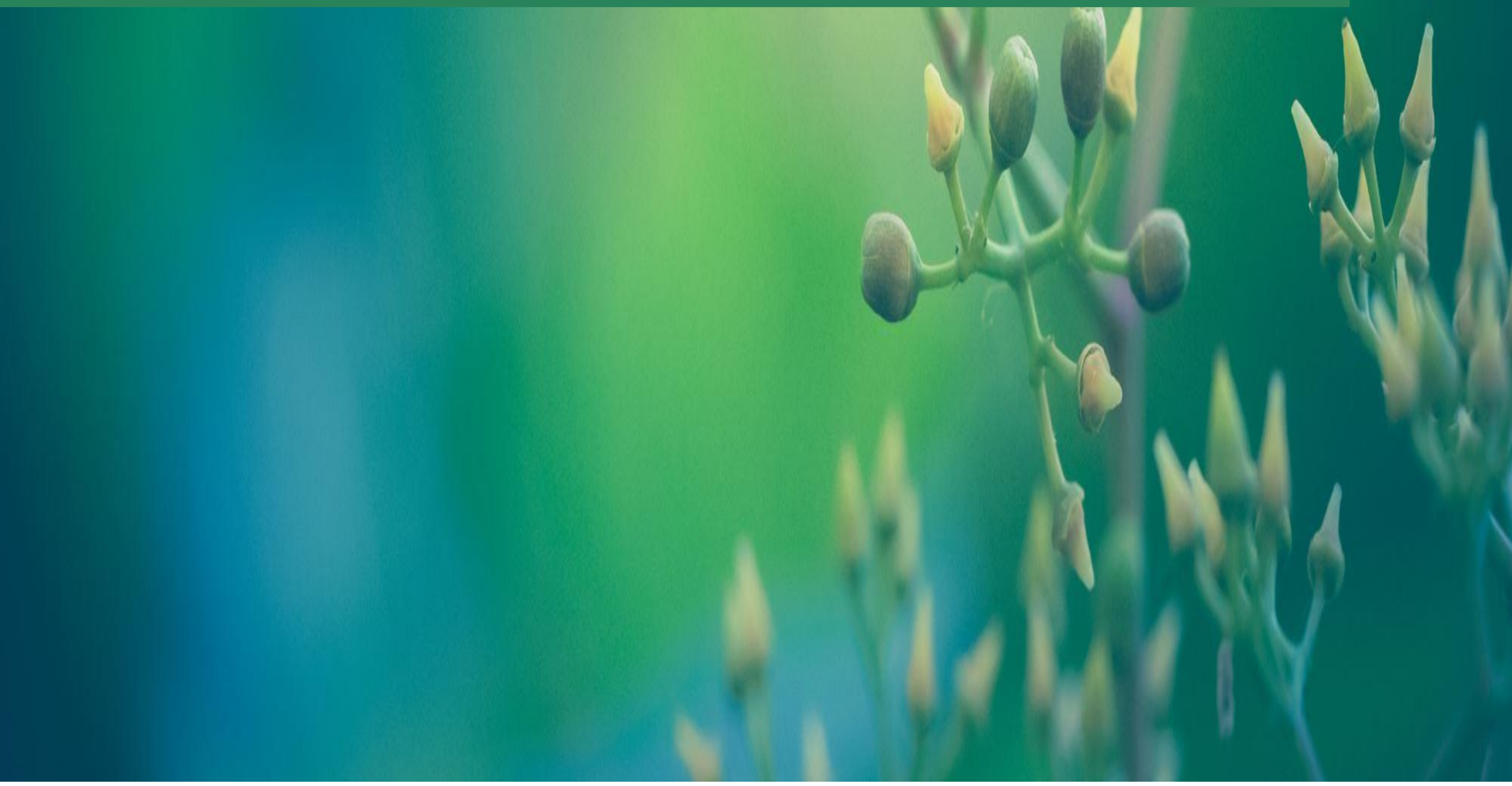
East Sussex Pension Fund

STATEMENT OF RESPONSIBLE INVESTMENT PRINCIPLES

September 2023



Statement of Responsible Investment Principles

Introduction

At East Sussex Pension Fund **(ESPF, the Fund)**, we believe that Responsible Investment **(RI)** supports the purpose of the Local Government Pension Scheme **(LGPS)** to provide retirement income for individuals. We believe that RI can reduce the risk associated with the invested assets that the Fund owns to allow it to pay pensions when they are due. Responsible investment is therefore a significant factor driving returns alongside other investment considerations.

This Statement of Responsible Investment Principles **(SRIP)** complements ESPF's Investment Strategy Statement **(ISS)**. The SRIP explains the Funds approach to the oversight and monitoring of the Fund's investment activities from an RI and Stewardship perspective.

What is Responsible Investment?

RI is an approach to investing that aims to incorporate environmental, social and governance (**ESG**) factors into investment decisions, to better manage risk and to generate sustainable, long-term returns (according to Principles for Responsible Investment). Stewardship is the responsible allocation and management of capital across the institutional investment community to create sustainable value for beneficiaries, the economy and society.

While acknowledging the potential benefits of incorporating ESG factors into the investment process, the Fund recognises that there are many different approaches, there is no universally agreed standard of ESG measurement or assessment, and some methodologies may enhance returns while others may not. There may also be inherent conflicts between the Environmental, Social and Governance factors forming the ESG framework.

As a consequence, while acknowledging the opportunities for ESG factors to reduce risk and provide opportunity, careful attention is required in manager or index selection to methodologies which incorporate both qualitative, quantitative and forward-looking approaches.

RI is not the same as Ethical Investment. Ethical Investment is an approach determined by an investor's specific views, usually based on a set of personal values. These values can take precedence over financial considerations of an individual. The power to invest the assets of the Fund must be made for the investment purpose of ensuring that benefits can be paid to members and their contingent beneficiaries when due, as a result the Fund will identify and mitigate material financial risk when making decisions and not based on personal or political values. Instead of being considered as either an "Ethical" or an "Unethical" investor, the Fund will be a responsible steward of capital. At ESPF, we are guided in our roles as quasi-trustees, executive officers and investment managers by the legal principle of fiduciary duty.

The Pension Committee (**the Committee**), comprising five East Sussex County Council councillors, is the decision making body of the Fund and is responsible for Fund oversight and policy setting. In carrying out its obligations, this group of quasi-trustees must take into consideration the views of its main stakeholders, members and employers.

As a global long-term investor, ESPF recognises that climate change presents significant long-term risks to the value and security of pension scheme investments and capital markets more broadly. As a result the Fund recognises climate risk to be a significant financial risk and addresses climate risk separately to wider ESG factors.

About this document

East Sussex Pension Fund's Statement of Responsible Investment Principle was approved by the Fund's Pension Committee in September 2023. It will be reviewed and updated at least every three years.

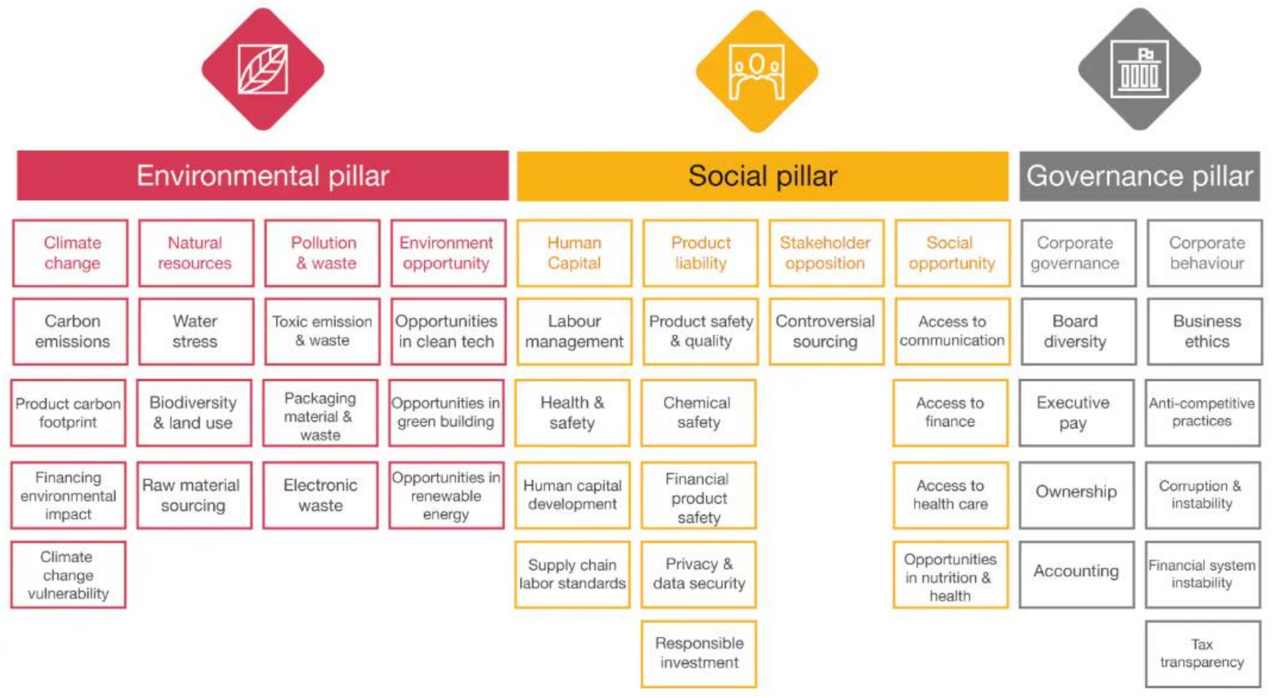
The objectives of this Statement of Responsible Investment Principles is to:

- reduce the likelihood that ESG factors, including climate risk, will negatively impact asset values and returns;
- set out a framework to inform stakeholders on the action ESPF is taking to address and manage ESG and climate risks.

The Fund will report on its progress against the principles in our Annual Report against the Taskforce on Climate Related Financial Disclosures framework.

Pillars of ESG

Sustainability is about creating long-term value by implementing strategies that incorporate environmental, social and governance (ESG) factors as well as financial factors. ESG is wider than just environmental issues which are often a key focus, sustainability requires the social and governance factors to also be considered. ESG reporting requires disclosure of information, data and metrics to represent the long term added value across the three pillars.



Source: www.pwc.com/mt/en/publications/sustainability/esg-what-is-it-all-about.html

Responsible Investment Beliefs

The following beliefs underpin the Fund's Responsible Investment principles and policies:

- ESG factors, including climate risk, can present material financial risks to asset values and returns;
- Implementation of effective RI policies can reduce risk and has potential to enhance returns;
- Engagement with investment managers ("IMs") and investee companies can be effective in protecting and enhancing the long-term value of investments;
- Collaboration with other asset owners and IMs will help improve the effectiveness of engagement;
- Effective oversight of RI requires monitoring of ESG and CR metrics and the actions of IMs and investee companies;
- RI is aligned with ESPF's fiduciary responsibilities in the management and oversight of ESPF's investments.
- ESG opportunities may be found in Impact Funds investing in companies whose profits are derived from providing solutions to some of the World's more serious environmental,

sustainability and social challenges e.g. cleaner products and processes, renewable energy, health, nutrition, sustainable agriculture, shelter, clean water and sanitation etc.
- Resource efficient companies can drive increased returns for the benefit of the scheme members and stability of contribution rates for Scheme Employers, as resource efficiency reduces dependency on natural resources resulting in reduced input costs and less dependence on volatile commodity prices.

ESG Themes

Climate Change

As an LGPS Fund we are long-term investors with liabilities reaching beyond the year 2100. The objective of the Fund is to meet the current and future pension benefits of our members now and when they fall due. The Committee believe that, over the expected lifetime of the Fund, climate-related risks and opportunities will be financially material to the performance of the investment portfolio. As such, we consider climate change issues across the Fund and specifically in areas such as Strategic Asset Allocation, Investment Strategy, Investment Manager Selection and Risk Management with the aim of minimising adverse financial impacts and maximising the opportunities for long-term economic returns on our assets.

Climate change risks and opportunities are a primary focus of the Fund's investment strategy with strategic asset allocations to sustainable impact funds and funds with alignment to the Paris Agreement. The Fund engages with Investment Managers on holdings where there are high emissions or climate physical or transition risks to ensure there is a robust rational for investment and an understanding of transition plans of the investee company and where relevant a clear engagement plan.

Human Rights

As a responsible institutional investor, the Fund uses its influence to encourage the promotion and protection of human rights around the world. This is achieved through regular direct engagement with a variety of stakeholders including policy makers, investment managers, and investee companies to ensure that corporate practices are in line with the Fund's human rights commitments.

The Fund remains diligent in its responsibility to ensure effective oversight and governance surrounding human rights in all companies in which it invests. With a view towards ending practices such as forced labour and human trafficking, ESPF pushes for supply chain transparency across its investment portfolio. By directly engaging with companies and investment managers, the Fund aims to drive the improvement of corporate human rights practices around the world.

As detailed in the Fund's Stewardship Report, human rights stewardship is directly integrated into our investment strategies. To this end, ESPF continually assesses and reports on its underlying exposure to companies with human rights concerns. An example of this can be found in the Fund's Statement on Israel and the Occupied Territories, which annually reviews the human rights situation in the Occupied Palestinian Territories in relation to our investment strategies.

Biodiversity

Amid the ongoing climate crisis, the Fund recognises the strong interlinkages between climate change and biodiversity. As such, ESPF considers it a priority to enhance biodiversity and contribute towards the regeneration of wildlife habitats. With nearly a third of all monitored species currently under threat of extinction due to human pressures, the importance of biodiversity regeneration is unmistakeable.

Engagement on the topic of biodiversity is a vital tool in the Fund's broader strategy to combat environmental risks. The Fund believes that the ongoing renewable energy transition must account for potential detrimental impacts on biodiversity, and actively contribute towards environmental regeneration.

Through direct engagement with investment managers, the Fund has driven positive outcomes on the development of biodiversity strategies in its investee companies. Additionally, the Fund carefully considers sustainability practices (including strategies for biodiversity regeneration) in its manager selection processes.

ESPF remains steadfast in its commitment to tackle the loss of biodiversity and considers this to be a top priority in its investment strategy.

Corporate Governance

As one of the key pillars of ESG, the Fund is committed to the promotion of good corporate governance practices across its portfolio. These practices include (but are not limited to) board diversity, fair pay, tax transparency, and business ethics.

ESPF views good corporate governance as the root of responsible investment. The Fund incorporates these beliefs into its broader investment approach, making use of voting, shareholder resolutions, corporate engagement, and manager monitoring to ensure good governance practices are being implemented across its portfolio.

Through its investment managers, the Fund encourages and facilitates investee companies to meet targets in areas such as gender representation, diverse recruitment, and financial transparency. Additionally, the Fund encourages its investee companies to improve their reporting standards on governance strategies.

ESPF continually reviews the corporate governance practices of its investee companies to ensure compliance with our core values of good governance.

Sustainable Production and Consumption

With climate concerns being at the forefront of the Fund's responsible investment strategy, ESPF is devoted to encouraging practices of sustainable production and consumption across its portfolio. At its core, this entails the prevention of pollution, reduction of waste, and the promotion of a circular economy.

To provide a comprehensive approach to the various sustainability challenges that the earth faces, the Fund heavily invests in climate impact funds which aim to encourage sustainable methods of production and consumption. In line with these priorities, the Fund is invested in critical infrastructure to support the shift to sustainable production and consumption such as water recycling centres and renewable energy solutions.

Through direct and collective engagement through the Local Authority Pension Fund Forum (LAPFF), the Fund encourages investee companies to implement sustainable business practices in their operations. ESPF remains committed to tackling climate risk in all forms, which includes the promotion of sustainable production and consumption practices.

Obligations of the Pension Committee and duty to our members

The Committee is subject to fiduciary duties with respect to investment matters. As a result, the Fund must only use its power to invest the assets for investment purposes, to generate the best realistic return over the long-term, given the need to control for risks, to enable benefits to be paid to members when due. Investment decisions must be taken prudently, with a reasonable level of skill and care, and on the basis of proper advice, acting in the members' best (financial) interests.

To ensure the Pension Committee can do this, the Fund recognises that ESG issues can positively and negatively impact on financial performance. In addition, the Fund recognise that climate risk is a financial risk and support the view that limiting global warming to 1.5 degree could help curb the catastrophic impacts to the financial standing of the Fund and our members wellbeing of climate change. The Fund want its members to be proud that it has a focus on climate change and the actions it has, and will continue to take, to work towards a better future.

The Fund will aim to understand the evidence in light of research and policy developments to inform the investment approach applying long-term thinking to integrate ESG, including climate risk and opportunities, into investment decision making.

ESPF and the ACCESS pool

The Fund is a participating scheme Fund in the ACCESS LGPS Pool alongside 10 other partner Funds. Individually and collectively the Councils that make up the ACCESS pool believe that investments made on behalf of scheme members should be sustainable in the short, medium and long-term through the fundamental identification and integration of ESG factors into the investment selection, monitoring and deselection process. The ACCESS pool has published a set of RI guidelines for the pool to follow and implement reporting at the pool level.

While ESPF and the other ACCESS Councils have an overriding fiduciary and public law 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, the 11 Funds collectively recognise that RI considerations increasingly reflect real financial risks, and so these factors should also be embedded in the investment decision-making process.

There are four levels where the ACCESS pool will consider how RI issues can be addressed both through the pool and individually -

- Investment level Integration: Incorporating ESG & RI issues into the everyday individual investment selection, monitoring and engagement processes.
- Manager level Expectations: Setting explicit expectations at the investment manager mandate level.
- Council level Policy: Setting an overarching policy, generated from core investment beliefs, which shapes the direction of travel.
- Pool level Guidelines: Incorporating the common policies and beliefs of the Councils to create a set of Guidelines summarising the Pool's approach.

ESPF remains responsible for deciding which asset classes it wants to invest in and the size of the allocation. This is set out in the Investment Strategy Statement (ISS). The ACCESS pool, invest our money in line with our strategy be selecting Investment Managers to implement the risk and return criteria of the Fund's investment strategies. Where investment options to implement the ISS, are not on the ACCESS pool platform, ESPF will work with the pool to provide investable products that meet the Funds ISS requirements.

ESPF will work with the pool to drive improvements in the stewardship activities of the pool, aim for a best in class voting policy and ensure the pool can support the underlying Funds in there reporting requirements, through participation in the ESG working group, decision making through the ACCESS Joint Committee representation and other opportunities within the pool that arise.

Integrating RI into Strategy Implementation

At ESPF we are committed to acting as responsible investors and fully integrating our approach to ESG, including climate risk, into investment processes.

The Fund's approach is to invest in companies that have a high and sustainable return on investment. The Fund does not exclude sectors from its investible universe on the basis of their participation in certain industries, instead the emphasis is on assessing the sustainability and financial risk of a holding.

Fully integrating ESG into the Fund's investment process means that the Pension Committee, is in possession of all the facts to determine how ESG impacts the investment case, including valuation and is in a position to engage with the investment managers.

ESPF will review annually all strategy mandates and managers against climate metrics (e.g. impact on portfolio, manager compliance, exposure to certain sectors). For all new mandates we will consider climate-related risks and objectives explicitly as part of the selection criteria.

The Fund is committed to carrying out engagement with Investment Managers on specific issues and risks identified by the climate related data and engagement priorities.

The Fund will consider options for scenario analysis and how this will provide an enhanced understanding of portfolio risk to integrate into investment decision making. All decision making, and investment monitoring, considers climate related risk and opportunities. We will develop regular reporting of ESG and CR metrics to inform decision making and help assess and monitor progress towards our RI objectives.

Principles for Responsible Investment Approach

The Fund is a signatory to the United Nations Principles for Responsible Investment (**PRI**), an organisation which supports and enables asset owners and asset managers to work collaboratively towards RI best practice.

As a signatory, ESPF has committed to implement the six principles with the aspiration of contributing to the development of a more sustainable global financial system. We outline the ESPF approach to the six principles.

Principle 1 - We will incorporate ESG issues into investment analysis and decision-making processes.

The implementation of ESPF's investment strategy is delegated by the Pension Committee to officers and external investment managers (IMs) to invest the Fund's assets. How ESG factors are incorporated into investment analysis and decision-making processes varies according to the asset category and manager. All investments are externally managed through pooled vehicles, either directly with the Investment Manager or through the LGPS ACCESS pool. Investment Managers are expected to report to the Taskforce for Climate related Financial Disclosures (TCFD) framework and support the Funds production of its climate reporting.

As part of the governance arrangements with the IM's, where the manager carries out scenario analysis, the Fund will ask for details of the scenarios as well as the output of the analysis in relation to the Fund's portfolio. Where portfolio-level analysis is not available, the Fund will ask for the results of any other analysis that the asset manager is using to identify and assess climate-related risks in relation to the portfolio, such as carbon footprint data. The Fund will ask what the asset managers are doing differently as a result of the analysis, to mitigate the risks. Where no scenario analysis is taking place, the Fund will ask about asset managers' plans for adopting scenario analysis and encourage faster action if this is not ambitious enough.

The Fund gains its exposure to equity markets by recourse to a combination of Active managers and Passive index funds. The holdings of Active Managers are by their nature transitory and subject to continual change through the manager's stock selection process. Managers of passive index funds replicate an index and so bake in a longer run exposure to companies and sectors over which limited due diligence is performed. The choice of passive index is therefore an important deliberation. Where possible, the Fund seeks to acquire exposure to indices that are tilted in favour of companies that benefit from greener revenues, are less carbon intensive, and are better positioned than their peers to adapt to the Energy Transition. In some markets this option is not possible.

The ESPF have the following categories of asset managers:

Active Equity managers (pooled funds): As a part of the appointment process, we ensure that Managers demonstrate that they incorporate ESG filters into their investment analysis and asset acquisition processes. We monitor the managers' performance on a quarterly basis alongside all other investment matters, and review the PRI transparency reports of external managers, where available. Managers are encouraged to join PRI, IIGCC and Climate Action 100+ as signatories, where they are not already members.

Passive Index Funds with ESG tilts: Passive indices offer a low-cost complement to Active Managers. We select Passive indices based on the index's ability to reduce exposure to climate risks and to capture opportunities for investment in companies that are forward looking, generating green revenues, and better aligned to navigating the Energy Transition.

Corporate Credit managers: during the appointment process, we assess the approach of managers to incorporating ESG issues into their investment analysis and decision-making processes. We monitor the managers' implementation of the approach on a quarterly basis alongside all other investment matters, and review the PRI transparency reports of external managers, where available. It is our ambition to appoint managers who devote greater focus in providing finance to companies or projects that are more compatible with the aims of the Paris Agreement.

Property managers: The capacity for Managers to incorporate ESG factors into the investment process alongside other key investment criteria will be required, monitored, and regularly reviewed. Managers will be encouraged to adopt PRI Transparency and GRESB reporting and take an active approach in assessing physical climate risks to the portfolio assets, retrofitting costs and biodiversity challenges of the sector.

Real Asset management (infrastructure) managers**:** during the appointment process, we assess the approach of managers to incorporating ESG issues into their investment analysis and decision-making processes. We monitor the managers' implementation of the approach on a quarterly basis alongside all other investment matters, and review PRI transparency and GRESB reports of external managers, where available. The Fund expects its infrastructure managers to ensure all investment assets are future proofed from a climate change perspective with assessment of physical climate risk and decarbonisation of existing infrastructure assets.

Principle 2 - We will be active owners and incorporate ESG issues into our ownership policies and practices.

The Fund implements this principle through a range of activities –
Voting**:** The Fund's asset managers vote on resolutions at the Annual General Meetings (AGM) and Extraordinary General Meetings (EGM) of the Fund's equity holdings.

Shareholder resolutions**:** The Fund's asset managers also file or co-file shareholder resolutions on important issues at the Fund's investee companies in the interests of agitating for better governance.

Stock lending**:** ESPF does not participate in direct stock lending but may invest in investment funds which use stock-lending.

Corporate engagement**:** The Fund's managers engage with our investee companies on material ESG issues. The Fund are members of the LAPFF, IIGCC and PRI.

Government engagement**:** we engage with government through responding to government consultations and aim to influence policy makers through the Funds collaborative engagement groups initiatives.

Manager monitoring**:** we actively and regularly monitor the approach of our investment managers to ESG issues, and what portfolio activity has occurred as a result of managing ESG risks. In addition, the Fund considers its ESG impact assessment report annually and propose initiatives or actions for managers to consider as enhancements to their ESG practices.

Principle 3 - We will seek appropriate disclosure on ESG issues by the entities in which we invest.

As an indirect investor, investing into pooled investment vehicles through the ACCESS pool or directly with Investment managers it will approach this principle though its relationship with the Investment managers. The approach we take on disclosure at the company and manager level is -

Investee companies**:** through our investment managers we encourage the companies, whose shares the Fund owns, to report on relevant ESG metrics. These include the reporting of greenhouse gas emissions in line with the recommendations of TCFD. Company weighting in the Resource Efficient passive index will be skewed to those companies who do report ESG information.

Investment Managers**:** we encourage the Fund's investment managers to provide transparency by reporting relevant and accessible ESG-related information. This includes their commitments to and alignment with the UK Stewardship Code, TCFD, PRI and GRESB, where appropriate.

Principle 4 - We will promote acceptance and implementation of the Principles within the investment industry.

The Fund aims to be transparent about being a signatory to the PRI and about how we implement the Principles. The Pension Committee monitors its carbon footprint and energy transition at portfolio level and asset manager level. ESPF also review asset manager voting and engagement on a quarterly basis. The quarterly reports on voting and engagement activity are published on the Fund's website to demonstrate implementation of the Principles and to promote them.

Investment Managers**:** we endorse the PRI Principles to our managers and encourage them to become full signatories to PRI. Where this is not possible, we encourage our managers to use the six principles to guide their RI approach.

Partnership with PRI**:** we partner with PRI to promote the universal use of the principles, and work with PRI during any consultations to improve the effectiveness of the principles and further improve RI adherence across the industry.

Principle 5 - We will work together to enhance our effectiveness in implementing the Principles.

The Fund are committed to working collaboratively to increase the reach, efficiency and effectiveness of RI. We work with a host of like-minded partner funds, service providers and related organisations striving to attain best practice in the industry and to improve industry standards. A list of the collaborative groups we work with are included later in this document.

Principle 6 - We will each report on our activities and progress towards implementing the Principles.

The Fund have committed to reporting through a number of routes including -
***PRI Assessment*:** we will provide extensive details of our investment activities annually to the PRI for its independent assessment of our approach to RI.

***PRI Reports*:** we will publish our PRI transparency report annually on our website and publish our PRI assessment results on our website and in our annual report.

TCFD: we are committed to report annually in accordance with Taskforce for Climate-related Financial Disclosures (TCFD) recommendations.

***Stewardship Code*:** we are a signatory to the FRC Stewardship Code, and we are committed to reporting and retaining this status annually.

Engagement

The Fund scrutinises governance at every stage of the investment process and aims to influence governance through voting and engagement. This is an integral part of what makes a business sustainable, successful and a suitable investment target.

The Fund carry out engagement through its investment managers where Fund officers provide challenge to manager decisions, engagement actions and policy. The Investment Manager carries out the direct engagement investee companies. Where material risks remain following engagement activity, managers 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. In addition, the Fund engages through its collaborative partnerships including LAPFF who carry out direct engagement with the underlying companies across the LGPS investment portfolios.

The Fund entrusts its assets to investment managers whose duty it is to represent the Fund's interest. Representing the Fund's interests, as owners, through engagement increases knowledge and understanding of the company and leads to more accurate assessment of the firm's risks and opportunities and therefore the valuation assumption. Engagement through voting can effect corporate change and improve businesses to derive a broader social benefit.

The Fund are committed to review the weakest mandates based on the carbon data, metrics and analysis and determine what action will be taken in engagement with investment managers.

The engagement priorities for the Fund are -

Environmental
1. Climate change –emission reporting and reduction, sector transition pathways and investment in renewable energy and technical solutions
2. Enhancing biodiversity, regeneration and protection of forests and conservation of oceans and marine resources
3. Sustainable consumption and production. Preventing pollution and waste including plastic waste and promoting circular economy
4. Agriculture, food security and Food Waste

Social
1. Human rights including forced labour, companies operating in conflict zones and destruction to communities
2. Promoting gender equality and social inclusion
3. Inclusive and equitable education
4. Water security and access to sanitation
5. Eradicate poverty and hunger

Governance
1. Executive pay or dividend linked to sustainable and growth performance
2. Business / Company leadership with experts on boards
3. Company board focus on providing products, goods or a service through effective and sustainable corporate governance
4. Diversity of boards, workforce and policies
5. Anti-bribery and corruption

View on Voting rights

Investment Managers are expected to report on performance, engagement and voting activity quarterly to the Fund and its advisers. The Fund then consider
- How managers have integrated ESG in their investment activities
- How managers have exercised the Funds voting rights and to explain where there is deviation from voting guidelines or voting alerts from the LAPFF.
- What engagement activities have been completed in the quarter.

The Fund carry out meetings with investment managers in addition to the ongoing review and engagement that the investment consultant carries out for the Fund to ensure the Investment Managers are complying with the requirements on them set by the Fund and ability of the manager to invest in the best interest of the Fund beneficiaries. During direct manager meetings with the Fund discussions take place on voting and engagement, rational of, specific holdings to understand physical and transition risk as well as transparency of the Fund's exposure to carbon emissions and other ESG data sets.

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. Under both approaches the Fund requires for the investment manager to explain the rationale for its decisions.

As a member of LAPFF the Fund share voting alerts from the research team of LAPFF to ask Investment Manager to consider the view and recommendations in their voting on behalf of the Fund. Where IM's vote differently to the LAPFF recommendations the Fund ask for explanations and basis of the voting decision.

Collaboration

We work individually, and with our collaborative partners, to drive for openness and transparency on climate related issues affecting our investments.

There are limits to the influence that we achieve as a single investor and the resources we can reasonably commit. We recognise that progress can be best achieved on ESG issues through collaboration with other investors and organisations. We are an active member and supporter of several Global and Industry ESG Initiatives including

PRI Principles for Responsible Investment https://www.unpri.org/

Principles for Responsible Investment (PRI). We have been a signatory to the PRI since 2020 and are working on our first submission on how we implement the six Principles of Responsible Investment into our everyday work to be good stewards of capital, which is due to be submitted in 2023. PRI is an important partner, providing excellent guidance on responsible investment and we work closely with them on the future direction of the organisation.

IIGCC Institutional Investors Group on Climate Change https://www.iigcc.org

Institutional Investors Group on Climate Change (IIGCC) has the collective weight of over €51 trillion from over 350 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.

LAPFF | The leading voice for local authority pension funds across the UK (lapfforum.org)

As a member of LAPFF the Fund works together with the majority of LGPS funds and pools across the UK, through the forum, to promote high corporate governance standards to protect the long-term value of local authority pensions. With member fund assets exceeding £350bn, the forum engages with companies and regulators to deliver reforms advancing corporate responsibility and responsible investment. In October 2021 the Funds Head of Pensions was appointed to the executive committee as an LAPFF Officer Member.

Home | 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 Financial reporting council sets UK Accounting, Audit and Actuarial standards. The Fund is a signatory to the FRC's Stewardship code, pledging to manage capital in a way that creates long term value and leads to sustainable benefits for the economy, the environment and society.

Home | Task Force on Climate-Related Financial Disclosures

The TCFD was set up to develop recommendations on the types of information that companies should disclose to support its stakeholders in appropriately assessing and pricing risks related to climate change. The fund has committed to report under the TCFD initiative.

We are a member of the UK Sustainable Investment and Finance Association (UKSIF) - the leading membership organisation for sustainable and responsible finance in the UK

Climate Change Commitments and Reporting

ESPF recognises the importance of the Paris Agreement of the United Nations Framework Convention on Climate Change. The central aim of the agreement is to strengthen the response to the global threat of climate change by:

- keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius;
- strengthening the ability of countries to deal with the impacts of climate change through appropriate financial flows, a new technology framework and an enhanced capacity building framework;
- enhancing transparency of action and support through a more robust transparency framework.

ESPF understands that the Paris Agreement is creating change that represents both significant risks to, and opportunities for, the Fund.

As such we make the following commitments to climate monitoring and action:

- To continue to measure and report on carbon-equivalent emissions throughout the listed portfolios and illiquid asset classes where possible.
- To continue our work with IIGCC and Climate Action 100+ indirectly via our IIGCC membership and Investment Managers.
- 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
- To assess the carbon intensity of all assets (using estimates if necessary) supported by external managers and GPs
- Using data from the Transition Pathway Initiative (TPI) to help assess company transition plans to engage with our Investment Managers and alongside our collaborative partners to encourage companies to adopt business models and strategies that are in line with the aims of the Paris agreements.
- Climate reporting in line with Taskforce for Climate Related Financial Disclosures (TCFD) recommendations on mandatory reporting and governance requirements related to climate risk as they are expected to apply to the LGPS.
- The Fund is a signatory to the FRC Stewardship Code and commits to annually publishing its Stewardship Report to maintain its signatory status. The Stewardship Report monitors the stewardship activities and outcomes of the Fund's management of its investment portfolio and active ownership of the Fund assets. This includes reporting on RI issues and specific climate-related risks and opportunities.

The Pension Committee:

- affirms the Fund's commitment to integrate ESG factors, such as carbon efficiency trends into its decision-making;
- delegates scrutiny and engagement with investment managers to Fund officers, with advice from the Investment Working Group, to ensure that they take ESG issues, including climate change and carbon risk, into account;
- affirms the Fund's policy of not divesting solely on the grounds of non-financial factors;

- notes that the Fund will monitor research on the link between climate risk and financial performance to inform future investment strategy, such as stock selection criteria for quantitative strategies;
- agrees that the Fund will use its shareholdings in companies that perform poorly on carbon efficiency measures to influence engagement activity.

Data Metrics and Targets

The Fund subscribe to data services and analytical tools, including company and industry specific data, to help understand and manage the climate risk within the Fund. The Fund commit to an assessment of all existing mandates against quantitative risk metrics based on carbon footprinting reports annually.

The Fund have committed to select at least one absolute Green House Gas (GHG) emission metric and as far as able, report Scope 1, 2 and 3 GHG emissions, one emissions intensity metric, if able, this will be the carbon footprint, a Data Quality metric, reporting the proportion the value of its assets for which its total reported emissions were Verified, Reported, Estimated or Unavailable and one non-emissions metric, if able, this will Paris Alignment Metric, reporting the percentage of the value of their assets for which there is a public net zero commitment by 2050 or sooner against which to assess Fund assets on climate related risks and opportunities. At least annually, we will set one target to manage climate related risk with respect to the chosen metrics and measure performance against this target.

We note that carbon-equivalent foot printing produces simple metrics that can be misinterpreted. It encourages selective divestment of the shares of high emission companies as some investors 'greenwash' their portfolios. Rather than divesting, we encourage our managers to incorporate an analysis of carbon output into their risk assessment of individual companies and their stocks. In addition, we actively engage with companies to align their business strategies with the targets of the Paris Agreement. Where analysis of carbon risk (or any other risk) points to poor financial outcomes, divestment is, of course, an option.

Energy Transition

The Fund recognises that an Energy Transition is under way. It seeks to balance that the world's primary energy demand will grow. Where viable opportunities arise, the Fund will seek to increase its exposure to renewable infrastructure assets. Where the Fund's investment managers hold exposures to fossil fuel assets, it expects its managers through escalating engagement to elicit transition plans from those companies such that their engineering expertise, cashflows, and capital convening powers are increasingly deployed in support of the energy transition.

The Fund is aware that there are a range of possible transition scenarios, evolving physical climate related risks and potential opportunities. There are also many uncertainties. This makes portfolio construction around such scenarios very challenging. Instead, ESPF seeks to broadly align its investment approach with the objectives of IIGCC and Climate Action 100+ initiatives.

Training and Resources

The work on Responsible Investment and climate change is led at Pension Committee level as decision makers in setting ambitious aims and targets. Addressing the financial risks from climate change is a constant in our approach and in all Pension Committee meetings and is included in the Funds risk register that is considered at each committee meeting. Responsible Investment implementation and reporting responsibilities sit within the Investments Team with full oversight by the Head of Pensions.

Pension Committee and Pension Board are committed to undertake a comprehensive CPD programme on RI issues and climate change-related risks and opportunities to ensure decision makers and those implementing decisions are knowledgeable in ESG matters including climate change. A training plan is in place for the Fund and reported on annually. Once a year a specific climate change training session will be provided; Committee Members and Officers will be provided with access to a range of training, webinars and conferences throughout the year, as set out in monthly training communications from the training coordinator.

The Pension Committee consistently challenge advisers and officers on issues of climate change to ensure that due process and attention is given to this issue by the Fund. Officers ensure that ESG methodology and implementation is challenges at all Investment manager meetings.

Budget is allocated for RI consultancy and data services annually. Where possible these will be procured through the LGPS Stewardship framework.

Conflicts of Interest

The Fund has a Conflicts of Interest Policy that sets out how we manage conflicts of interest in our day-to-day business. The Policy is applicable to Committee Members, Board Members, Fund Officers and suppliers and advisers to the Fund, setting out the necessary principles to manage and mitigate key risks and safeguard the Fund. A copy of the Conflicts of Interest policy is available on the Fund website. All Fund officers undertake regular training, conflicts of interest forms a core part of the annual corporate training requirements. The Fund recognises the importance of managing potential conflicts of interest. Declaration of conflict of interests is a standing agenda item at the start of all Pension Committee meetings. A public register of Pension Committee members' declaration of interests is also maintained and audited annually. We also record any outside business interests that officers may have, and where these may cause of conflict with business decision making these are monitored closely.

With respect to Stewardship, it is possible that actual or perceived conflicts of interest may arise through the normal course of business in relation to the execution of our Stewardship activity. The more we engage with managers and investee companies, vote at AGMs, vote on shareholder resolutions and engage or communicate with policy makers and governments in jurisdictions within which we invest, the greater the potential for conflicts of interest or the perception of them to arise. These conflicts relate to potential tensions between our fiduciary duties as asset owners on behalf of our members, our role as a public sector pensions service provider, the responsibility of East Sussex County Council as Administering authority and individual political or personal views of the Pension Committee members or officer team.

As laid out in the obligations of the Pension Committee section above, the Fund‘s primary responsibility is to act in the interests of its beneficiaries, who are the members of the scheme on whose behalf we invest their pension contributions. As a Stewardship Code signatory, the Fund are aligned and report against the 12 stewardship principles with the aim to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders.

The day-to-day delivery of the voting and engagement activity is delegated to the Investment Managers. Where the investment is made through the ACCESS pool the Investment Managers will follow the ACCESS voting guidelines.

From time to time the Fund responds to consultations from the UK government and UK regulators in relation to corporate governance and stewardship activity. This is part of the Fund’s active stewardship priorities in supporting the efficient functioning of markets and promoting higher standards of corporate governance, reporting and transparency. Engagements and representations will be in line with Fund policies and major consultation responses with be approved at the Committee level.

The Fund will only partake in open letters to governments where these are researched and lead by the Fund’s collaborative partners where there is no political bias or conflict from the wider political pressure on the County Council as Administering Authority.

There will be instances where the interests of the Fund’s scheme employers, scheme members and wider County Council beliefs will diverge, in these instances when exercising our stewardship responsibilities only the interests the Fund’s beneficiaries will be taken into account in line with the Fund’s fiduciary duties and under advise from its consultants or advisers.