strategic changes, which ensure mandates are more aligned with the Fund's beliefs and remain continually aligned with the investment strategy. The Fund has consistently outperformed the benchmark on a 3-month, year to date and 1 year basis until 31/03/2021, while increasing its exposure to investment funds looking at opportunities from the energy transition. Throughout the Fund's activities there has been underlying and essential objective to ensure return on investments for the best interest of beneficiaries.

The Fund was announced winner of LGPS Fund of the year 2021 (over £2.5bn) at the LAPF investment awards highlighting the strong governance, performance, and actions of the Fund in the year; and was highly commended for its Climate Strategy.

Snapshot from the RI implementation statement published in the Annual report and accounts 2020/21

Commitment	Progress	Further Action
To continue to measure and report on carbon-equivalent emissions throughout the equity portfolios	The Fund has undertaken an analysis of the Equity and Fixed Income investments with a third-party provider Vigeo Eiris for the second year.	Develop understanding of the different metrics. Continue using a third-party provider to evaluate carbon emissions of equites and develop other asset classes.
To continue our work with IIGCC and Climate Action 100+	The Fund has been an active participant in the IIGCC corporate program.	The Fund is looking for more options within the IIGCC to support further development and implementation of IIGCC research into the Fund's strategy.
To continue to research and support the deployment of new impact capital into projects set to benefit from the transition to a low carbon economy	Invested 10% of the Equity program into impact managers 10% into climate risk passive product.	Looking to work with ACCESS to develop suitable solutions within the Pool.

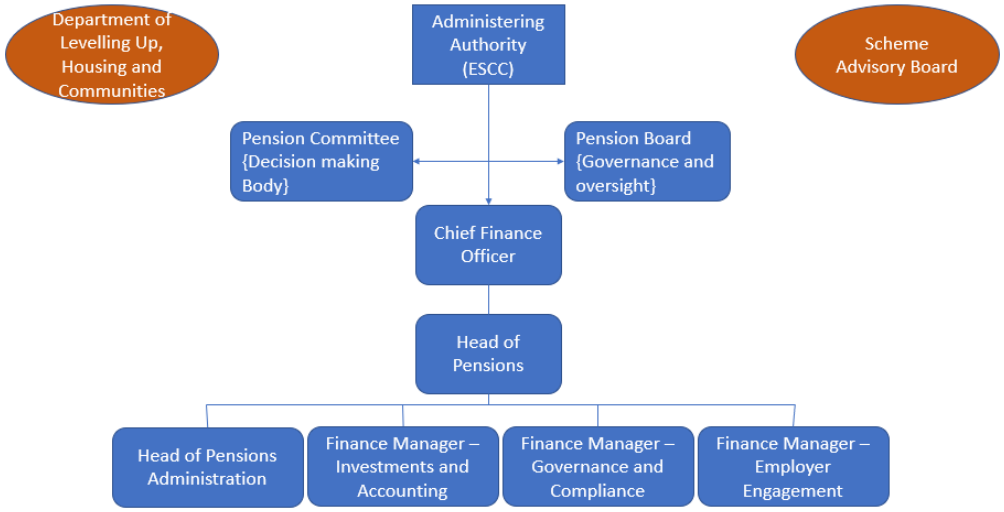
Principle 2

Signatories Governance, Resources, and Incentive's support Stewardship.

Overview

East Sussex County Council is the administering authority for the East Sussex Pension Fund and has delegated the responsibilities of administering the Pension Fund to the Pension Committee, this is set out within the Councils constitution. The Pension Committee is supported by the Pension Board and Fund Officers in fulfilling its duties. The Pension Board role is to assist the committee in complying with the LGPS rules, overriding pensions legislation and guidance from the Pensions Regulator. The Pension Board is made up of equal numbers of employer and member representatives with an independent chairman.

The governance structure of the ESPF is shown below:



Activity

Decision making

The Pension Fund is managed by East Sussex County Council, the Administrating Authority (Scheme Manager) on behalf of all the relevant employer bodies in the Fund; currently 140 scheme employers. The Pension Committee is the main decision-making body for the Fund. The Pension Committee has delegated authority to exercise the powers of the County Council in respect of all powers and duties in relation to its functions as the Scheme Manager and Administering Authority for the East Sussex Pension Fund. It is responsible for agreeing and overseeing an appropriate investment strategy or strategies, selection of investment managers, setting of performance benchmarks and regular monitoring of performance. The Pension Committee are responsible for agreeing the Investment Strategy Statement, climate change strategies, the responsible investment of the Fund, and report on these activities.

The Pension Committee receive assistance in performing these functions via:

- Pension Board – help with effective governance and ensuring compliance with the regulatory requirements.
- Chief Finance Officer – Scheme administration, including governance and investment implementation.
- Head of Pensions – ensuring committee decisions and regulatory requirements are implemented.
- Investment Consultants – provide expert investment advice in line with regulatory requirement for proper advice. This is an FCA regulated firm.
- Independent Advisor – provides challenge to the Investment recommendations and supports the Committee in understanding of Investment activities.

Responsibilities of the Pension Committee

- The Pension Committee is established as the Fund's scheme manager and is responsible for arrangements for the investment, administration, funding, communication, risk management and the overall governance process surrounding the Fund.
- The Pension Committee is responsible for setting all Fund policies including the setting of the appropriate funding target for the East Sussex Pension Fund.
- The Pensions Committee will exercise its functions in accordance with fiduciary duties, safeguarding the interests of the beneficiaries of the Fund.
- Committee Members must take decisions in accordance with their public law obligations, including the obligations of reasonableness, rationality, and impartiality.
- Committee Members are required to be rigorous about conflicts of interest and potential conflicts of interest, actual or perceived, as laid out in the Conflict-of-Interest Policy.
- The Committee is subject to the statutory obligation of political balance in the membership of the Committee.
- Whilst all Committee Members bring with them their own knowledge and experience, political views should form no part of the consideration of issues or of the decision-making process.

Governance Structure

The Fund is structured in line with the Local Government Pensions Scheme 2013 Regulations and the Public Services Pensions Act 2013 which introduced a new framework for the governance and administration of public service pension schemes. As a result of the Public Services Pensions Act, the Pensions Regulator introduced codes of practice covering specific areas relating to public sector pension schemes which the Fund are required to comply with. The Fund conducted an independent Governance review in 2019 and 2020 where changes were implemented to enhance the governance of the Fund including the development of a conflicts of Interest policy to ensure beneficiaries pensions are managed appropriately.

The Terms of reference for both Pension Committee and Pension Board were amended to ensure the Fund structure and responsibilities aligned with best practice as advised by the Scheme Advisory Board (SAB) who had initiated a Good Governance project. In addition, delegations and Team structure were also changed to provide more comprehensive governance arrangements for all aspects of the Fund. As a result of the work the Fund has done since 2020 to implement the recommendations (including making key appointments to the Officer team in 2021), the Fund have had a substantial assurance for regulatory compliance with no recommendations from the internal audit team.

Qualifications and Resources

Officers

Fund Officers involved in the Investment strategy and oversight of the Fund from a stewardship perspective hold either Chartered Accounting qualifications or CFA qualifications. Fund Officers maintain a training log to ensure the Fund can evidence the relevant knowledge and skills for a professional investor. Other Fund officers have been recruited to roles evidencing knowledge and skills suitable to their role and grade within the team.

The officer team have a designated Investment officer, a Pensions Manager for Accounting and Investments and the Head of Pensions oversees all strategic implementation. The Chief Finance Officer attends training to stay up to date with Pension issues. As highlighted as best practice from the SAB good governance review as part of the governance work implemented in 2020 and continued in 2021, the Head of Pensions role was created as a 100% Pensions position and the responsible Pensions Officer for the Fund.

All designated Investment posts are graded at managerial level with the Head of Pensions having responsibility for the management of the Fund as a Service Head. The Chief Finance Officer is the statutory officer for Finance and has delegations in respect of all Pension Fund.

Committee members

The Pension Committee is structured in line with the Local Government Act 1972; in that the Committee must be solely appointed from elected members of the Administering Authority (as defined in the Local Government Pension Scheme Regulations 2013 as East Sussex County Council). In addition, the Pension Committee is politically balanced to represent the Administering Authority in line with rules under s15 of Local Government and Housing Act 1989, the Local Government (Committees and Political Groups) Regulations 1990.

As there is no requirement for specific qualifications or knowledge and skills within the legislation and the legal requirements placed on the Fund to the constitution of the Pension Committee there is no assumed knowledge of LGPS pensions or Investments of the Pension committee members. Instead, Committee members are provided training on the job through various external training courses, conferences, and internal training. Principle 1 reflects training undertaken.

Investment Managers

As part of the manager selection process and due diligence, officers and the consultants look at the qualification and track records of the key personal managing portfolios. Where possible a side letter is included in the subscription documentation to ensure the Fund can exit a position if key personal were to leave (which could place the Fund in a position of risk due to insufficient expertise of an investment manager). Investment managers are FCA regulated firms and have numerous training and qualification requirements.

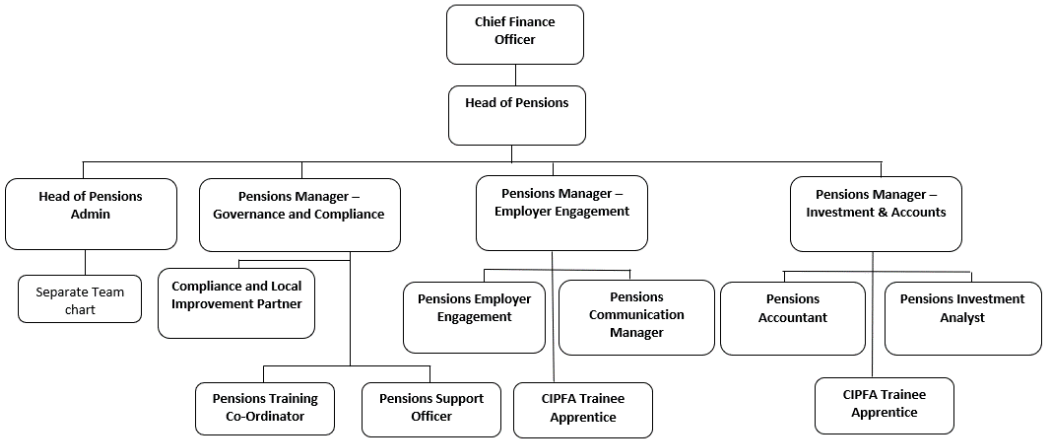
Investment Consultants

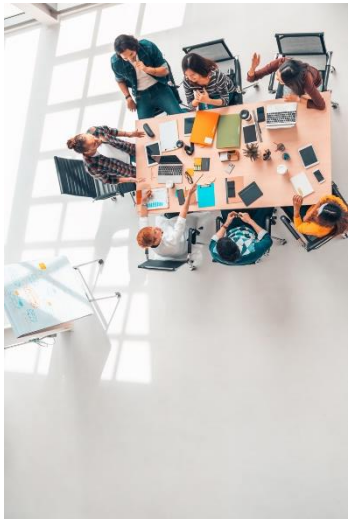
The investment consultants, Isio, have breadth and depth of available resources to support and advise the Fund. They are an FCA regulated firm. Their technical knowledge allows research and analysis for investment management and provides guidance to decision makers who may not have the necessary knowledge and skills to act without this advice. All investment decisions within the Fund are based on advice by these experts.

Independent Adviser

The Fund conduct a procurement process for appointment of the Independent Adviser who must evidence knowledge and skills across the LGPS and investments. This position is in place to support the Pension Committee in understanding and challenging the advice of the Investment Consultants to ensure a balanced and considered view is taken with all investment decisions.

Team structure





Diversity and Inclusion

The Fund has a policy of inclusion and is working towards increasing the diversity of its workforce, to more closely represent the communities we serve. Staff provide equality data, and we are working to reduce 'unknowns'. We will make comparisons with the Census 2021 data, when it is available. Due to the small number of staff working for the Fund and the risk of identifying individuals, details cannot be provided here, but ongoing analysis will inform interventions based on ESCC's positive equality and inclusion practice.

Stewardship activities

Officers involved with investments are all involved in stewardship activities from the Head of Pensions ranging down to the Trainee apprentice post and attend Investment management meetings, challenging voting activity and manager engagements.

In addition, all officers involved in the investment team participate in Fund reporting to ensure it is complete and comprehensive on stewardship activities. This includes production of the ESG quarterly reports, TCFD report, Stewardship code preparation and other collaborative project work.

Investment in systems

As investments are managed by investment managers rather than internally, spending in systems is limited. However, the Fund do investigate and challenge data received and has invested in carbon foot printing services as well as look though systems and analysis. This enables the Fund to see the underlying investment holdings of external investment managers.

When investing in real assets the Fund also challenge prospective managers over their quality assurance processes and systems to ensure investments are being governed to a high standard with full oversight of the investment boards. The Fund invest in performance management and specialist investment accounting systems from the Fund's custodian.

In addition, the Investment consultant provides numerous investment analytical services such as EGS and Climate impact reporting which the Fund uses.

Performance management and incentivisation

As a local authority Pension Fund, the ability to use performance management and incentives are limited, however the Fund is aware that resources are important, It has offered a flexible approach to locality and working hours to ensure the correct people are in place and the interests of beneficiaries are considered with stewardship activities prioritised.

The Fund is restricted to alignment with the ESCC local government pay grading to ensure equality of roles across the Council. Passion of the Fund management team and the ability to put team members own mark on stewardship tasks such as production of new reporting requirements mean staff feel empowered to carry out their work.

Resources and external contracts / collaboration

In addition to the internal resources of the Fund, the Fund use external experts such as the Investment Consultant, Carbon footprinting provider, independent adviser, and Investment managers to ensure the breadth of resources and range of tools to administer the Fund are available and ensure effective stewardship without having to have a large team of specialists directly employed.

This helps the Fund to benefit from major research teams in all asset classes and industries across different sectors. This would not be possible to do directly.

In addition, with collaborative partners such as LAPFF, IIGCC and PRI the Fund has the power of those engagement partners and weight of resources to help direct policy makers or influence companies in which the Fund may be invested.

Outcome

The Governance structure in place is dictated by the legal frameworks in which the Fund must comply, however the Fund has made many steps to ensure it is effective in managing beneficiaries' money and being an active steward of its investments.

The team structure has been designed to deal with the increased requirements of a pension fund, in particular the increasing regulatory reporting requirements for climate risk and stewardship. The Fund is well resourced and had a supportive decision-making framework through the Pension Committee and Pension Board who are conscious of the resources required to administer the Fund and consider adaptations of the team structure as required where there is a business need.

This use of collaboration and use of expert advisers means that the Fund has better resources available to assist its beneficiaries. External support from Isio, ACCESS and Investment managers mean greater capabilities to manage risk in the Fund's investment portfolio and allows for large research teams to feed into decisions and analysis that could not be achieved within the inhouse team structure. This has resulted in higher levels of scrutiny of the Fund's investment managers stewardship activities on the Fund's behalf.

Routine reporting from managers on engagement activity are expected by the Fund on a quarterly basis. Isio expect reports on investment managers activities before Investment Working Group Meetings and for each quarter's performance reporting; these resources all help the Fund with effective stewardship.

Training is key to the governance structure of the Fund and the Fund has initiated a decision-making matrix to be compiled to ensure all parties within the Governance structure are clear on their responsibilities and where accountability for activities sit.

As the team structure is quite new the Fund will continue to evaluate its effectiveness and make improvements where relevant, having a designated ESG or RI officer is a possible adaptation for the future.

Principle 3

Signatories manage conflicts of interest to put the best interest of clients and beneficiaries first.

Overview

It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interest of both the scheme beneficiaries and participating employers. This, however, does not preclude those involved in the management of the Fund from having other roles or responsibilities which may result in an actual or potential conflict of interest.

Therefore, it is good practice to document within a policy how any such conflicts or potential conflicts are to be managed. The Fund implemented a Fund specific 'Conflicts of Interest' policy as part of its good governance review in 2020. The policy covers Committee and Board members, Officers, and advisers. The Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the Fund whether directly or in an advisory capacity and seeks to ensure consistency with the Council's policies and codes.

Declarations of conflicts of interest is a standing agenda item at the start of quarterly Pension Committee meetings. An annual declaration is also required of anyone involved in the management of the Fund.

Activity

The Fund have a team who monitor the Fund for compliance and oversight. Senior management also oversee the compliance team who are in turn overseen by the Pension Committee. The investment consultants make investment recommendations, and this structure is responsible for ensuring effective stewardship. As part of the CMA requirements the investment consultants are set annual objectives.

The FCA Handbook SYSC 10.1.3R states that a firm must take all reasonable steps to identify conflicts of interest between:

> a) the firm, including its managers, employees, and appointed representatives (or where) applicable, tied agents), or any person directly or indirectly linked to them by control, and a client of the firm;
> **or**
> b) one client of the firm and another client; that arise or may arise during the firm providing any regulated activity or ancillary service.

This guidance is considered by our external investment managers.

Conflicts of interest with externally managed funds are managed through assurances and due diligence processes, following appointment of an external manager. Annual internal control reports are also reviewed ad reported upon where exceptions or control concerns. Potential internal conflicts are reviewed on an annual basis for all staff with a requirement to report new potential conflicts as they arise. External management are required to provide annual independence disclaimers and control report.

Training

As part of the induction programme for new Committee or Board members a session is provided on the legislation surrounding pensions and the legal position of the Committee and Board. The training includes fiduciary duties, the role to serve beneficiaries and employers of the Fund and public law duties.

The Fund make it clear and regularly reinforce the importance of disregarding political and other beliefs when making decisions on behalf of the Fund. Committee is required under the LGPS 2016 regulations to follow proper advice and expert advisers are in place to support all aspects of decision making when specialism is required.

In addition, new elected Councillors are provided training and support on conflicts of interest, while new staff members are required to complete a learning and development module and declare any conflicts, this is documented within the officer's induction programme.

Outcome

The Fund requires investment managers to have effective policies addressing potential conflicts of interest.

External managers are assessed on potential conflicts of interests and their written policies at the evaluation and appointment stage. Subsequent monitoring takes place by the Fund's investment consultant and independent advisor to protect the Fund's interests.

Within the Fund, Pension Committee members are required to make declarations of interest prior to each quarterly meeting and once a year statement.

Board, Committee and Officers were all invited to attend induction training in May 2021, providing legal update and notice of their management of conflicts of interest.

Conflicts of interest are defined in detail in the Fund's 'Conflicts of Interest' policy.

The policy will be formally reviewed and updated at least every three years or sooner if arrangements merit reconsideration.

The conflicts policy addresses the fiduciary and public law duties to act in the best interest of the scheme beneficiaries and participating employers as well as the seven principles of public life as servants of the public and stewards of resources.

Local investment decisions are recognised as a specific LGPS potential conflict. The Fund has no strategic commitment to investment within the County and local investment must first evidence strong and competitive financial return within acceptable risk parameters.

Principle 4

Signatories identify and respond to market wide and systematic risks to promote a well-functioning financial system

Overview

The Fund has a Risk Management Policy in place which was approved in June 2021.

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e., promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the forecast cash flows. The Fund manages these investment risks as part of its overall risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Committee. Risk management policies are established to identify and analyse the risks faced by the Fund's pensions operations. Policies are reviewed regularly to reflect changes in activity and in the market conditions.

The Fund Risk Management policy recognises the key objectives and is intended to allow for identification and effective mitigation of all risks that may undermine the Fund's ability to do meet its objectives. The Administering Authority's ability to manage risk effectively and proportionately, and maximise opportunity, plays a crucial role in its ability to achieve the key objective.

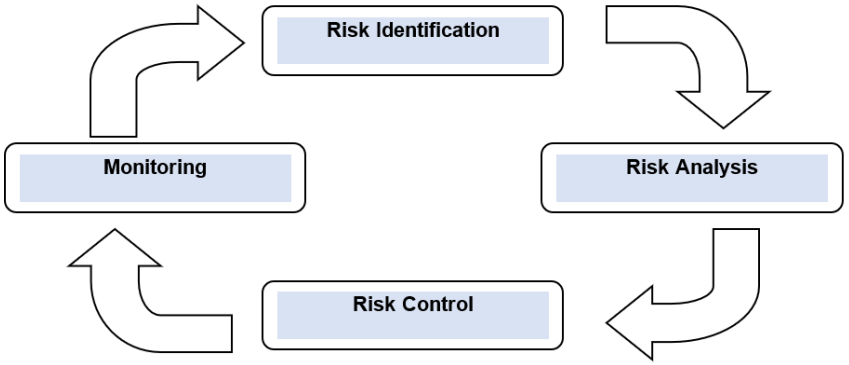
Risk management is not simply a compliance issue but is a decision-making tool, used at both strategic and operational levels, and is an essential element of effective governance.

Activity

Risks are identified under four risk categories of Administration, Employer, Governance and Investment and Funding. The Fund tracks and reports its risks through a risk register that is updated and considered at each quarterly Pension Board and Pension Committee meeting.

Risks are controlled to ensure a proportionate and cost-effective approach is taken having regard to level of actual risk exposure and benefits to be obtained. Strategies to respond to risks are Terminate, Treat, Tolerate and Transfer.

The Risk Management Process



In addition to quarterly reporting of the risk register, an annual risk assessment is reported and published in the Annual report and Accounts, where sensitivity analysis is conducted on all market risk annually.

Key market and systemic risks

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. Excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund's investment managers mitigate other price risk which is the value of a financial instrument fluctuating because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), through diversification. And the selection of securities and other financial instruments is monitored by the Fund to ensure it is within limits specified in the Fund's investment strategy.

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest rate risk is routinely monitored by the Fund and its investment advisors in accordance with the risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. Sensitivity analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect the interest income received on those balances.

Currency risk represents the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on any cash balances and investment assets not denominated in pound sterling. Following analysis of historical data in consultation with the Fund investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be not more than 10%.

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a monetary loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The Fund's entire investment portfolio is exposed to some form of credit risk, except for the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high-quality counterparties, brokers and financial institutions minimise credit risk that may occur through the failure to settle a transaction in a timely manner.

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that the Fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and cash to meet investment commitments.

Refinancing risk is that the Fund will be bound to replenish a significant proportion of its pension Fund financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

Climate change risk is identified as a risk to assets and liabilities through both physical and transition risk. As risk mitigation the Fund have a clear set of principles on beliefs and objectives that are considered for all decision making and monitoring of managers. Equity portfolios have been restructured to remove fossil fuel companies in a decision to avoid risk from high emitting companies but to also exploit opportunities in modern technologies and industries that are looking to find solutions to climate risk.

As part of the changes in equities also include the removal of traditional passive indexes that track the market with no exclusions or tilting as there is a lag in these indexes and the Fud does not want to bear risk of holding high emitters without an active decision and the ability to move quickly.

Managing systematic risk

Day-to-day responsibility for managing our investments is delegated to our appointed investment managers. The Fund expects managers to monitor companies, intervene where necessary, and report back regularly on activity undertaken. This includes monitoring of global macro-economic trends, and key themes in equity, private debt, and infrastructure markets. Major market risks are discussed during quarterly Committee meetings, as well as with investment consultants.

The Fund has regular meetings with investment managers and assesses their effectiveness in their monitoring of investee companies as part of formal portfolio reviews either amongst Officers or the Pension Committee and, as part of the manager analysis that is carried out by the investment consultants research team.

The Fund also receives quarterly reports from managers detailing their voting and engagement with companies, which will affect the sustainability of investments. This information is published quarterly and provides a basis for the officer team to challenge investment managers on what risks they are focusing on through engagement activity and where their priorities lie.

Key market and systemic risks form the basis for the training plan for committee members and officers with focus on items such as climate change and inflation being crucial areas for decision makers to understand.

Collaboration

The Fund participates in collective action, use of resources and knowledge share through a number of collaborative routes which lead to ESG and policy improvements, which promotes better functioning markets. These include, but are not limited to:

- **Intuitional Investors Group on Climate Change (IIGCC)**
  The IIGCC collaborates with policymakers and stakeholders to strengthen policy that supports a low carbon, climate stable world. Their mission promotes progress to 2030 net zero goals and a resilient future responding to systematic risk by defining public policy, investment practise and corporate behaviour.

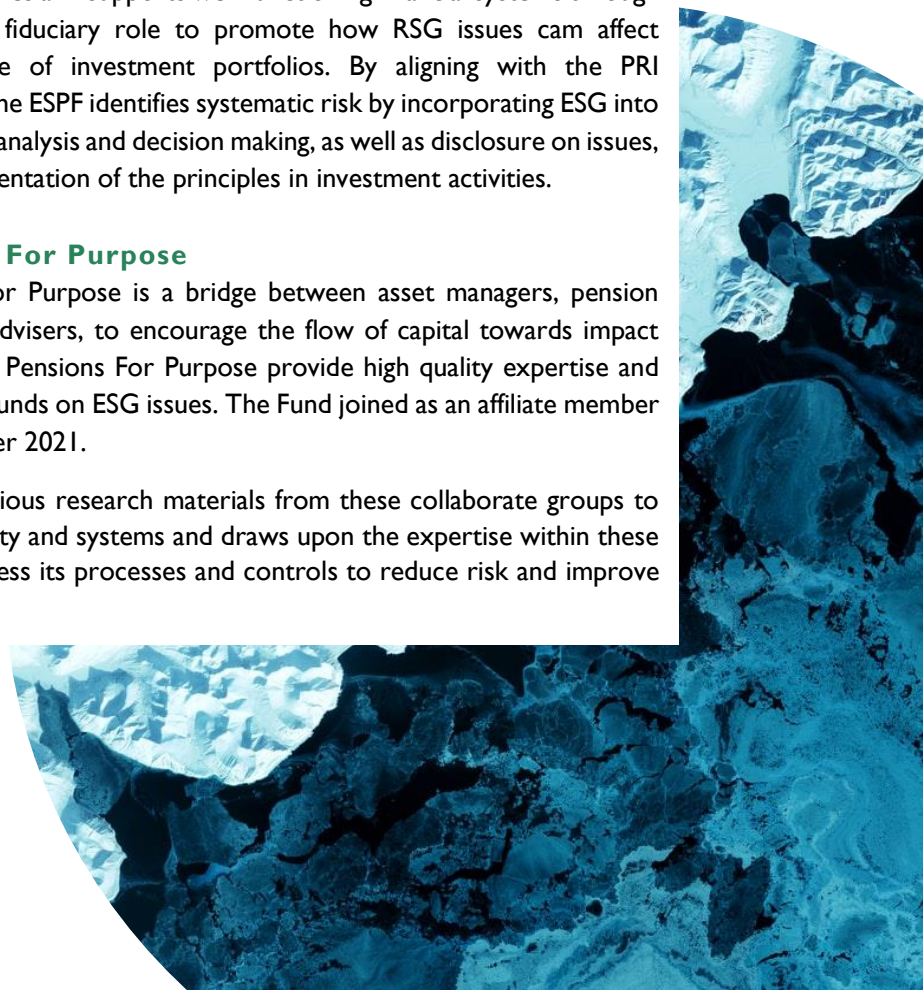
- **Pensions and Lifetime saving Association (PLSA)**
  The PLSA discusses long term investment horizons with the acknowledgement that long term risk adjusted returns comes from responsible investment approaches. As a member the ESPF uses their resources and practical advice to support stewardship.

- **Local Authority Pension Fund Forum (LAPFF)**
  LAPFF promotes high standards of corporate governance, enhancing Fund ability to transition to net zero targets. LAPFF has identified the FRC as vital to a well-functioning market. LAPFF work to ensure members can align investment and stewardship goals. LAPFF promotes well-functioning financial systems through collaborative experiences and knowledge sharing engagement.

- **Principles for Responsible Investment (PRI)**
  PRI is a UN led principle that supports a duty to act in the best interest of beneficiaries and supports well-functioning financial systems through using their fiduciary role to promote how RSG issues cam affect performance of investment portfolios. By aligning with the PRI principles, the ESPF identifies systematic risk by incorporating ESG into investment analysis and decision making, as well as disclosure on issues, and implementation of the principles in investment activities.

- **Pensions For Purpose**
  Pensions For Purpose is a bridge between asset managers, pension funds and advisers, to encourage the flow of capital towards impact investment. Pensions For Purpose provide high quality expertise and training to funds on ESG issues. The Fund joined as an affiliate member in September 2021.

The Fund utilise various research materials from these collaborate groups to help manage it activity and systems and draws upon the expertise within these groups to help address its processes and controls to reduce risk and improve systems.



Principle risk outcomes include:

Risk	Process	Outcome
Systemic risk: A diversified portfolio means exposure to a range of asset classes, of both passive and active management.	Detailed quarterly reporting mitigates this risk and areas of concern are discussed and reported to committee. The ACCESS Contracts Manager supports the officers through pooled resources, knowledge, and support.	The ACCESS pool offers a range of exposure and helps limit systemic risk through pooled resources and a strong governance framework, with the outcome of more efficient deliverance of value for stakeholders and beneficiaries.
Funding risk: Risk that investment strategy fails to result in performance required to meet the needs of the Funding strategy discount rate.	This is overcome through independent investment consultants and advisors, triennial valuation ensuring funding rates are known, quarterly performance monitoring and link for ACCESS sub funds, annual review and interim rebalancing, compliance with ISS.	This allows for better transparency and balance advisory to The Fund, ensuring performance is reviewed on a regular basis. This has led to successful audits and better reporting of funding risks, such as missed contribution payments and support offered to employers. We provide revision of the asset liability model to support a viable strategic asset allocation for the new valuation.
Regulatory risk: Failure to comply with regulations, legislation and guidance from an accounting and investment perspective.	This is managed through maintaining accordance with CIPFA code of practises, IFRS and ESCC financial regulations, Internal and external audit and mapped and reported breaches policy.	Outcomes here include better communications with employers on changing legislation, as well as increased internal resources to help manage employers through regulatory changes.
Investment pooling risk	This is managed through ACCESS support units, KPI's introduced with revised operator agreements, consultants analysing sub funds and transitioning using scenario analysis, opportunities to transfer securities in specie, due diligence completed by legal advisors and regular meetings between officers and access.	This is demonstrated in risk adjusted returns being competitive, for example portfolio standard deviation is currently 10.62% which is a competitive risk tolerance level.

ESG Risks: within Investment strategy and implementations on investment decisions.	This is managed through our statement of responsible investing, investment working group and ESG working group consolidated into a single group, Trim unconscious exposure to companies with poor ESG rating through agreed removal of traditional index funds ensuring active managers have a strong conviction in the underlying companies including on ESG matters and less traditional passive indexes / smart beta funds have robust screening processes in place to ensure.	Challenging managers on their holdings with regard ESG issues, Introduction of an ESG assessment for all managers reported in July 2021 including improvement actions for each manager on ESG methodology, reporting or collaboration This will be updated and reported annually, engaging via managers and investor groups including LAPFF with companies and driving them forward to comply with key ESG concerns using the greater voice by combined investment power.
Climate change: risk on assets and liabilities associated with Climate Change	Statement of Responsible Investment Principles outline investment beliefs within ESG, implementation of decisions and monitoring of EGS factors and has a strong focus on climate change, restructuring of the equity portfolio to avoid high risk companies and exploit opportunities, including decision to invest in impact fund in September 2020, The Fund carry out annual carbon foot printing to better understand the carbon exposure and energy transition plans within the portfolio.	The Fund continue to have some occasional exposure to high carbon emitting or fossil fuel sector companies from a tactical perspective to use its vote to help drive the sector forward through engagement and voting using the power of a collective voice. A number of Fund managers are Climate 100+ engagement partners leading on this work with top emitting companies, while all managers are IIGCC members for collaborate weighting of AUM to influence action.

Outcome

Risk management policy and approach is demonstrated in risk adjusted returns being competitive, for example portfolio standard deviation is currently 10.62% which is a competitive risk tolerance level.

The Fund has a designated annual strategy day for Pension Committee on top of the regular quarterly meetings. This allows a focus onto market and system risk without all the other Fund management and decision-making activity. As part of the strategy day, Committee members are also able to receive training on the key topic, they are making decisions on to ensure they understand the full repercussions of their decision making.

The Fund has made fundamental changes to its investment strategy because of its concern on climate change risk with 10% of the portfolio invested in climate solutions and 20% in resource efficient or Paris aligned funds.

These decisions were made during 2021 however not fully implemented until 2022. The Fund has also increased its exposure to infrastructure and have taken ESG credentials as a key differentiator in the manager selection process. All manager selections include a detailed set of ESG criteria to ensure the longevity of the investment portfolio.

Principle 5

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

Overview

The Fund has policies that are regularly reviewed and tracked through a tracking document to ensure all documents are assessed within the agreed timeframes. All documentation can be found on the website

www.eastussexpensionfund.org.uk.

Activity

Policies and review

As a minimum, all policies are reviewed every 3 years. Where there is a change in law or major event, policies are reviewed early. In 2021/22 the Fund reviewed most of its governance policies and processes. All documentation is reviewed in line with the governance review processes, where documentation is logged by its review date. In 2021/2022 reviews included the Funding Strategy Statement, Investment Strategy statement, Communications policy, UK stewardship code, Abatement Policy and Statement of Responsible Investment Principles and can be found on the website.

Investment Strategy Statement – reviewed annually and updated at least every three years or immediately after significant changes

Statement of Responsible Investment Principles – reviewed annually

Conflicts of Interest - reviewed every 3 years

Breaches Policy - reviewed every 3 years

Funding Strategy Statement – reviewed every 3 years. Review process includes consultation with scheme employers

Administration Strategy – reviewed every 3 years. Review process includes consultation with scheme employers

Risk Management Policy - reviewed every 3 years

Training Strategy – reviewed every 2 years

Governance and Compliance Statement – updated annually

Communications Strategy – reviewed annually and updated at least every three years

Audit and Assurance

Management of LGPS investments is conducted in accordance with relevant governing legislation and regulations.

Internal Audit assess the governance of the Fund and provides assurance that best practise is followed. The Fund commission 100 days of internal audit work per year and the audit strategy is agreed annually by the Pension Committee. Within the audit plan for 2021 the internal audit covered, Compliance with Regulatory Requirements, Governance, Investments and External Control Assurance, Administration, and Information Governance.

Each internal audit report including actions agreed by the Fund's management is presented and discussed at both the Local Pension Board and Pension Committee.

External audit, provided by Grant Thornton, provides the Fund with scrutiny on governance, decision making and transparency of reporting. External Audit issue an annual audit plan that is reported to Pension Board and Pension Committee and an Audit Findings report including the audit opinion.

In addition to the audits, the Fund completes an annual scheme return to the Pensions Regulator.

Governance Review

In November 2019, the Pension Committee approved the undertaking of a governance review of the Fund, the results of this review were presented to Pension Committee in June 2020. Key changes to the Fund's purpose and governance implemented from June 2020 and through 2021 were:

- Revision of Pension Committee Terms of Reference
- Revision of Pension Board Terms of Reference
- Revised Scheme of Delegations to include Pension Fund management
- Implementation of a Communications Strategy
- Implementation of a Breaches Policy and Log
- Pension Fund Team structure and resourcing proposal
- Pension Administration Strategy
- Conflicts of interest policy and log
- Pension administration service standard agreement
- Responsibilities and relationship map for Pension Fund; Pension Administration and Employers

At the same meeting in June 2020 the Pension Committee received an independent review on the ESG arrangements for the Fund which was conducted by PRIC in response to a motion passed by ESCC full Council responding to a petition on divestment of the Fund from fossil fuels. As part of the discussion of this review the Committee acknowledged that the Fund had undertaken a lot of work, via the ESG working group, to develop an understanding of ESG matters and how they can be included in the Fund's strategy, but it is recognised that more work needs to be done consulting with stakeholders on ESG matters. These include ACCESS, the Fund's investment managers, employers, and members.

It was also acknowledged delivering on ESG commitments takes considerable time and resources. For example, ensuring investment managers have signed up to the new UK Stewardship Code, and monitoring the carbon footprint of companies, TCFD reporting, and the Fund's own Stewardship Code submission all require considerable officer time.

In recognition of the work and resources involved in stewardship activities and from a wider governance consideration the Fund put in place a new team structure to ensure a larger team to enable greater capacity to carry out the increasing requirements on asset owners. The team structure was approved in late 2020 and appointments made throughout 2021 with the last governance and investment position filled in February 2022, allowing for further developments in activities of the future in future years.

ESG quarterly reporting

The Fund had reported its stewardship activity through an annual ESG statement, this moved to a quarterly report in late 2020, although publication was not always timely.

In late 2021 the Fund did an overhaul of the quarterly report to show engagement in more areas rather than just stating what the manager advised they had done for the quarter. The first change was to understand what voting records are being provided as there appeared to be a discrepancy in whether the manager was providing information on the Fund's own votes or whether it was across their whole business. This is now stated against each manager to provide transparency of stewardship reporting to ensure it is understandable to stakeholders. In addition, as the Fund invests in pooled vehicles each manager is noted to say which voting guidelines they follow.

Where a manager publishes a full report on their activities in the quarter the Fund simply links to the published report to ensure that all engagement is clear rather than only selecting a few examples.

As well as manager activity the Fund were keen to show activity outside of managers. So, the Fund also started to include engagement activity from collaborative groups to policy makers and events, meetings or training items officers of the Fund had attended.

Outcome

Policies are reviewed regularly with comments provided by the Pension Board to feed in views of employers and scheme members into the use and content of the policies and all policies are approved by the Pension Committee before publication, to ensure policies continue to reflect best practice and meet the expectations of the Pension Committee and other regulatory bodies.

During 2021 the Fund's risk register underwent a full overhaul in recognition by the Pension Board and Committee that it did not hold sufficient details on mitigation and the range or risk that the Committee wanted to keep under review quarterly.

The Statement of Responsible Investment Principles (SIRP) was established to replace the Investment Beliefs, out of an intensive consideration of how the Fund should be implementing ESG and stewardship within decision making. This was originally approved and published in September 2020. In the Annual report and accounts in 2021 the Fund reported how it had implemented the strategy and where further work was expected in the future.

Minor amendments were made to the strategy at its annual review in 2021. In June 2021, the ACCESS pools ESG consultant conducted a review of each ACCESS authorities RI policy including a gap analysis to identify the commonality and expectations of each Fund to build a set of RI guidelines for the ACCESS pool. As part of this analysis the Fund scored highest overall in the robustness of the statement based on a best practice model with highest scores of the 11 Funds in Governance and Implementation areas of the analysis.

The process did highlight a few areas of improvement for the Fund as well, such as how the Fund's own stewardship approach and activities dovetail with that of the ACCESSS LGPS pool and clarity on Fund specific views of voting and the disclosure of voting activity.

Stewardship policies stem from the Pensions Committee and are regularly discussed and debated. As a result of the pool ESG advisers' comments on the SIPR the Fund changed the quarterly engagement reporting it produces from Q4 of 2021 which covered the activities from 1 October – 31 December 2021, making sure voting and engagement activities are more clearly defined including which voting policy is used by each manager. In addition, within this report the Fund increased the reporting to include its own activities, those of its advisers and policy engagement through collaborative partners. There are still areas where the Fund can make improvements to stewardship through voting and will look to implement these in the next year.

Internal audit provided substantial assurance in Compliance with Regulatory Requirements and Investments and External Control with Reasonable assurance for Governance, Information Governance.

The Fund has significantly increased the reporting and communications of its engagement and other activity because of changes in policy increasing transparency and understanding between clients and beneficiaries as well as pressure groups.

Principle 6

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

Overview

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Fund is effectively responsible for managing the Pensions for all eligible employers and beneficiaries of the LGPS within the East Sussex area including Brighton and Hove, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration cost.

The Fund is responsible for the pensions of over 80,000 scheme members across 140 scheme employer bodies. The scheme is defined benefit based on the Local Government Pension Fund 2013 Regulations which has multiple sets of scheme rules. Of the members, over 23,000 are currently in receipt of their pensions. Of the members not yet in receipt of their pension, over 24,000 are active members with a further 33,000 deferred members.

At the 2019 triennial valuation the scheme was 107% funded and had a 20-year maximum time horizon for employers in modelling for contribution rate setting and valuation assumptions. Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum likelihood. A higher required likelihood bar will give rise to higher required contributions, and vice versa. Details of the Fund's assumptions and funding basis are included in the Funding Strategy Statement.

Most of the employer bodies whose staff are members of the Fund have strong covenants due to their status as public sector bodies. This means that the Pension Fund can take a long-term view when making investment decisions, helping the Pension Fund to achieve its investment aims.

These aims include managing employers' liabilities to achieve long-term solvency by ensuring that 100% of liabilities can be met over the long term, but without creating volatility in contribution rates for employers (and therefore taxpayers) or taking excessive investment risk outside of reasonable risk parameters.

Activity

Communications

The communication from the Fund is an area where extra specific resource has been allocated to improve the way the Fund engages with its stakeholders. It has set up a communication working group (CWG) responsible for improving communications following a review by the East Sussex County Council Head of Communications of how well the Pension Fund communicates. The CWG consists of Pension Board members (representing the Fund's employer and member stakeholders) and Fund officers. To complement and progress the initiatives generated and monitored by the CWG the Pension Fund has recruited a Communications Manager to set a new Communications Strategy and implement recommendations from the formal review and from the CWG. The Fund publish its Communications Strategy on the website and the strategy will have a detailed overhaul in 2022.

To further complement this the Fund has a specific business plan and will be setting aside budget to enhance the communication of the Fund when the budget goes for approval in February 2022 to cover the areas identified in need for short term implementation and improvement including the costs of the new communications manager. Areas that are specifically being targeted are the Fund's digital communications software, surveys, setting out a cohesive investment story, website evaluation and refresh, support for business projects and media responses.

Consultation with beneficiaries

All active members receive newsletters twice a year and Pensioner members once a year. These newsletters update on pension issues, especially on any changes affecting benefits.

The Fund conducts an annual survey with active and pensioner members to seek their views on the administration of the Fund. In 2022 this survey will also lightly touch on investment strategy.

Consultation with scheme employers

All employing bodies are kept informed of current pension issues, such as proposed changes in the regulations and their implications, by quarterly newsletter. They are encouraged to get in touch if they have questions.

In addition to these electronic briefings, the Fund holds an annual Employers' Forum to which all scheduled and admitted bodies of the Fund are invited. This was held virtually in 2021, due to the Covid-19 pandemic, but is expected to be re-instigated as a physical event in 2022. This annual meeting covers both actuarial and investment issues and always contains a presentation from the Fund's Actuary. In 2021 Employers received information about new software being implemented by the Fund and the onboarding process, the importance of protecting members from fraud and other topics. Employers can raise topics of interest for this forum and ask questions of officers and advisers as required at the event.

An annual survey is conducted with employers to get input into the administration of the Fund.

Where there are proposed changes to the Administration Strategy or to the Funding Strategy Statement, employers are consulted prior to implementation of the revisions.

The Fund created an Employer Engagement team to specifically focus on improving the information sharing and support to scheme employers.

Investment

As a long-term investor, the Pension Fund can set its strategy over a long-term investment horizon. The average life expectancy of the Fund's members range between 21 and 25 years depending on gender and status. There was a 75% likelihood that the Fund's investments will return at least 4.0% over the next 20 years based on a stochastic asset projection of the Fund Actuary at the 2019 valuation.

The Fund is transparent with its Funding strategy with strategy and performance reports being primarily published and discussed in public sections of Pension Committee meetings. Confidential items are held in private, which include the specific holdings by a manager or detail of a change in manager or sale of assets that could be impacted by knowledge of the market. In addition to the public nature of reports and meetings the Fund have a newly created section on the website for investments where we provide information on strategy and areas of specific interest of our members such as fossil fuel exposure and climate activity and other engagement areas. This area of the website will continue to be developed in 2022.

The Fund have made a number of changes in the Investment strategy partially due to insights into member views on areas such as climate change from the engagement received and areas of focus from questions to the Fund, but also because of the focused work by the pensions committee in determining their Responsible Investment Principles.

Major changes in the Investment strategy in 2021 include a move away from traditional passive investments into climate aligned, resource efficient or assets looking at climate opportunities. This was not fully implemented by December 2021; however, the decisions had been set in motion by the reporting date.

In addition to changes in equities, the Fund also made an investment into a liquid infrastructure fund which assesses various climate scenarios before inclusion in the investment portfolio to reduce risks to beneficiaries and asset value resulting from climate change.

Outcome

Scheme beneficiaries received regular updates through newsletters and information on the website and can contact the Fund and attend public meetings so we can assess their views and incorporate them where possible.

The evaluation of the effectiveness of engagement with scheme members is through the volume of correspondence received and the topics covered. It is rare that the scheme received follow up questions when responding to a member question on RI matters following detailed responses.

The Pension Board and Committee have agreed that it wants to increase the level of engagement and communications that it has with scheme members further and will agree a budget for additional work on communications and is in the process of developing its communications strategy. This is likely to include enhancements like further development of the Pension Fund's website, better use of Plain English and accessible content, and the consideration of how member views can be sought. The Fund will also be expanding the coverage of Responsible Investment in its Annual Report for the reporting year 2021/2022 and will use this document as another means to seek feedback and input from scheme members.

Over the year the Fund has responded to a number of requests from scheme members and other interest groups on RI related matters, in the main these relate to exposure to fossil fuels in light of the climate emergency and investment in companies that conduct business in the occupied territories in Palestine. Many of these questions come through as Full Council questions where an answer is provided on behalf of the Fund and published in advance of the meeting. Where questions come through directly to a member of the Committee or Board or even directly to the Fund team, a direct response is provided to these questions which also signposts to information available on the website.

Membership of the Pension Board includes employer and member representatives. These representatives can input into and comment on the Fund's stewardship and investment approach through governance oversight of the Fund and access to policies, or through the Communications working group.

The Fund is happy to engage with employers and scheme members on an ad-hoc basis to provide additional information on Stewardship matters and regularly includes a training item at the employer engagement forum on responsible investment.

There are a number of improvements recognised in this area for the Fund, including the enhancement of surveys with members to get views on wider areas such as investments and engagement and this will be implemented in 2022. In addition, the Communications strategy will be refreshed and for the first-time budget will be directly set for communications improvements.

In the 2021 annual report and accounts, published 1 December 2021, the Fund has publicly reported against the Taskforce for Climate-related Financial Disclosure (TCFD) criteria for the first time. As part of this disclosure the Fund notes are there are areas of improvement and further detail required, which will be incorporated in future years as more data becomes available.

The Pension Fund publicly reports on the carbon footprint of its investments which show a reduction between the first and second year of reporting in intense carbon emitters within the portfolio as well as improvement in energy transition plans.

Principle 7

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

Overview

Environmental, Social and Governance is a crucial part of the investment process. Climate change risk and opportunity has been the primary driver for changes in the investment strategy throughout 2021, however other EGS issues have played a key role in the stewardship of the existing investments and manager selection processes especially around human rights issue and management systems in place as part of the governance controls in underlying investments. In addition, the Fund have focused on the control structures in place of our manager for real assets looking to evidence sufficient control for a board seat and that there is effective oversight and governance at the board level of companies.

Activity

The Journey

The Fund has integrated ESG and RI into its investment strategy from 2018 and continues to make changes and improvements today and considers stewardship and integration of ESG and RI as a continual journey. The Fund has made a number of changes and carried out reviews during the past few years.

2018

Allocation to UBS Climate Aware Fund

August 2019

IPCC report – public attention to investors triggers various actions to focus on ESG and climate change

September 2019

- Statement of Investment beliefs agreed
- ESG position report and actions produced by consultant

October 2019

- Council petition to divest Pension Fund
- Committee seek independent review of ESG
- Committee publish an ESG Statement including views on climate change

June 2020

- ESG report back from PRIC with various recommendations
- Carbon foot printing reports on listed managers received
- Agreed to investigate climate opportunities
- Agreed to change the active passive split

September 2020

Statement of Responsible Investment principles approved

2 climate impact managers selected

Passive Paris aligned manager selected

Listed Infrastructure manager selected

December 2020

Launch of two Sustainable Equity Impacts Fund – 10% allocation

February 2021

Agreed approach to removal of all traditional passive indexes – 5% to move to resource efficient index and 5% to move to pool core manager Paris aligned fund

June 2021

2nd Carbon foot printing report with same supplier including transition pathway scores

July 2021

ESG implementation statement published against RI principles

ESG impact assessment on all managers

Fossil Fuel exposure analysed

Statement published exposure to occupied territories companies with possible human rights concerns

October 2021

- Fund shortlisted for the 2021 LAPF Investment awards for climate change strategy and LGPS Fund of the year (over £2.5bn) – award ceremony held in March 2022
- Head of Pensions appointed to LAPFF Executive Committee

November 2021

First TCFD report produced and published in Annual Report and Accounts

Integrated Strategy

The Fund has an ongoing commitment to stewardship as part of its fiduciary duty to its members and employers. Systematic integration has been achieved through our various published polices, the publication of our ESG statement and becoming both a PRI signatory and a member of IIGCC.

Responsible investment is carried out by:

- External investment managers who are expected to exercise the Fund's voting rights to incorporate stewardship and ESG in their strategy.
- The Fund itself through direct engagement with managers over their positions, approaches, policy, and engagement activities.
- Through collaborative efforts with LAPFF, IIGCC, Pensions for Purpose and other alliances.
- Advisory and consultants by working with ISIO our consultants and our independent advisor who ensure our ESG strategy goals are priorities in our investment activities and ESG advisers such as carbon footing, ACCESS pool and independent reviews.

The Fund receives and attends various training opportunities to enable integration into decision making, strategy setting, manager selection, advisory procurement, manager review meetings and engagement opportunities.

Commitments by sector

Recent ESG changes to the strategic asset allocation involved restructuring the Fund's equity exposure whilst still maintaining the 40% target allocation. Equity allocation was to be tilted with the addition of active impact equity, as well as smart beta passive equity strategies. The remaining equity exposure was moved to resource efficiency or Paris aligned mandates.

Fixed Income managers do have more exposure to high carbon emitting sectors and the Fund will be reviewing its mandates for Fixed Income in 2022.

The Fund has increased its investment in Infrastructure with an investment into liquid infrastructure in December 2020 where the manager assesses all holdings through a climate scenario lens to understand the climate risks and opportunities of holdings. In addition, the Fund allocated a further 5% to infrastructure bringing the total allocation to 11%.

The Fund's investment consultant brought an implementation paper outlining the approach to shortlist the potential managers putting forward the most suitable 'green-rated' managers, to the Pension Committee in November 2021 where the Committee requested further specific ESG investment criteria added to the selection process for the final stages. The manager selection interviews take place in January 2022 where ESG criteria will be assessed and challenged with the shortlisted managers for appointment.

Manager Selection

The Fund takes the following steps before a new investment manager is appointed:

Direct manager selection route

- The Pension Committee set its Strategic Asset Allocation to determine asset classes and proportion holding in those classes. They also discuss style and geographic requirements to ensure a diverse portfolio on allocation of new mandates. ESG is an integral factor of all strategic decisions.
- A list of criteria to assess potential investment managers and areas of focus in the selection of a manager are discussed and approved by the Committee. ESG specific criteria are included in this as a separate section.
- Managers are questioned over a number of RI topics in addition to their initial responses.
- Due Diligence is conducted with information on managers ESG statements, benchmarks, fees, and policies such as health and safety and renumeration are assessed.

Appointment from the LGPS pool

- The Fund is a member of the ACCESS pool who have a set of EGS beliefs and are finalising their RI Guidelines in 2022.
- Where the pool has a sub fund that meets the strategic asset allocation requirements as set out by the Committee, the Fund's investment consultant conducts a review against a range of criteria including ESG essentials to assess if the manager is a good fit for the Fund's strategy and aligned with its investment beliefs.
- Before a manager is appointed full Due Diligence will also be conducted.

Appointment of a consultant

- Before appointment of a consultant or service supplier, the Fund will use the LGPS Framework which has first conducted an OJEU process to put appropriate and professional firms to carry out the relevant functions. From the framework, the Fund then conduct a further competition tender process which includes the consultants ESG standpoint and how ESG issues are incorporated into the consultants' approach.
- Prospective consultants and suppliers are also asked to highlight how they can enhance the RI actions of the Fund.
- In line with CMA, consultants are set annual objectives and reviewed annually.

Example Procurement in 2021

In 2021 the Fund undertook a tender process for an Independent Investment Adviser to provide support and advice to the Penson Committee to provide a challenge to investment decision making and advice. Within the scoring mechanism there was a 10% weighting to "The Bidder's experience of supporting LGPS Funds on RI and ESG issues" and 5% weighting to "Commentary on the Fund's ESG position and possible next steps". The supplier selected for the contract was noted in this space for their breadth of knowledge and experience in supporting Funds on their journey of ESG implementation. They were also strong in identifying wider ESG issues with a focus on expanding into Social and did not just focus on climate change. They also had clear awareness of current issues and what the Fund had achieved to date but also identified weaknesses of the Fund in the area such as a focus on equity and the growing importance of Social and the need to improve metrics.

Example Manager Selection in 2021

In February 2021, the Fund made the decision to sell the last of its traditional passive index holdings (decided during the investment strategy day) to allocate 5% of the portfolio holdings into a resource efficient mandate. The Fund chose the index managed by Osmosis Investment Management to launch a sustainable £200m global equity ex-fossil fuels portfolio, which went live in January 2022.

Osmosis uses a quantitative screening process to remove companies that generate more than 5% of revenue from nuclear energy, any company associated with nuclear weapons, controversial weapons, civilian firearms, tobacco, thermal coal, oil sands and businesses that are not compliant with the United Nations Global Compact principles.

Investment Strategy priorities within the ACCESS pool

The ACCESS Authorities believe in making long term sustainable investments whilst integrating environmental and social risk considerations, promoting good governance and stewardship. Whilst the participating authorities have an overriding fiduciary duty to act in the best long-term interests of their LGPS stakeholders to achieve the best possible financial returns, with an appropriate level of risk they also recognise the importance of committing to responsible investment in the investment decision making process.

Minerva have been appointed as part of this review to provide advice on guidelines and implementing these in a pooling environment. Minerva will also provide advice on future appropriate reporting requirements to provide transparency to stakeholders, monitor adherence to the Guidelines and inform discussion on ESG/RI matters.

Assessment and Reporting

Principles of Responsible Investment

ESPF has been a PRI signatory since June 2020, due to the time of joining and absence of a 2022 submission for PRI reporting, the Fund has not yet made a submission. The PRI annual survey will demonstrate how the Fund implements the PRI Principles in the year.

Taskforce for Climate Related Disclosures

The Fund committed to reporting under TCFD in its Statement of Responsible Investment Principles which was approved in September 2020. TCFD is structured around four thematic areas of Governance, Strategy, Risk Management and metrics and targets. The Fund support the TFCD recommendations to provide a framework to communicate the steps the Fund is taking to manage climate related risks.

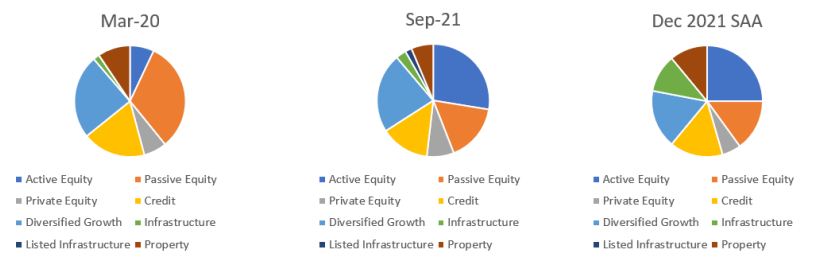
The Fund competed its first attempt to report against these disclosure requirements in its published Annual Report and Accounts in December 2021. Where the Fund has gaps in reportable data, this is highlighted in the sections, with a plan on how this will be progressed in future years reporting including on climate scenario modelling and setting targets and a transition plan.

Outcome

The Fund made changes to the strategy and integrated ESG and stewardship into all aspects of its decision-making processes including manager selection and consultant tenders as well as asset allocation and in line with the Fund's RI objectives.

The Fund addresses both risks and opportunities as seen in the restructure of its equity positions by removing traditional index passive investments. Investing into a Paris aligned smart beta and resource efficient index fund as well as into active impact and sustainability managers investing in energy transition solutions and green revenues. The Fund's integrated actions have looked to align all business activities within the Fund's RI objectives which will provide a more robust risk management framework to better protect the interest of the Fund members and looking not just at carbon reduction but opportunities for the Fund to help drive solutions to climate change in the market and aid the energy transition so the Fund can continue to generate returns to keep the Funding position in surplus and keep contributions of employer stable.

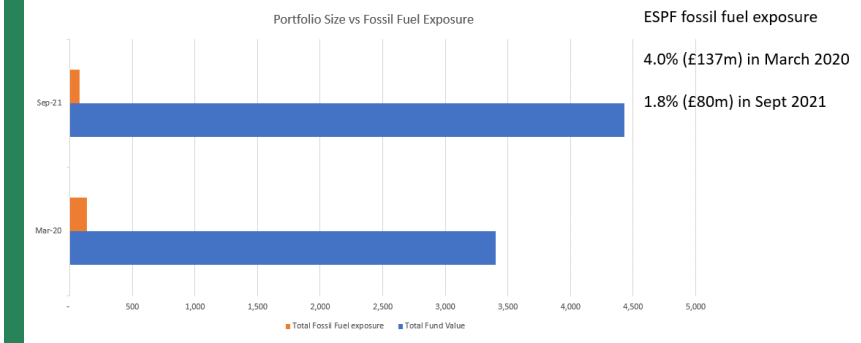
Investment Strategy – changes in Actual Asset allocation



The Fund's actions moved the positioning of fossil fuel exposure away from the passive mandates which lag the market and could be a significant risk to the Fund's returns by holding these companies without conviction or the ability to sell.

Fossil fuel exposure is now significantly lower but held in actively managed asset classes where managers are more tactical in positions to generate returns for the members of the Fund in a more defensive way and these managers have a proven record of strong engagement policies and are Climate100+ leads with a number of the high emitting companies held within the portfolios.

Fossil Fuel Exposure

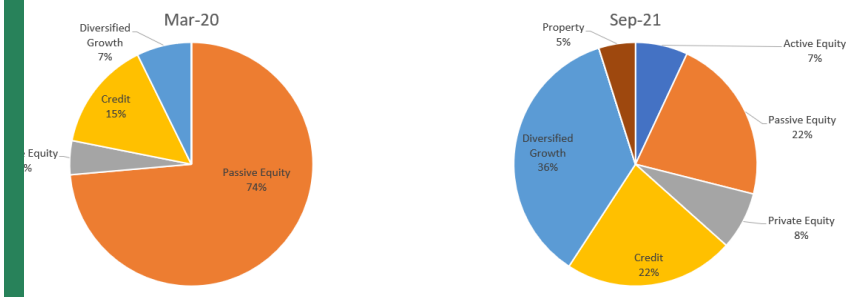


ESPF fossil fuel exposure

4.0% (£137m) in March 2020

1.8% (£80m) in Sept 2021

Asset classes with Fossil Fuel Exposure



Principle 8

Signatories monitor and hold to account managers and or service providers

Overview

Responsibility for day-to-day interaction with companies is delegated to the Investment managers, including the escalation when necessary. We expect Investment managers to disclose their policies and procedures for escalation in their own Stewardship Code statement. Investment managers conduct robust and continual research on underlying holdings, engage with the company's management team, collaborate with other institutional shareholders, voting, filing shareholder resolutions or partially or entirely disinvest. The investment manager will seek to add value to their clients through improved company share performance following such escalation. The Fund meets it managers throughout the year. Its investment consultants have a continual review programme of all the Fund's Investment managers. They will let the Fund know if there are any concerns, changes, or performance issues the Fund needs to consider or act upon.

Activity

Investment Advice

The Fund takes investment advice from its investment consultants and independent advisor. In addition, the Fund seek expert advice in various areas such as Governance, Legal and EGS projects. These advisors allow the Fund to monitor performance of all aspects of the Fund's performance as well as the performance of all the Investment managers and ensure adherence to our principles.

Investment Consultants are set a range of objectives annually which are then assessed. to ensure they are carrying out there role effectively and in line with the service procured. The Investment Consultants produce quarterly reports service covering a wide range of investment topics such as performance including any areas of concern, strategy, manager implementation, ESG assessment reports. These reports and recommendations are presented to the Pension Committee for approval.

The Investment Consultants are also part of the Investment Implementation working group which includes the independent adviser and senior officers. This group meet outside of the Pension Committee to ensure investments are monitored and considered between quarterly meetings and the group discuss key market changes, or investment manager issues, impact analysis, voting, ESG and engagement as well as progress in implementing the Pension Committees decisions.

Committee and Board

The Committee and Board meet quarterly after receiving details on the investment performance for the quarter. They assess investment activities and the course of action to change. Managers present routinely to committee. All committee papers can be found at Browse meetings - Pension Committee | East Sussex County Council.

Fund Officers

The Fund officers engage directly with investment managers to monitor performance. Fund managers are responsive, and discussion and commentary provided ensures we maintain good Fund performance, oversight of the underlying managers and can challenge on ESG standards. Fund managers report relative to benchmarks, where applicable, to demonstrate performance. The Fund meet each manager at least once a year with a set agenda and focus on key geopolitical or market issues relevant at the time as well as a strong focus on RI.

Investment Manager Signatories

In addition to its own commitment to the Stewardship code the Fund expects its investment managers to also be signatories to the Stewardship Code, PRI, IICGCC and TCFD. Under the 2012 code, Asset manager signatories were categorised in three tiers. Managers are now starting to apply and find out if they have been successful under the 2020 Code – an update based on the 2020 submission will be provided in 2022.

- **Tier 1** – Signatories provide a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary.
- **Tier 2** – Signatories meet many of the reporting expectations but report less transparently or do not provide explanations where they depart
- **Tier 3** – Significant reporting improvements need to be made; Signatories have not engaged with the process of improving their statements.

Manager	PRI Signatory date	Stewardship Code 2012	IIGCC
Longview Global Equity	08/04/2010	Tier 1	Yes
M&G Absolute Return	11/01/2013	Tier 1	Yes
M&G Corporate Bonds	11/01/2013	Tier 1	Yes
UBS Europe Ex UK Equities	22/04/2009	Tier 1	Yes
UBS North America	22/04/2009	Tier 1	Yes
UBS Rest of the World	22/04/2009	Tier 1	Yes
UBS UK Equities	22/04/2009	Tier 1	Yes
Newton Absolute Return	13/02/2007	Tier 1	Yes
Ruffer Absolute Return	15/01/2016	Tier 1	Yes
Pantheon Infrastructure	05/10/2007	No	No
WHEB - Sustainability Fund	31/05/2012	Tier 1	Yes
ATLAS Global Infrastructure Equity Fund	18/03/2019	No	Yes
Wellington – Global Impact Fund	26/04/2012	Tier 1	Yes
Storebrand – Global ESG Plus Fund	27/04/2006	No	Yes
Harbourvest – Private Equity	25/11/2013	No	No
Adams Street – Private Equity	29/10/2010	No	No
Schroders – Property	29/10/2007	Tier 1	Yes
M&G Infrastructure	11/01/2013	Tier 1	Yes

As of July 2021.

Pooling

As a partner Fund within the ACCESS LGPS pool, further work is also conducted at pool level. There are monthly Investment User Group meetings where Investment managers on the ACCESS platform are invited to meet with the partner Funds to discuss their performance, key focus areas and enables Funds to challenge the managers on various aspects of their activity including RI and stewardship.

There is quarterly reporting produced for all ACCESS Fund managers which is reported to the Joint Committee for review and discussion. This report covers performance, scale of assets invested within the pool and voting as well as a market overview.

The ACCESS active liquid managers are held within an Authorised Contractual Scheme (ACS) which is managed by Link Asset Management solutions who are the FCA regulated element of the ACCESS pool. Link carry out significant due diligence and manager monitoring on the partner Funds behalf. Link hold the direct IMA (Investment management agreement) and agree the Fund prospectus with the investment managers rather than us as a Fund. Link report back to the partner Funds through the joint committee or working groups where relevant.

The ACCESS pool also consolidates the voting results of the Investment managers within the ACS including any explanations for managers that have not complied with voting policy. This information is shared with the underlying partner Funds where we can consider and review the relevant voting decisions.

Reporting and review

The Fund conduct annual Carbon Footprint reporting of the Fund and has two years of assessment from the same provider. This looks at where the Fund's managers have amended the portfolio and how that is affected carbon footprint impact. So, it is easier to identify where managers portfolios are reducing in carbon emissions. The reporting also identifies where the underlying companies within the mandates are on their transition pathway reporting, this is particularly important for challenging Investment managers where the company held is an intense emitter but also deemed to have a poor energy transition plan in place.

As part of the Fund's production of its quarterly engagement and voting report, the Fund engages with managers on their activity for the quarter and this can lead to additional challenge at manager review meetings to dig further into approaches and considerations for the portfolio construction.

ESG impact assessment

The Fund receive an annual report from its investment consultants analysing the Investment managers over a range of assessment criteria to capture the ESG capabilities of the managers. There are additional sustainability criteria for the managers that have a specific sustainability mandate.

The assessment criteria cover

- Risk Management
- Approach and framework
- Voting and Engagement
- Reporting
- Collaboration

Outcomes

The Fund pushes for meetings with external managers and consultants in a way that adds value to its members. Most managers we believe are integrating ESG and ESG risk mitigation to have a positive impact. We continue to review our external managers policies to ensure alignment with our own position. We have high expectations for our managers and their prioritisation of ESG standards.

The Fund's Statement of Responsible Investment Principles sets out how we expect external managers to function as well as how the Fund will approach decision making, RI and stewardship.

The Fund's ESG impact assessment in July 2021 identified that 10 Investment managers satisfied the assessment criteria set by the consultant, while 9 were above satisfactory (the highest ranking). Within sustainability mandates 3 of the 5 were above satisfactory and 2 satisfied requirements. Each manager was set proposed actions for the consultant to work with the managers to seek improvement in their ESG integration regardless of their scoring which will be revied in the 2022 refresh. In addition, in the 2022 review the consultant will include an additional consideration of climate risk integration by managers.

2021Example of the Fund holding a manager to account

The Pension Committee expressed concern over sewage discharges resulting in fines to a water company, held within one of the infrastructure mandates. The Committee engaged with the investment manager on this issue through letters and a meeting in January 2022. The investment is an illiquid close ended investment, so more restrictive to exit its position, however the Fund took comfort in the lessons learnt by the manager in the control structure of later investments but continues to monitor and assess its investment.

Principle 9

Signatories engage with issuers to maintain or enhance the value of assets

Overview

The Fund invests through a range of Investment Managers rather than through direct investments, as a result, much of the Fund's engagement to underlying companies is allocated to Investment Managers or is conducted though collaborative engagement groups such as LAPFF. The Fund carries out its responsibilities of engagement by challenge of the Investment Managers over their engagement activities on assets within the portfolio or investment rational for specific holdings.

Activity

The Fund meet regularly with Investment Managers and discuss RI topics and specific holdings to ensure the value at risk of investments is an inacceptable range and the value of beneficiaries' investments are secure through these investments. If we believe an investment managers strategy is not aligned with our values, we will raise it with the investment managers for rational and further details and take action to ensure our values are better incorporated.

The Fund currently uses mostly active investment managers to facilitate effective engagement with underlying holdings and to ensure the types of investments in the portfolio are aligned with the Fund's investment beliefs. Significant due diligence is carried out on an investment managers methodology and integration of EGS issues - including engagement activity before an investment is made.

Both active and passive managers, have a requirement to be responsible investors and are expected to act as good stewards for the companies they invest in. The Fund expects managers to sign up to the Stewardship Code or other local equivalent for Investment managers outside the UK. The fund requests information from its managers on a quarterly basis on engagement activity, whether this is in a formal published document or as an update to the Fund specifically. The Fund is talking to all managers to encourage them to publish this information quarterly for increased transparency to investors and interested stakeholders.

At meetings with the Fund managers, discussions take place on a range of engagement topics including carbon emissions, physical and transitional climate risk, biodiversity, diversity of boards, mining risks, holdings in defence companies, holdings in occupied territories, retrofitting of properties and many others.

Challenge on holdings to managers is targeted from a number of activities including companies with intense or high carbon emissions or limited transition plans as identified through the annual carbon foot printing reporting; companies within industries covered by the Transition Pathway Initiative (TPI) where companies Management Quality score is low or Carbon performance is not aligned with the Paris agreement; companies where beneficiaries or stakeholders identify a possible concern based on an ESG principle such as human rights; or companies that have been highlighted by the LAPFF on poor practices.

Investment Manager Engagements

The Fund publish a quarterly report on the engagement of the Fund's Investment managers and has started to comment on engagement activities of the Fund directly. These Manager Engagements reports can be found on the Fund's website.

Example of Fossil fuel company engagement

Royal Dutch Shell

Manager – UBS Equities

Topic: Climate

We met with the CEO, head of investor relations and head of sustainability to discuss the company's climate program. The meeting was under the umbrella of CA100+ and was held ahead of the AGM which was to contain both a management Say on Climate resolution and a competing resolution from Follow This. During the engagement, the CEO provided a strong defence of the criticism the company has faced. This criticism includes that its carbon targets are not ambitious enough, they are not Paris Aligned, and that their targets include too much hydrocarbons in the early years and relies too much on off-sets in the later years.

Shell's CEO explained that they are currently doing a great deal of preparation for the transition, and they believe they are leading in the right direction even if there are areas which would benefit from further engagement. Management was clear that the preferred outcome to its own climate votes is supportive, and they look for questions, comments and voting rationale as a means to further improvements.

Outcome

All the Fund's managers are required to report on their engagement activity on a regular basis and exercise the voting rights in relation to the Fund's investments as far as practical. This will continue to be the case when assets are invested through the ACCESS pool.

We can see from the quarterly ESG statements and especially amongst our impact fund managers Biodiversity is becoming as important as climate which we encourage.

The Fund engaged throughout 2021 with Investment Managers regarding their carbon emissions, explicitly asking what carbon exposure they have and what their transition targets are. We also asked what climate bodies they are signed up to and engaged with them regarding the output from our carbon footprint reports.

Major areas of focus have been on fossil fuel exposure challenging managers on their engagement activities to help drive these companies to transition. The Fund's holdings of these companies have fallen over the past year and the remaining holdings are held through active managers where there is a rational for the holding to help reduce real world emissions.

The Fund also engaged with Investment managers regarding Israeli settlements and discovered extremely limited exposure to companies listed on the UN A/HRC/43/71 list. The Fund challenged the rational for these holdings and were satisfied that the holdings in travel companies with property within the localities were held in an index-based strategy due to their position in the MSCI World Benchmark rather than through an active decision and none of these companies appeared in the screening from the managers data provider. The manager advised the exclusionary parameters of the mandate had not been reached as exclusion is applied in severe cases, as defined by international law, in circumstances where companies provide security or surveillance equipment to be used in occupied territories, exploit natural resources in those territories without consent of occupied people, explain the settlements or finance the projects. The Fund have published a statement on its website outlining its position on the Occupied Palestinian Territories.

The engagement with an Investment manager relating to a holding in a water company have identified a number of lessons learnt from the situation by the manager and for the Fund to take forward in future activities. This has formed the basis for additional scrutiny of prospective real asset managers, particularly around the scale of investments in a portfolio and the controlling share of any investment added to a new portfolio.

Example of Company Engagement - Manager - Storebrand
ESG Issue: Human rights in conflict zones

Objective: Ensure that companies with operations in Myanmar conduct human rights due diligence so that they do not contribute to severe human rights violations

Type of engagement: Collaborative and direct, proactive

Collaborative initiative of 77 asset managers led by SAM, with the Investor Alliance for Human Rights, Domini, and the Heartland Initiative. We call on companies across all sectors with business activities or business relationships in Myanmar to: Immediately map their business activities, relationships and/or investments across their value chain in Myanmar to identify and assess human rights risks and harms that they may have or are causing, contributing to, or are linked to including: any and all business relationships, activities and communications involving the Myanmar military, or military owned, controlled or affiliated entities; any revenues from such business relationships and activities that may enrich military owned, controlled, or affiliated business and/or provide funding or support to the Myanmar military made before or after the February 1 coup. Assess and address all identified actual and potential human rights impacts of their business activities and relationships and take steps to mitigate and prevent them. Design and implement processes to enable the remediation of adverse human rights impacts including those impacts on their in-country staff and local stakeholders. Regularly publicly report on such due diligence efforts and procedures in place to cease, prevent and mitigate those negative human rights impacts. Provide support to in-country staff and employees to ensure their physical safety and do not retaliate against employees for strikes. Use leverage and participate and initiate collective action by business in support of human rights. We urge companies and their Boards to consider this call. While we acknowledge that companies are facing substantial safety risks, to both workers and assets in the current situation, this is an opportunity for the private sector to show its leadership in navigating and assisting Myanmar's transition to peace, justice, and democracy.

Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers

Overview

Although the Pension Fund has delegated investment management activity to its external investment managers. The Fund believes that Collaboration with other asset owners and Investment Managers is an effective way to help improve the effectiveness when exercising their rights and responsibilities on engagement with the invested companies; to this end the Fund are members of the LAPFF, IIGCC and the PRI. The Fund also encourages all its Investment Managers' to be signed up to these collaborations and to demonstrate effective stewardship through adherence to the UK Stewardship Code 2020, however they can sign up to any collaboration entitative that they believe to benefit the Fund.

The Fund is a member of the ACCESS pool, which it uses to access more than half of its investments. The 11 partner funds in ACCESS have collectively pooled £33bn. ACCESS are collaborating on RI activities through unified RI guidelines which set the framework for the investment managers and enable them to use the combined weight of capital of the ACCESS authorities to positively engage with the companies they invest with.

IIGCC
The Institutional Investors Group on Climate Change

Activity

Collaborations

The Fund seeks to collaborate with like-minded institutional shareholders to maximise the influence that it can have on individual companies.

Intuitional Investors Group on Climate Change (IIGCC)

IIGCC has the collective weight of over €35 trillion from 275 members and is leading the way on a global stage for investors to help realise a low carbon future. IIGCC helps shape sustainable finance policy and regulation for key sectors of the economy and supports members in adopting active ownership and better integrated climate risks and opportunities into investment processes.

The Fund's Pension Committee Chair is currently a representative on the IIGCC Corporate Programme Advisory Group. The corporate programme focuses on supporting investors to engage with companies to align portfolios with the goal of net zero by 2050.

In addition to the Fund's own membership of IIGCC, the Fund asks its managers to also be members providing a double lock on engagement.

IIGCC and Investor Agenda

As a member of IIGCC the Fund were among a record number of signatories to a joint global investor statement calling on governments to urgently ramp up their efforts to address the climate crisis. The Fund signed up to the e Investor Agenda's 2021 Global Investor Statement to Governments on the Climate Crisis contains the collective views of 587 investors from around the world, managing a total of more than US$46 trillion in assets - which is around 40 per cent of global assets under management. All 587 signatories have agreed to a set of policy recommendations that must be implemented swiftly to manage climate risk and channel trillions of dollars to address the climate crisis.

The 2021 Global Investor Statement urges governments to raise their climate ambition to limit global warming to no more than 1.5 degrees, implement meaningful emissions reduction policies, mandate climate-related financial reporting in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), and deliver COVID-19 economic recovery plans that support a just transition to net-zero emissions by 2050 or sooner.

IIGCC and Climate Action 100+

As a member of the (IIGCC) the Fund is exposure to Climate Action 100+, in addition a number of the Fund's managers are members of Climate Action 100+ and lead on various engagements.

Climate Action 100+ investors have committed to engage with the world's largest corporate greenhouse gas emitters to improve their climate performance and ensure transparent disclosure of emissions. The group is made up of more than 615 investors, responsible for over $65 trillion in assets under management, are engaging companies on improving climate change governance, cutting emissions, and strengthening climate-related financial disclosures. Climate Action 100+ is focused on companies that are key to driving the global net-zero emissions transition. 167 focus companies have been selected for engagement, accounting for over 80 percent of corporate industrial greenhouse gas emissions.

IIGCC and Climate Action 100+

Manager - M&G

BASF

Chemicals Sector

M&G Investments and other Climate Action 100+ members met with the company to plan the next phase of engagement which will take place in the second half of 2021. Having persuaded the company to announce a Net Zero target for scope 1 and 2 emissions, the next stage of the engagement is to extend this target to scope 3 emissions. A planning meeting took place in Q2 2021 for an engagement in the second half of 2021. We believe a combination of collective and bilateral engagement to be an effective means of achieving change and will review the company response after the Climate Action 100+ meeting has taken place.

Local Authority Pension Fund Forum (LAPFF)

The Fund as a member of LAPFF intends to continue that relationship indefinitely. LAPFF engages with companies over environmental, social and governance issues on behalf of its members. The advantage of collective engagement is that there is greater leverage over the company due to the pooling of holdings.

LAPFF is unique in its engagement approach in that it is a collaborative engagement group made up of institutions with a common purpose and shared values. LAPFF gives a voice to those in effected communities rather than just engaging with the management boards of companies to give a much deeper understanding of the impact of those companies. LAPFF members choose what engagements to pursue and who to target as this is put forward to the membership at its business meeting to agree. LAPFF members take the lead and set the tone in each engagement meeting – the engagement is an authentic voice speaking on behalf of the Pension Fund beneficiaries and not an investment bank which may be unusual for many boards in engagement activities.

The Forum speaks on behalf of all LSPF Fund members with a single voice that carries the weight of more than £300bn in assets under management, placing Forum members in the top 60 asset manager in the world in scale of AUM voice, to get the attention of corporate boards, politicians, or regulatory body.

LAPFF Engagement example Q4 2021

BHP

Objective: Never having met BHP CEO, Mike Henry, LAPFF Chair Cllr Doug McMurdo wanted a meeting to discuss BHP's imminent unification process and the on-going human rights concerns related to the Samarco tailings dam collapse in Brazil and the joint venture Resolution Copper project with Rio Tinto in Arizona.

Achieved: LAPFF detected some progress in relation to BHP's approach to community engagement. Prior to BHP's 2021 AGM, LAPFF had not heard any company representatives refer to the need for free, prior, and informed consent (FPIC) in relation to any of BHP's projects. However, BHP Chair, Ken Mackenzie, and Mr Henry have been clear since the October 2021 AGM that they expect FPIC to be met in relation to their Resolution Copper project before that project can proceed. LAPFF also shared its experience of engaging with Brazilian communities affected by the Samarco tailings dam collapse and found Mr Henry receptive to this feedback. LAPFF also issued a voting alert opposing BHP's climate plan, which was put to a vote this year in line with the 'say on climate' initiative. While LAPFF was pleased to see BHP put its plan to a vote, LAPFF's view is that the plan had significant shortcomings. For example, there was a fear that the company could rely too heavily on unproven technologies such as carbon capture and storage (CCS) in the plan. The plan also appeared to contradict BHP's assertion that the company will benefit from a very quick transition to a green economy. The plan could have moved the company much further, much more quickly but did not.

In Progress: LAPFF will continue to engage with BHP in relation to both Resolution Copper and Samarco. Cllr McMurdo also asked BHP if it would put annual say on climate resolutions to a vote. Although BHP has committed to say on climate votes every three years, LAPFF will continue to engage with BHP on its climate developments more frequently.

In addition to being a member of LAPFF the Head of Pensions at the Fund was appointed to the LAPFF Executive Committee in October 2021. As result the Fund is much more involved in the focus of the engagement group and the Head of Pensions has already started attending engagement calls with target companies.

LAPFF Engagement Activity involving the Fund's Head of Pensions, December 2021

Mizuho Bank
Issue – Climate

The Asia Collaborative Engagement Platform for Energy Transition Collaborative engagement, working with Asia Research and Engagement (ARE) and the Asia Transition Platform, has continued with some of Asia's largest listed financial institutions and buyers and producers of fossil fuels. During the quarter, LAPFF executive members Cllr Caron and Sian Kunert engaged with Sumitomo Mitsui Financial Group (SMFG) and Mizuho, respectively. At Mizuho, bank representatives were asked for more details on sustainability experience and expertise of board members, as well as an insight into a timeline for the phase out of coal power financing. At SMFG, discussions also covered mechanisms to ensure sustainability experience on the Board as well as target setting and referencing the International Energy Agency Net Zero scenario.

Principle of Responsible Investment (PRI)

The Pension Fund is a signatory to the PRI who encourages investors to use responsible investment to enhance returns and better manage risks but does not operate for its own profit; it engages with global policymakers but is not associated with any government; it is supported by, but not part of, the United Nations.

The PRI aim to work to a sustainable global financial system by encouraging adoption of the PRI Principles and collaboration on their implementation; by fostering good governance, integrity, and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures, and regulation.

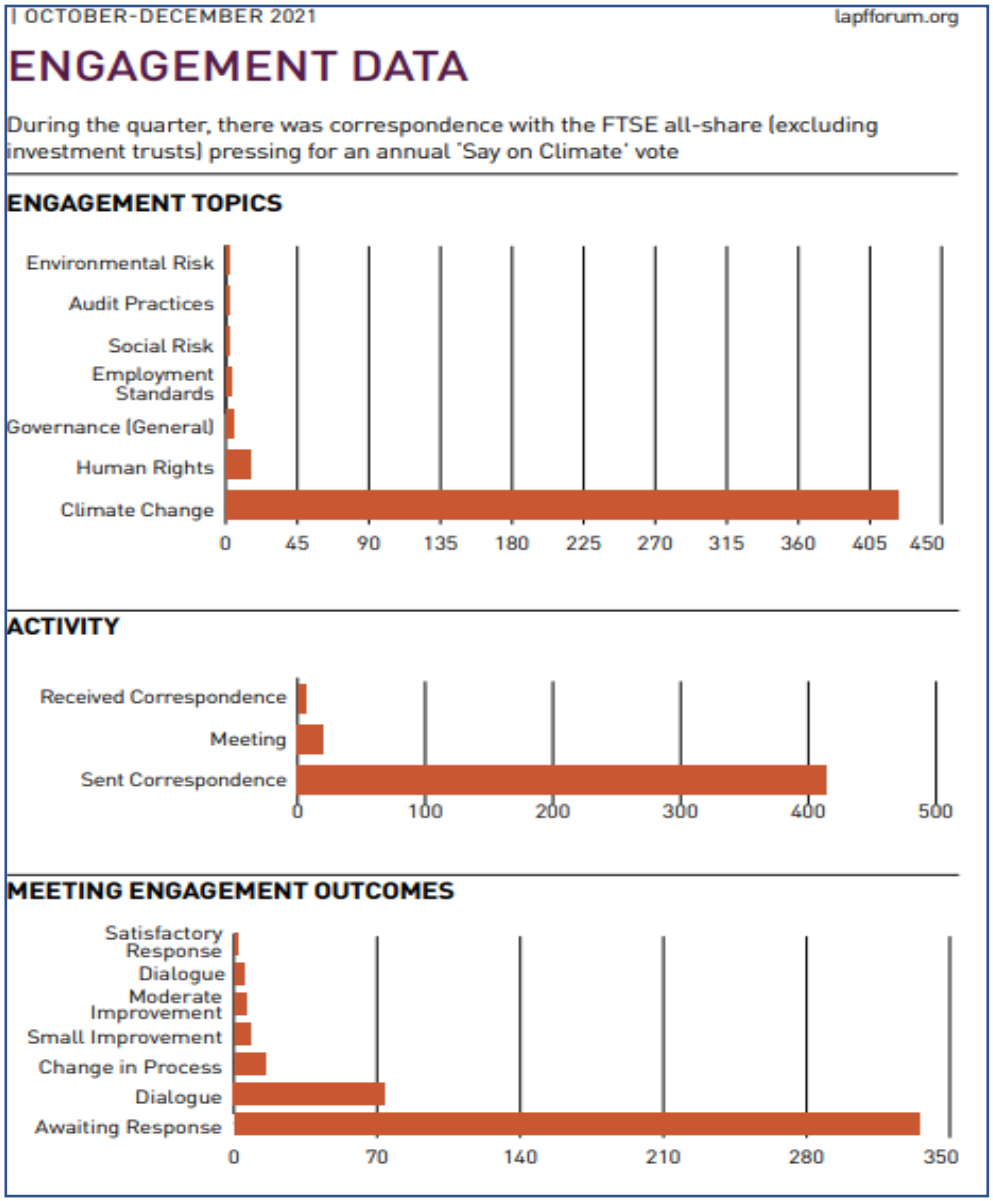
The Fund has not yet completed its submission to the PRI as it became a signatory in 2021. The PRI are not accepting submissions in 2022, so the Fund will submit its first report in January to March 2023. As a signatory of PRI, we are committed to collaborating with other signatories to improve and contribute to developing a sustainable global financial system.

Outcomes

Collaborative engagement has meant that the Fund is able to engage with companies who would not otherwise be willing to speak directly to the Fund, using its collective power the Fund's engagement partners have made some maked progress in mining companies in relation to tailings dams and across oil and gas sectors. All these oil and gas companies have high level targets for being net zero by 2050 although short and medium term plans are less clear, and they are still adrift of alignment to the Paris agreement. Examples of progress in this can be seen in Royal Dutch Shell and their commitment to their net zero targets and partnership with offshore wind, in addition to allowing shareholders and advisory vote on their transitionary plans.

The Fund anticipates some major shorts with the development in the Say on Climate initiative and further outcomes in relation to climate issues.

The Fund has been able to increase its exposure to engagement in the year by active participation in collaborative groups rather than just being a member or signatory.



Principle 11

Signatories where necessary, escalate stewardship activities to influence issuers

Overview

We expect investment managers to take responsibility for day-to-day interaction and take the appropriate action when operating on the Fund's behalf while engaging in stewardship activities, this includes actions to escalate their approach when appropriate. The Fund discuss emerging issues and priorities at the Investment Implementation Working Group, alongside the Investment Consultants and Independent Adviser. These issues then form the basis for discussions with the investment managers where it has felt issues needed to be called into question or challenged.

Activity

As laid out under principles 9 and 10 then Fund meet regularly with Investment Managers and discuss RI topics and specific holdings to ensure the value at risk of investments is an in acceptable range and the value of beneficiaries investments are secure through these investments.

Within the Fund's Statement of Responsible Investment Principle's the Fund seek to influence companies through engagement. The Fund will engage with the investee companies and appointed managers, either directly or via their collaborative partners. Where material risks remain following engagement activity, we retain the ability to divest, since the failure to engage destroys value in the longer term. The issue of engagement is a vital aspect of ownership.

Escalation of action can take place through voting where management of companies are not engaging or making adequate changes.

Escalation will Collaborative Partners

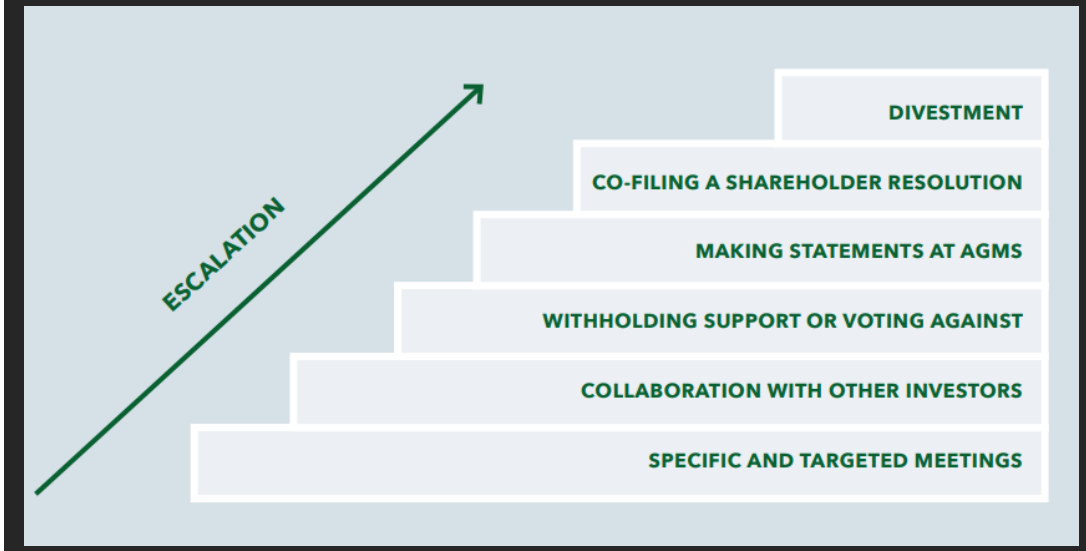
LAPFF engaged with 171 companies during 2021, but had numerous engagement meetings with companies such as ArcelorMittal, Shell, and the five major mining companies.

LAPFF issued 18 voting alerts in 2021, these voting alerts are issued to members when it is felt that engagements need to be escalated. The chart below contains the companies and resolutions for which LAPFF issued voting alerts over the course of the year.

Companies where a voting alert was necessary due to inaction of Investee companies were

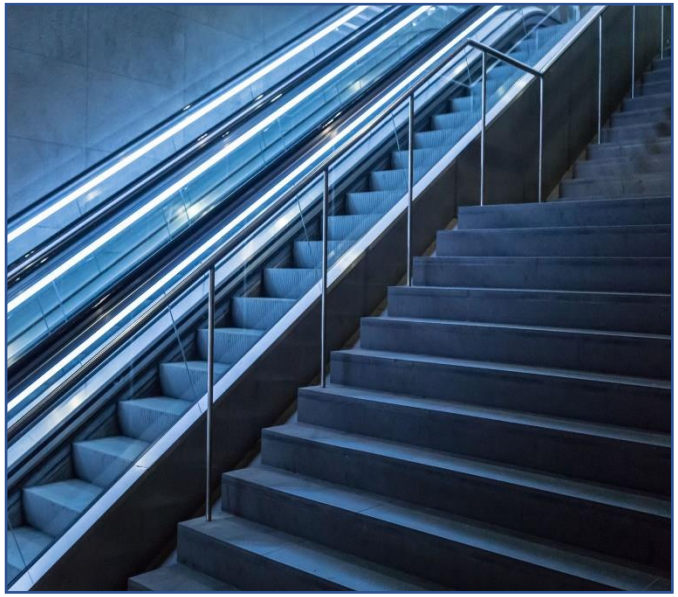
Amazon, Barclays, BHP, Booking Holdings, Delta Airlines, Expedia Group, ExxonMobil, Facebook, Frasers Group, Glencore, HSBC, Mitsubishi UFG, National Grid, Oracle Corporation, Rio Tinto, Royal Dutch Shell, SSE and Tripadviser.

Escalation process of Ruffer – Diversified Growth Fund Investment Manager of the Fund



Outcomes

Escalation and divestment can work together for escalation, where managers engagement activities with investee companies are deemed ineffective the Fud expect the manager to escalate through voting or sale of that company. Engagement is a long process however the Fund expects managers to have time limits on when engagement is not working or the ability to acknowledge when Boards of companies are not interested in engaging with investors. The failure of engaging suggests there are other governance and other risks within the underlying company.



Example Escalation

At the Annual General meeting of ExxonMobil shareholders expressed their discontent with the current board members and the response of the company to climate change. By voting against the reinstatement of board members and replacing them with directors who have "experience in successful and profitable energy industry transformations" which can help turn the challenge of the climate crisis "into a long-term business plan, not talking point".

East Sussex were represented by two Investment Managers in voting with the proposals for this change in Board membership.

One of the Fund's managers was actively engaged with ExxonMobil, however due to limited response to the engagement, the manager dramatically reduced the holdings. A small position was later built back into the portfolio to restart engagement and to better understand the direction of travel in disclosing new short, medium and long term targets and priorities in addressing net zero benchmarks. The manager voted in the Fund's behalf in favour of three independent directors proposed by the activist investor Engine 1 to accelerate change at the company. Active engagement will continue with the company to improve governance, climate disclosures and overall strategy.

Since this change in Board membership ExxonMobil are no longer planning to increase oil production in the years to 2025 and has started to invest in decarbonization strategies with targets for greenhouse gas emission reductions. There is still a long way to go but this shows a marked change in the company as a result of this active ownership.

Principle 12

Signatories actively exercise their right and responsibilities

Overview

The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The Fund's managers have written guidelines of their process and practice, which is considered as part of the appointment of an investment manager process. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under LGPS Investment Regulation 7(2)(f). The Fund's investment managers also file or co-file shareholder resolutions on important issues at the investee companies in the interests of agitating for better governance. In addition managers engage with investee companies on material ESG issues. For investments held through the ACCESS pool in a segregated sub-fund, the expectation is that investment managers will vote in line with the pool's RI policy, whereas where investments are in a pooled vehicle the Pension Fund accepts the investment manager will vote in line with its own policy. There is a requirement for the investment manager to explain the rationale for its decisions and ultimately the committee has the option to disinvest if it is dissatisfied with the manager's decisions.

Activity

ACCESS Pool Voting

For investments held through the ACCESS pool in a segregated sub-fund the expectation is that investment managers will vote in line with the pool's RI policy, whereas where investments are in a pooled vehicle the Pension Fund accepts the investment manager will vote in line with its own policy, however there is still a requirement for the investment manager to explain the rationale for its decisions.

The Full Voting policy can be seen here

Examples within the ACCESS voting policy:

Vote for:

- Adoption of Report and Accounts unless Auditors Report is qualified.
- The annual report should include a separate section that describes the work of the Audit Committee.
- All directors should be subject to regular re-election, at least every three years.
- Long term incentive schemes should be based on challenging performance targets over a consecutive period of at least three years. Therefore, performance targets for minimum rewards should be based on at least producing median performance for the industry or average market returns.
- All political donations should be fully disclosed and justified. Any political donations should be subject to a separate vote.
- The company should publish a formal statement setting out its approach to dealing with environmental issues.

Vote against:

- The Report and Accounts are not considered to present a true and fair view of the company's financial position.
- The re-appointment of the auditors where the fees for non-audit work are material and exceed the fee for audit work.
- The election of an executive director, who is not subject to re-election by rotation at least every three years.
- Election of a chairman where the candidate combines the roles of Chairman and Chief Executive, unless there are exceptional circumstances e.g., a temporary arrangement, pending separation of the posts
- Proposed dividend and special dividends which are not covered by earnings and the company offers no explanation of policy.
- Annual report, where significant environmental risks in relation to the company's activities are not disclosed or reported on or reporting is considered poor or inadequate.

The Fund's listed equity managers and their voting approaches

Longview - Equities – within the ACCESS pool – Votes in line with ACCESS Guidelines

Newton - Diversified Growth Fund - within the ACCESS pool – Votes in line with ACCESS Guidelines

Storebrand – Equities – outside the ACCESS pool – Storebrand own voting policy – available here

Wellington - Equities – outside the ACCESS pool – Wellington own voting policy – available here

WHEB - Equities – outside the ACCESS pool – WHEB own voting policy - available here

UBS Osmosis index - Equities – ACCESS pool aligned passive – Votes in line with ACCESS Guidelines

Ruffer - Diversified Growth Fund - within the ACCESS pool – Votes in line with ACCESS Guidelines

Baillie Gifford - Equities – within the ACCESS pool – Votes in line with ACCESS Guidelines

Atlas – Listed Infrastructure – outside the ACCESS pool - Atlas own voting policy – available here

Example Voting Q4 2021

Wellington (Listed equity – impact fund)

Number of Voteable meetings	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ Did not vote	With management	Against management
9	48	45	3	0	45	3

Note: All data displayed is fund specific, not at fund manager level

Reporting

To ensure that the managers are fulfilling their duties, the Fund requires the Investment Manager's report to the on their engagement with company management and voting record, highlighting any instances that they voted against company management or did not follow its policy. The Fund discuss specific issues when they arise and undertakes an ESG impact assessment by a third party to assess its managers adherence to its stated policies.

The Fund produce and publish a voting and engagement report, quarterly, to demonstrate implementation of the Principles and to promote them. The Committee review asset manager voting and engagement through sight of the engagement reports at the Pension Committee meetings.

In addition to the Fund's reporting and assessment of the voting, the ACCESS pool collate and report the voting of all the managers within the ACCESS LGPS pool and advise of any votes against the ACCESS voting guidelines. This information is then discussed as part of the investment performance report at each Joint Committee meeting.

A change that the Fund are doing for 2022 is to review the reasons for non-alignment with the voting policy and ensure it is sufficiently robust as an explanation – the Fund have identified a manager which it wishes to discuss the voting explanations.

All the Fund's managers publicly report their voting actions which is then shared through the Fund's own reporting.

Example LAPFF voting alert

Delta Airlines – May 2021 - LAPFF advised members to support a resolution for Delta to evaluate and report on how the company's lobbying activities align with the Paris Agreement and how the company plans to mitigate risks presented by any such misalignment. At the AGM, the resolution passed with a majority vote.

In Progress: LAPFF will continue to issue voting alerts and attend AGMs as relevant and possible throughout the year.

Collaborative voting

The Fund believes that Collaboration with other asset owners and IMs is an effective way to help improve the effectiveness when exercising their rights and responsibilities on engagement with the invested companies; to this end the Fund are members of the LAPFF, IIGCC and the PRI. The Fund also encourages all of its IM's to be signed up to these collaborations and to demonstrate effective stewardship through submissions of the UK Stewardship Code 2020.

As a member of the Local Authority Pension Fund Forum (LAPFF) the Fund ask Investment managers to vote in accordance with voting alerts from LAPFF or explain why they have voted differently. The Fund recognise that the research teams of the investment managers may have a different insight to the research team at LAPFF and they may not always agree on the best approach, so an explanation is expected in these cases.

Stock Lending

The Fund can take part in stock lending through its global custodian (Northern Trust). The Fund has not permitted stock lending in their segregated mandates since 2008. The manager of pooled funds may undertake a certain amount of stock lending on behalf of unitholders. If a pooled fund engages in this activity, the extent to which it does so is disclosed by the manager. The Fund has no direct control over stock lending in pooled funds. However, the arrangements within the ACCESS pool require that the stock is recalled in the event of a company meeting which the Investment manager wishes to ensure all voting rights can be utilised.

Outcomes

Active stewardship through exercising voting rights have benefited Fund beneficiaries through the expertise of the investment managers research team and research analysis feeding in from LAPFF to ensure that all votes are used, and votes applied based on engagement discussions and clear priorities of our investment managers in ensuring the underlying companies are well managed, and well positioned from a risk perspective to generate return to the Fund and hold companies with robust valuations with the objective of preserving and enhancing long term shareholder value.

The Fund expects and monitor's that investment managers vote on all the shares they hold. Engagement with the Investment Managers' governance teams has proved successful in building relationships with companies in their transition to net-zero. Managers are required to report their stewardship activities to the Fund and to seek direction where required. As described above, each manager's approach is assessed by the Fund via each manager's written report, in monitoring meetings, and at Committee meetings. The Fund assesses the approaches taken by managers alongside each other and guidance provided by the LAPFF, for consistency and alignment of interests.

Its important that voting and engagement work hand in hand, so the Fund can influence the underlying companies in making improvements thought the selection and monitoring of the Investment Managers.

The Fund have identified some weaknesses in its approach with exercising rights and responsibilities, in that improvements can be made to challenge the robustness of reasons in voting against the ACCESS voting policy. In addition, the Fund has recognised that it needs to create its own voting policy for non-pooled managers to vote in line with or explain deviations where the investment is in a pooled fund. The Fund also acknowledges that the exercising of rights is focused to equities and will work to establish how it can widen this into other asset classes within the Fund's portfolio.