Essex Pension Fund

FRC UK Stewardship Code Submission March 2023

lgps Local Government Pension Scheme

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Essex Pension Fund Background and Context

About the Essex Pension Fund

The ***Essex Pension Fund*** is one of 86 funds in the Local Government Pension Scheme (LGPS) in England and Wales. It is a contributory, defined benefit, multi-employer scheme, open to new membership. It is a funded scheme, so all contributions paid into the Fund are invested with the primary objective of providing pension and lump sum benefits for members on their retirement and/ or benefits on death, before or after retirement, for their dependants, in accordance with the requirements set out in LGPS legislation.

The Fund is managed and administered by Essex County Council (ECC) on behalf of its stakeholders, scheme members and the employers participating in the Fund.

The Fund has a core set of values and behaviours. The values include ***excellence*** – a commitment to always deliver a first-class service – ***professional*** – the team are reliable, trustworthy and respectful to all stakeholders – ***friendly*** – always helpful, approachable and understanding.

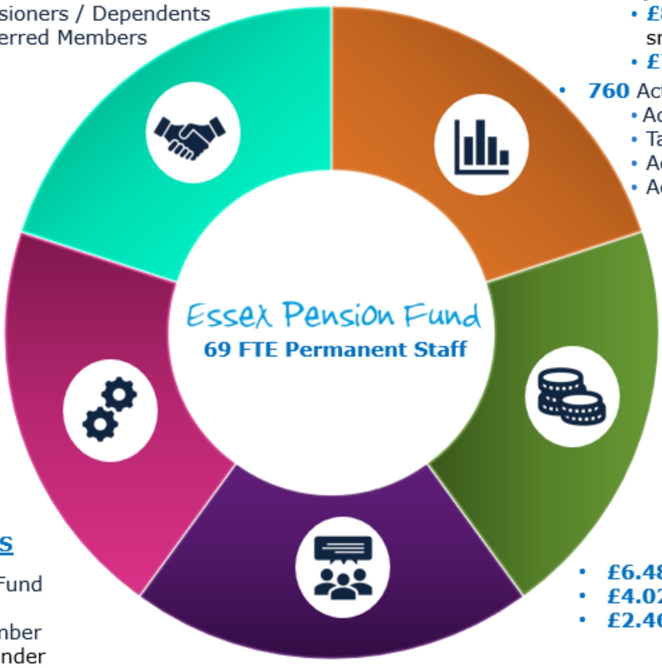
Essex Pension Fund Key Facts as at 31 March 2022

FUND MEMBERSHIP

- **177,218** Members (31 March 2022)
  - **57,104** Active Members
  - **48,248** Pensioners / Dependents
  - **71,866** Deferred Members

FUNDING/EMPLOYERS

- **102.3%** Actuarial Valuation Funding Level (31 March 2022)
  - **£8.10bn** Assets (based on a smoothed 6-month average)
  - **£7.92bn** Liabilities
- **760** Active Employers, including:
  - Administering Authority (ECC)
  - Tax Raising Bodies
  - Admission Bodies
  - Academies



INVESTMENTS

- **c£9.6bn** Value of Fund (31 March 2022)
- **ACCESS Pool** member
- **61.4%** of assets under pooled governance as at 31 March 2022

FINANCIAL

- **£6.48M** Total Budget
- **£4.02M** Operational Budget
- **£2.46M** Third Party Contractor Expenses**

GOVERNANCE

- **PSB** Essex Pension Fund Strategy Board
- **ISC** Investment Steering Committee
- **PAB** Essex Pension Fund Advisory Board

**This excludes Investment related management fees and expenses

Essex Pension Fund Background and Context

Fund Asset Allocation

The assets of the Fund are invested in a wide range of asset classes, the choices and split of which are driven by the Fund's investment beliefs and funding strategy. Details of the strategic targets are shown below: the largest target allocation 45% is to listed equities as a key driver of long-term returns. There are also allocations to other asset classes including bonds (public and private), property, infrastructure, private equity and timber. These provide diversification from equities to reduce the overall volatility of the portfolio. The asset allocation has been developed in line with the core investment beliefs the Investment Steering Committee (ISC) developed in 2008.

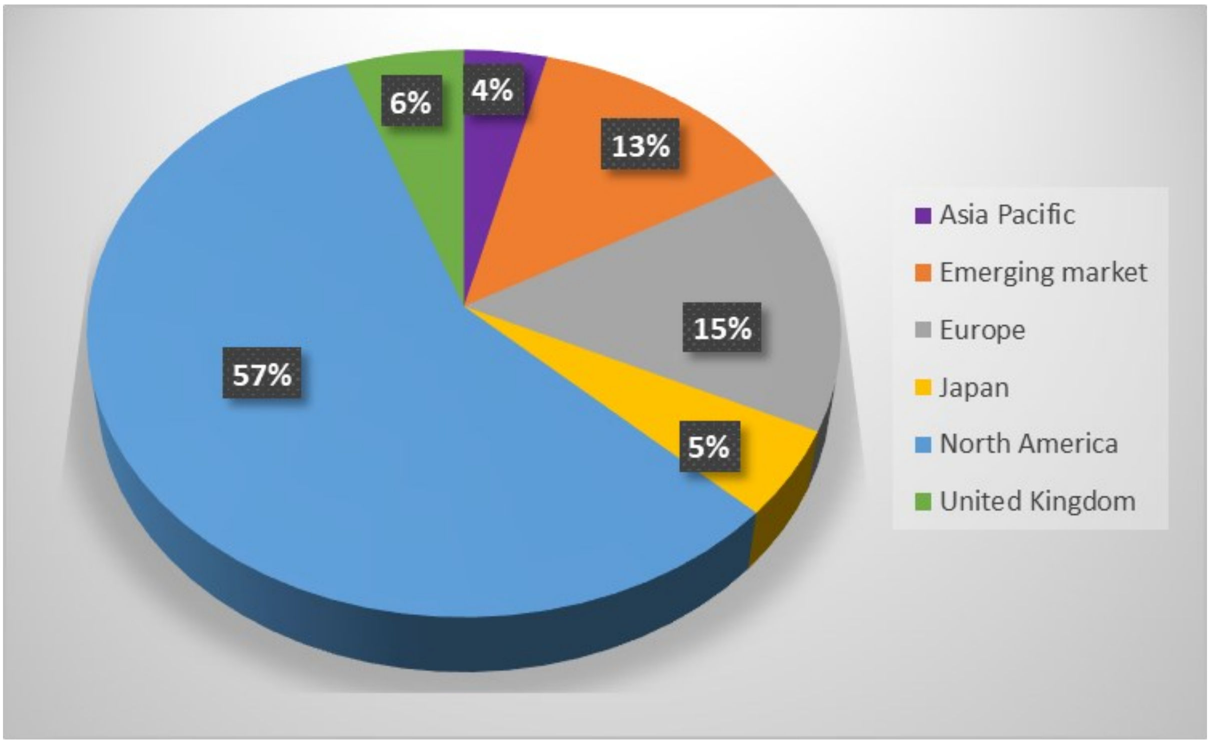
Target asset allocation driven by investment beliefs

Asset Class	Manager	Target Allocation %
Equities		**45.0**
Global Index Tracking	UBS	22.3
Active Global	LFS - Baillie Gifford LFS - Longview LFS - M&G	18.9
Active Emerging Markets	LFS - Columbia Threadneedle LFS - Robeco	3.8
Bonds		**18.0**
Index Linked Gilts	UBS	2.0
Cash +	LFS - Janus Henderson LFS - M&G	16.0
Corporate Bonds	-	
Alternatives		**37.0***
Private Equity	Hamilton Lane	4.0
UK Real Estate	Aviva Investors	10.0
Global Real Estate	Partners Group	4.0
Infrastructure	Partners Group JP Morgan IFM Investors	10.0
Timber	Stafford	4.0
Direct Lending	Alcentra Permira	5.0

Essex Pension Fund Background and Context

The chart below shows the geographical regions the Fund invested in with regard to its £5.1bn equity portfolio as at 31 March 2023:

Geographical Regions of the Fund's Equity Portfolio



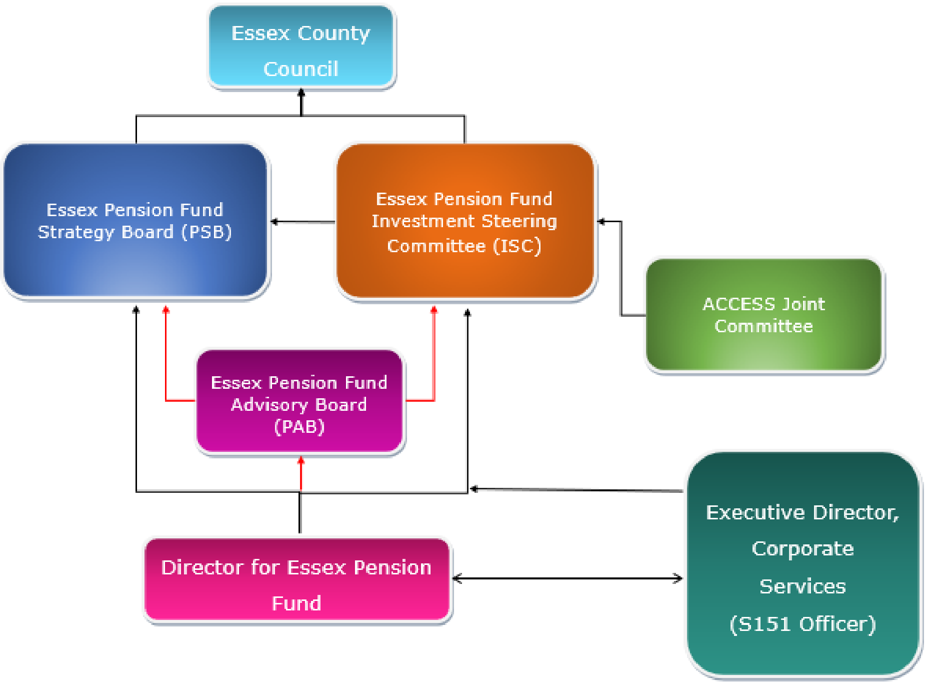
It can be noted that the majority of the Fund's equity portfolio is invested overseas with only a 6% investment in the United Kingdom.

Governance of the Fund

The Fund's governance structure was established under section 101 of the Local Government Act 1972. The relationship between the key decision-making bodies and day to day management of the Essex Pension Fund are shown below:

Essex Pension Fund Background and Context

Governance Structure



The Council's functions as the Administering Authority are delegated to the Essex Pension Fund Strategy Board (PSB) and the Investment Steering Committee (ISC) and its Officers, with oversight from the Essex Pension Fund Advisory Board (PAB).

The PAB was established under the requirements of the Public Services Pensions Act 2014. Its role is to secure compliance with the regulations and to ensure the efficient and effective governance and administration of the Fund.

The PSB was established in 2008 and exercises all the powers and duties of the Council in relation to its functions as Administering Authority except where they have been specifically delegated to another committee or Officers. Its functions include monitoring the administration of the Pension Scheme, exercising Pension Fund discretions and determining Fund policy on employer admission arrangements.

The ISC decides on the investment policy most suitable to meet the liabilities of the Fund and ensures the Fund operates within its Investment Strategy Statement (ISS). It oversees the appointment and ongoing scrutiny of external investment managers, to whom the day-to-day responsibility for implementing stewardship is delegated. This includes investment managers appointed through the ACCESS pool.

The Boards and Committee are supported by the Officers including the Executive Director for Corporate Services (who also holds the role of Section 151 Officer, the Officer responsibility for the overall financial affairs of the Council), the Director for the Essex Pension Fund, who has overall responsibility for the day-to-day management of the Fund, and four Heads of Fund, who act as subject matter experts in compliance, governance, administration, actuarial and funding and investments respectively.

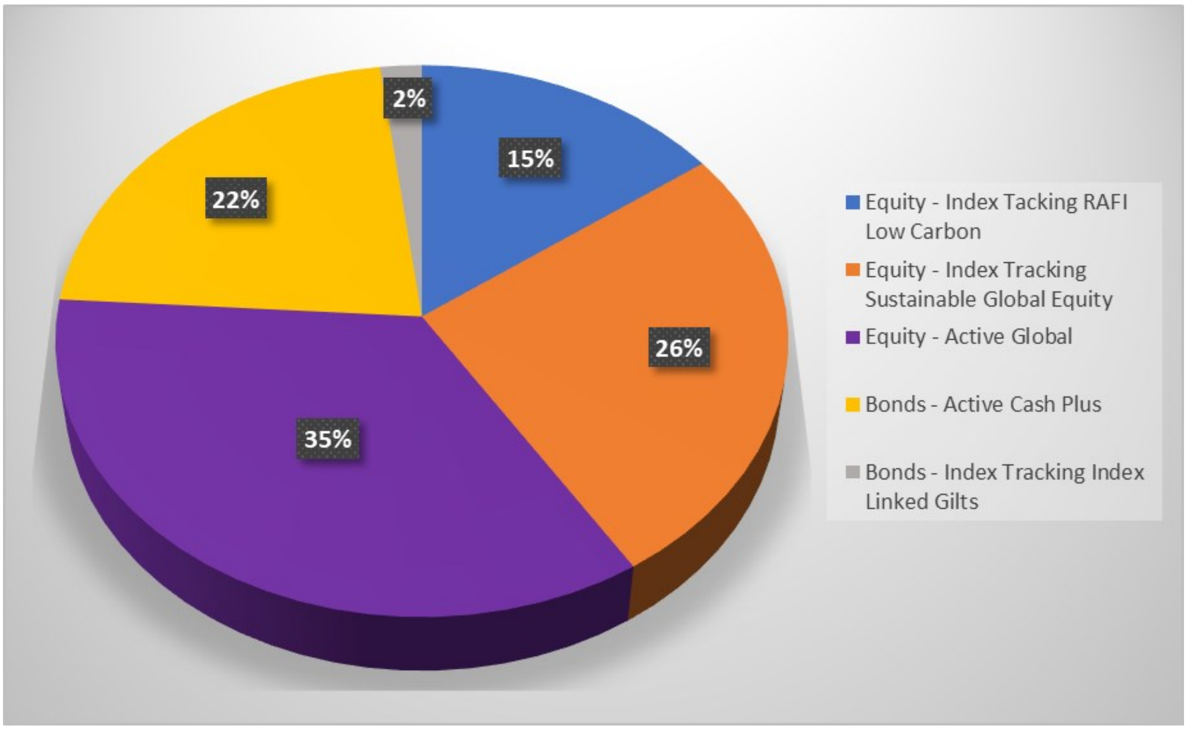
The Fund is advised by Hymans Robertson (Institutional Investment Consultants), Mark Stevens (Independent Investment Adviser), Karen McWilliam (Independent Governance and Administration Adviser) and Barnett Waddingham (Fund Actuary).

Pooling – ACCESS (A Collaboration of Central, Eastern and Southern Shires)

The Fund is one of eleven funds in the ACCESS Pool. The Pool was established in response to the UK Government's LGPS: Investment Reform Criteria and Guidance (2015). The Fund intends to invest its assets via the Pool when suitable sub-funds available. As at 31 March 2023, £6.2bn (c64%) of assets have been transferred to the Pool.

The £6.2bn assets held inside the Pool can be broken down as follows:

Breakdown of assets held within the ACCESS Pool as at 31 March 2023



Essex Pension Fund Background and Context

The ACCESS Joint Committee (AJC) has been appointed by the eleven funds under s102 of the Local Government Act 1972. Its functions include the specification, procurement and recommendation of pool Operators (for active asset management) and pool-aligned asset providers (for index tracking asset management) to the Administering Authorities. The AJC also reviews ongoing performance.

The Section 151 Officers of ACCESS partner funds provide advice to the AJC in response to its decisions to ensure appropriate resourcing and support is available to implement the decisions and to run the Pool.

The AJC is further supported by the Officer Working Group (OWG) and the ACCESS Support Unit (ASU). The OWG consists of officers with specialist LGPS investment skills, identified by each of the funds, whose role is to provide a central resource for advice, assistance, guidance and support for the AJC. The ASU provides the day-to-day support for running the Pool and has responsibility for programme management, contract management and supplier relationships, administration and technical support services. These roles are also supplemented with additional technical support from Officers within the ACCESS partner funds.

Investment Strategy

Responsibility for strategic oversight and scrutiny remains with the individual funds as does all decision making on their asset allocation and the timing of transfers of assets from each fund into the arrangements developed by the Pool.

For the Fund, this is summarised in the Investment Strategy Statement (ISS), which sets out the investment beliefs, responsible investment (RI) beliefs, the investment strategy resulting from those beliefs, the approach to managing risk and how the Fund will pool investments.

Hylands House, Chelmsford

Essex Pension Fund Background and Context

Roundup of Key Stewardship Activities

- Adoption of the Fund's **Investment Engagement Policy** and **Stakeholder Strategy**
- Implementation of the 2022/23 **RI Project Plan**
- Second round of dedicated monthly **RI/stewardship meetings** with the Fund's investment managers and bi-monthly **ACCESS investor meetings**
- Development of a specific **Engagement Log** with each investment manager
- **Specific training** on RI, Stewardship Code, Task Force on Climate related Financial Disclosures (TCFD), Transition Pathway Initiative and Impact Investing
- **Specific Environmental, Social and Governance (ESG) analytic reports** on the Fund's investment managers and portfolios
- Reaffirm of **climate change objectives** and establishment of the Fund's **baseline climate metrics** in line with TCFD
- Adoption of a **Strategic Implementation Framework, Strategic Implementation Tracker**
- Implementation and adoption of **RI Framework**
- Agreement to allocate **10% (£1bn)** of the Fund over the medium term to **impact investing solutions,** commencing with a **£100m** commitment to **Stafford Timberland's Carbon Offset Opportunities Fund**
- Development and implementation of the Fund's **ESG index tracking global equity mandate solution,** in partnership with UBS, the Fund's index tracking manager, which better aligns with the Fund's RI Policy. Transitioned **c£1.5bn** in September 2022 to **UBS Life Global Equities Sustainable Transition Fund**
- Transitioning the remaining index tracking equity **RAFI mandate c0.9bn** managed by UBS to a **low carbon** version of the index
- Termination of **two active equity** and **one active bond mandates** for strategies that are better aligned to the Fund's RI Policy
- Institutional Investment Consultant **Competition Market Authority (CMA) annual review** of progress against strategic objectives
- Implementation of the **PSB, ISC, PAB Training Plans**
- Implementation and testing of the Fund's **Business Continuity Strategy and Plan**
- Adoption of the Fund's **Cyber Policy**

Section 1: Purpose and Governance

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, environment, and society

Content

The Fund has clearly defined objectives for its five core business areas of governance, administration, communication, funding and investments. The ISC has been delegated the responsibility for all investment related decisions as outlined in its Terms of Reference.

Core investment beliefs

The ISC has adopted core investment beliefs based on the open nature of the Fund, the strength of covenant, the maturity and cashflow position of the Fund. The core beliefs cover four areas.

1. Long Term Approach

The LGPS is an open, defined benefit scheme with a very long, time horizon. The Fund has a very strong covenant and as a result takes a long-term view of investment strategy, accepting short term volatility in the pursuit of long-term gains. Over the long-term, equities are expected to outperform other liquid asset classes so are the foundation of the investment strategy; however, the Fund's long -term investment horizon offers the ability to capture the illiquidity premium on many asset classes such as infrastructure. The Fund views the long-term as at least 20 years.

2. Diversification

Diversification across a range of asset classes, geographies and investment managers is expected to reduce the overall volatility of the Fund and improve portfolio efficiency. This includes bonds, which the Fund does not believe match the liabilities of an open, long duration fund, but offer additional diversification.

3. Benchmarks

Benchmarks are a vital tool in the management and monitoring of the Fund. As far as possible they should represent the full opportunity set of an asset class, although market capitalisation benchmarks should be treated with caution as they tend to reflect past winners, in both performance and behaviours, rather than future winners.

4. Active vs index tracking management

Index-tracking management is appropriate for obtaining a low-cost allocation to efficient markets. Active management is appropriate where a market is relatively inefficient offering active managers to add value or where there is no obvious index-tracking alternative. Too many constraints limit an active manager's ability to add value, so the Fund prefers relatively unconstrained approaches coupled with diversification across a number of managers and a rigorous, long-term approach to manager selection, measurement and monitoring.

Section 1: Purpose and Governance

These beliefs are set out in the Investment Strategy Statement. They are fundamental to the Fund's investment strategy and all ISC investment decisions.

Responsible investment (RI) beliefs

The ISC recognises that ESG factors (including those related to climate risk) can influence long term investment performance and the ability to achieve long term sustainable returns. To this end, the Committee identified their RI beliefs under four headings.

1. Investment strategy

The Fund believes that having an explicit RI policy could lead to better financial outcomes for the Fund and for society as a whole, as businesses with more sustainable practices should outperform. The Fund should avoid / limit exposure to securities with poor management of ESG risks as this has led to financially material losses in the past and is expected to do so in the future.

2. Engagement and voting

The Fund believes that engagement is more effective at influencing change than disinvestment and that collaborating with others can make this even more effective.

3. Managers/Implementation

The ISC expects index-tracking managers to engage actively with underlying investee companies, but also recognises that the choice of benchmark index is important as it defines the investment portfolio. The Fund has in 2022 implemented alternative indices that better reflect their ESG priorities.

The ISC expects active managers to both engage actively with underlying investee companies and, as far as possible, allow for the future impact of ESG risks in their asset selection and portfolio construction. This should be embedded in their investment process and decision making.

4. Monitoring and governance

The ISC believes in the need to actively engage and challenge all managers on integrating ESG issues in their investment process and engagement approach. The ISC monitors all managers on this basis and expects ESG factors to be incorporated into manager reporting.

The ISC has developed its RI Policy based on these RI beliefs, a link to which can be found at: RI Policy. As part of this policy, the Committee has identified the following key priorities which were revisited in 2022 which it expects the Fund's investment managers to engage with companies invested in on the Fund's behalf:

Section 1: Purpose and Governance

RI Priorities

The Committee believes that these should not be viewed in isolation, but holistically, with no one priority being more important that the other.

The ISC applies this policy and the beliefs alongside the core beliefs in all its decision making. As an example, the development of the policy has led to the development of an extensive manager engagement programme across all asset classes, clear influence in recent manager appointments and a review of the use of market cap equity benchmarks for index tracking management.

As well as broader collaborations through the Local Authority Pension Fund Forum (LAPFF), the Fund is committed to working collaboratively with ACCESS to maximise the benefits of pooling and minimise risk. This includes collaboration on and engagement with ACCESS on RI policy and manager engagements.


Colchester Castle, Colchester

Section 1: Purpose and Governance

Activity

The ISC and Officers actively apply the Fund's policies and objectives in decision making and in the day to day running of the Fund. The RI Policy is reviewed annually and updated as required. The ISC holds four formal meetings per year. Two full days and two half days.

The two full day meetings dedicate half a day each to reviewing strategic matters, including the objectives, beliefs and policies and the strategy and operation of the Fund relative to those objectives, beliefs and policies. In doing so, the ISC considers whether the investment strategy remains fit for purpose and explore any new opportunities.

At each meeting, the ISC also review and monitor the Fund's investment managers, including reviewing each manager's investment and responsible investment capability as assessed by the Fund's Institutional Investment Consultant as well as the outcomes of the engagements with managers over the previous quarter.

The ISC has a structured training programme which focuses on RI and stewardship, particularly around the implementation of the RI beliefs and policy and more recently the allocation of capital.

Officers have six strategic meetings a year with the Fund's investment advisers (Hymans Robertson and Mark Stevens), and have separate monthly RI engagement meetings with the Fund's investment managers.

The AJC holds four meetings per year at which it reviews the risk register and progress against the business plan. A report is received on sub fund launch implementation along with quarterly monitoring updates on the performance of each sub fund which include details of quarterly voting activity for each sub fund. A quarterly update on RI phase two business plan activity is also noted. In addition, a quarterly report is received from Link Fund Solutions (Link), the Pool Operator and the ASU Contract Manager.

Outcome

The Fund established its core investment beliefs back in 2008. These are central to the decision-making of the Fund, so investment strategy has been developed in line with these beliefs and is regularly reviewed to ensure it will achieve its objectives. The ISC has developed a three pillar Decision Framework to provide context and a clear structure for investment decisions as detailed below:

Pillar 1	Pillar 2	Pillar 3
Implementing and maintaining the existing strategic targets	Evolving existing allocations	Exploring changes to existing or new mandates

Section 1: Purpose and Governance

Implementation of decisions is monitored via a strategy implementation tracker, tracking the specific actions required to implement the ISC's strategic decisions. It is the basis for regular updates on progress to the ISC. This consistent and structured approach to investment decision making is a key contributor to the improvement in the Fund's funding level from *97%* in 2019 to *102%* in 2022, helping to meet one of its primary funding objectives of keeping employer contributions as stable as possible.

A full review of the Fund's objectives and investment beliefs was done as part of the review of the ISS in 2019/2020. This included extensive work on RI, resulting in the development of the Fund's RI Beliefs and Policy. It was incorporated in the revised ISS which was widely consulted on with many of its stakeholders.

As part of the annual review of the RI Policy, the RI Priorities of 'Gender Diversity' and 'Weapons' were refined to 'Diversity' and 'Controversial Weapons' respectively. In addition the Committee agreed that a subset of RI Priorities be the Fund's focus for 2023 with the next round of RI Engagements meetings.

Having an RI Policy has enabled the Fund to articulate its position on RI more clearly and thoroughly when responding to its scheme members and other stakeholders, particularly in areas such as engagement versus divestment.

One outcome of the Fund's commitment as a responsible investor has been the development of a disciplined programme of engagement with each of the Fund's investment managers, including ESG focussed agendas, pre-meeting questionnaires, assessment of the firm as a whole including an explicit RI rating, portfolio analytics to assess the ESG characteristics of the portfolios and track these over time (incorporating MSCI analytics where possible) and documenting areas for follow up. This includes assessment of the managers' engagements with underlying companies, particularly in relation to the ISC's key ESG priorities. The outcome of these engagements is reported back to the ISC. Actions are clearly documented, and progress will be followed up on in the subsequent round of meetings.

The RI policy was key driver when reviewing each of the Fund's mandates and how they align with the Policy. During 2022, working in collaboration with the Fund's index tracking manager and institutional investment consultant, Hymans Robertson, the Fund implemented a new ESG focussed approach to its index tracking equities. Launched in September 2022, with a £1.5bn investment, the new fund is designed to invest in companies believed to be best placed for the transition to a low carbon economy. The Fund has also switched c£0.09bn investment in RAFI to a lower carbon transition version of the index.

Section 1: Purpose and Governance

The Fund has considered the overall ESG impact of its investments and whether there should be more focus on positive impact across the portfolio in lines with RI beliefs. To this end the ISC has agreed over the medium term to allocate 10% (c1bn) of the Fund to impact investing solutions. The initial asset class reviewed was timber, with a decision to invest £100m commitment to Stafford's Timberland Carbon Offset Opportunities Fund. This will not only expand the Fund's global timberland portfolio, but is expected to generate 3 million verified carbon offset credits each equivalent to 1 tonne of Co2, thus contributing a significant negative carbon intensity metric for the Fund.

A key part of the Fund's engagement through its investment managers is the need for transparency in reporting. Although the Fund has no formal reporting requirement, it supports the aims of the Task Force on Climate related Financial Disclosures (TCFD) and has agreed climate metrics such as greenhouse gas emissions and carbon footprint that it will monitor and set targets against.

During the year, the Fund has assessed its managers and their portfolios against the Fund's agreed climate metrics and established its baseline measurement for 2021. In addition, following a review of the Fund's first year experience of reporting the baseline climate related metrics for the equity portfolio and observations of the accessibility, quality and coverage of data for the remaining non-equity portfolio, some of the agreed metrics were deemed either not achievable at this present time or not specific enough in their current form. The Fund has amended the agreed metrics as a result.

The Fund is also committed to aligning the portfolio to the implications of the Paris Agreement of being net zero by 2050 and have agreed that the equity holdings, as the largest contributor to the Fund's overall emissions, be the Fund's immediate focus for achieving its aspiration of reducing the Fund's footprint by 50% by 2030. The Fund continues to engage its managers on their transparency and net zero commitments as part of the engagement programme.

The Fund has developed a Stewardship log which is designed to monitor outcomes of the Fund's engagements with its investment managers clearly identifying when actions are progressing satisfactory, complete or require follow up. The Log focuses on the key headings of:

Engagement Topic	Priority Theme	UN Sustainable Development Goals	Response	Outcome	Follow up

Further action

As part of its 2023/24 Business Plan, the draft ISS will be subject to a full stakeholder consultation over the summer. The ISC intends to reassess its managers and their portfolios against their climate metrics and the net zero target. A subsequent round of manager engagement meetings will be held in 2023/24 to follow up on previous actions and to assess progress to date. The ISC have also agreed that in the next round of engagement meetings, engagement will focus on four of the ten identified RI priorities being: resource scarcity; employee relations; company board structure and climate change. In addition, the Fund is committed to developing its first RI Report as part of its communication to its many different stakeholders.

Principle 2 – Signatories' governance, resources, and incentives support stewardship

Activity

As detailed in the background, Fund governance sits with the PSB, ISC and its Officers as set out in statute. At its quarterly meetings, the ISC receive reporting to enable its oversight of all aspects of the investments of the Fund, including stewardship and RI, and the ACCESS pool provider.

Training

To ensure that the Members of the PSB and ISC have the required knowledge and skills to fulfil their role, a two-year rolling training plan has been developed. This plan incorporates the requirements identified in CIPFA's Knowledge and Skills Framework and includes specific training on RI.

The Fund utilises Hymans Robertson's LGPS Online Learning Academy (LOLA), which has been developed to meet the learning requirements of CIPFA's Knowledge and Skills Framework. The platform has been made available to all Board and Committee members along with the Fund's management team.

Two additional full day meetings are dedicated to training as part of the annual training programme. Over the last 12 months, the ISC have received training from its advisers on the requirements of TCFD, net zero commitments and the Transition Pathway Initiative, impact investing and how this could be incorporated into the Fund's investment strategy. The range of RI topics discussed, and time spent in this area, reflects the ISC's commitment to RI.

Fund structure

The Fund structures its investments through a series of mandates which are all externally managed. The Fund receives professional investment and specialist RI advice from its investment advisers and is supported by Officers, who are subject matter experts in their specialism. These experts support the ISC's stewardship activities through:

- Hymans Robertson produces engagement and RI ratings for all our managers, developed through extensive research into each firm's commitment and credentials. They provide materials and analytics in advance of the monthly engagement meetings with managers, including managers' RI capabilities, the portfolio's ESG risk exposures and a range of analytics relating to climate risk.

  Post meeting notes and follow up material are provided by Hymans Robertson for the use of Officers and Committee Members.

- Officers and advisers report on the investment managers' RI capabilities, including engagement across their portfolios as part of the monthly engagement meetings with managers. This assists in the monitoring and scrutiny of investment managers' stewardship activities.

- Where appropriate, MSCI portfolio analytics are used to identify key ESG areas for engagement with investment managers.
- The Fund has successfully concluded its work with its index tracking equity manager UBS to develop an ESG focussed index approach as an alternative to a market capitalisation approach.
- The Fund has concluded its work with its ACCESS partner funds and its RI Adviser, Minerva to develop a set of collective RI guidelines which have now been approved by all partnering funds and are published on the ACCESS website. Phase two of this work stream will focus of the review of ACCESS's voting guidelines and RI reporting .
- As a member of the LAPFF, the Fund has access to a wide range of resources and skills to address particular engagement themes with invested companies.

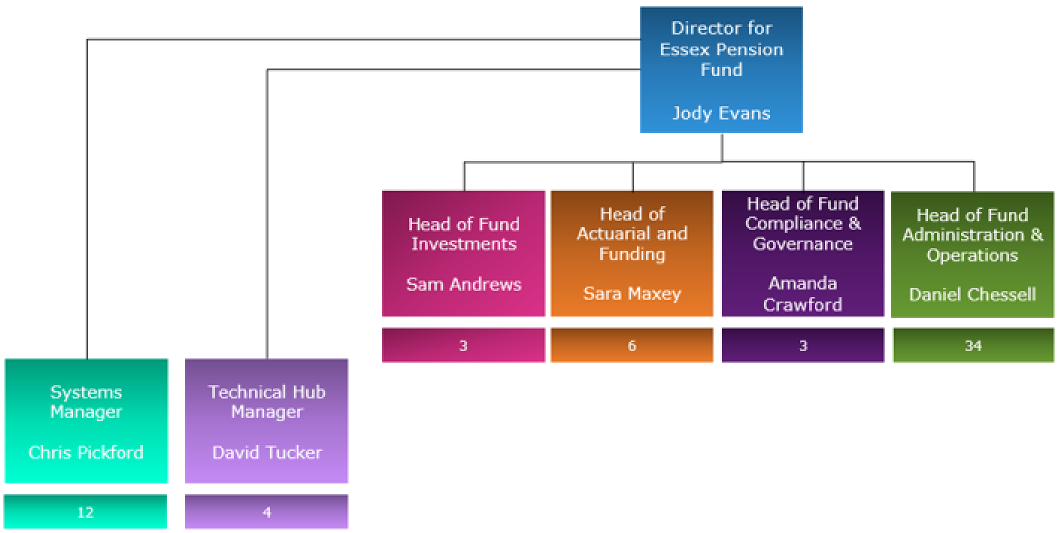
Officer structure review

In 2019, the Pension Fund function restructured to recognise the five core services carried out by the Fund Governance, Administration, Communication, Funding and Investments. Reward and all job profiles were reviewed, and a new performance management tool introduced to track performance against objectives specifically aligned to the Fund's Business Plan. These measures provided decision making bodies with clear oversight of all the Fund's activities and line managers with more clearly identifiable development gaps and development plans for staff.

Following the permanent appointment of the Director for the Essex Pension Fund, the Fund recently revisited its Officer structure. Phase 1 was a review of the top-level management structure of the Pension Fund which saw the Head of Pensions post replaced with four Heads of posts based around the specialist's areas of Investments; Actuarial and Funding; Compliance and Governance and Administration & Operations. The basis of this decision was taken to mitigate key person risk.

Pension Fund Management Structure

As noted in the structure below, 54% of the Pension Fund's management is occupied by female officers.



A review of the Fund's resources also identified the need for additional resource in the Investment Team to support the increasing stewardship activities of the Fund resulting in the Team of now four FTE Officers. In addition to this, the Fund are able to draw upon the professional external RI specialist and RI team provided by its external institutional consultant, Hymans Robertson. The Fund is keen to provide opportunities within its function having taken on two CIPFA graduate trainees and an apprentice. Officers undertake specific RI training during the year and are encouraged to attend suitable conferences and events to broaden their knowledge base.

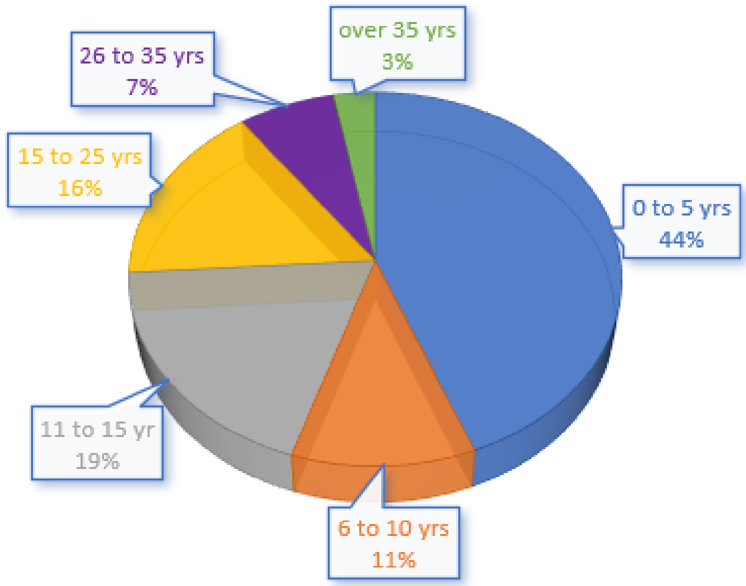
Diversity and Inclusion

The Council who administers the Pension Fund are committed to equality, diversity and inclusion (ED&I) as outlined in its Policy.

The Fund embraces ED&I and has developed its Stakeholder Engagement Strategy which documents the way in which the Fund manages engagement with its stakeholders in an open and transparent manner.

The Pension Fund is managed by suitably qualified, experienced officers whether that be in administration, funding, risk and compliance, investments, or accounting. As can be seen in the chart below, 55% of Fund Officers have over 10 years' of experience with 26% of those Officers having over 15 years' specialist pension fund experience.

Officers length of service with the Fund in years



In addition, 20% of Fund Officers are classified as having a minority ethnicity background.

Whilst the Council encourages diversity across the Councillor members, the Pension Fund has no influence over Council candidates and committee members; these are dependent on the local electorate.

Section 1: Purpose and Governance

Outcome

The PSB agree and communicate the Fund's Three-Year Business Plan and Annual Budget each year. These are used to set staff objectives and development plans for the year. Progress is reported quarterly to the PSB. All forty-six areas of activity around the five core areas outlined in the 2022/23 Business Plan were completed under budget.

Whilst improvements have been made this year with voting and engagement, for example all investment managers are expected to provide to the Fund detailed voting activity, explanations as to why they may have voted different to the ACCESS voting guidelines and provide examples of quarterly engagement and climate metric data. The Fund recognises that this area continues to be priority to improve quality of data. Within the Fund's 2023/24 Three-Year Business Plan officers will continue to work collaboratively with its ACCESS partnering Funds with phase two of its RI implementation.

All investment managers' quarterly investment reports on voting and engagement are received and assessed by the Officers and each manager reports to the ISC regularly on their activity in these areas.

The Fund is an active member of ACCESS and the Chairman of the ISC represents the Fund's interests at the AJC. The ISC receive all ACCESS reports that are considered at the AJC on a quarterly basis, including reporting on the investment managers' voting activity, highlighting where the investment managers have voted against company management and the ACCESS voting guidelines. It also provides details around stocklending.

The engagement reports the Fund has commissioned from Hymans Robertson have assisted in the engagement meetings held with each of the investment managers to monitor, challenge and scrutinise their stewardship activities on behalf of the Fund. This has included case studies from the managers demonstrating how they have engaged with the underlying companies and actions taken to escalate issues.

Bermuda Park, Nuneaton

An example we reported last year was in relation to the purchase of an industrial estate property in Fund's property mandate. To ensure that the manager's RI standards were achieved, a new green lease was introduced requiring the tenant to improve the building's Energy Performance Certificate rating from **E** to a minimum of **B** within **12 months**. The Fund has been tracking the progress of this action at its quarterly engagement meetings with its property manager and are pleased to report that this work has now been completed. This has given the ISC greater insight into the integration of RI considerations into the property manager's decision-making process and reassurance that engagement outcomes are being actively monitored and actioned.

Section 1: Purpose and Governance

The engagement with the property and infrastructure managers has identified a lack of standardised reporting across these asset classes. Although most of the Fund's investment managers subscribe to Global Real Estate Sustainability Benchmark (GRESB), there is no consistency in the extent of their use of GRESB metrics (e.g. one manager with coverage of only a third of the portfolio, another with full portfolio coverage). The Fund is keen to promote more transparency and consistency of coverage so meaningful assessments can be made in the future. The ISC is monitoring progress to that effect and in particular encouraging improvements in data quality. It was therefore pleasing that, following engagement with the property manager that was only reporting on a third of the portfolio, this year saw 100% now subject to the GRESB scoring.

The ISC has agreed going forward to actively monitor data quality as a key metric of each manager on a quarterly basis and will be a key priority of each of the Fund's engagements going forward.

The engagement meetings have been used to establish a baseline for each manager in assessing how aligned their mandate is to the Fund's RI Policy. The outcome of these meetings is reported to the ISC quarterly. An example of such reporting is attached Engagement Report.

Further action

The ISC's 2023/24 Business Plan deliverables will include the next cycle of RI engagement meetings to follow up on progress and actions raised in the prior meetings.


Audley End House, Saffron Waldon

Principle 3 – Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first

Context

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. Accordingly, it is good practice to document within a policy how any such conflicts or potential conflicts are to be managed. This was one of the recommendations to come out of the Good Governance review undertaken by Hymans Robertson on behalf of the Scheme Advisory Board.

Conflicts of interest in relation to responsible investment and stewardship could arise when the ability to represent the interests of the Fund as an asset owner is hindered by other interests. These can arise within the Fund or within external service providers. Third party advisers and investment managers may perform other roles from which conflicts may arise.

ISC members may have other roles within or outside the Administering Authority that may create conflicts unless they are identified and managed. For example, a Fund investment could have a direct benefit to wider Council policy influencing the potential stewardship of that investment. The Council therefore has a Conflict of Interest Policy. In addition, recognising its separate governance arrangements, the Fund has developed its own Conflict of Interest Policy which was recently reviewed in December 2022.

The Policy details how actual and potential conflict of interests are identified and managed by those involved in the management and governance of the Fund whether directly or in an advisory capacity. It sets out what represents a conflict or potential conflict which could relate to either a financial or other interest and which is likely to prejudice a person's exercise of its functions and or duties.

The Fund also has a policy not to invest directly in the County of Essex. This is covered explicitly in investment manager agreements and was developed to mitigate the risk of conflicting priorities between the Fund and Administering Authority.

Activity

The Administering Authority along with the Fund encourages a culture of openness and transparency ensuring that all persons involved in the Fund have a clear understanding of their role and the circumstances in which a conflict may arise.

Decision Making Members of the ISC and PSB

To manage and mitigate potential conflicts, all Members receive designated induction and refresher training. They are required to make declarations of interest prior to meetings, which are documented in the minutes of each PSB, ISC and PAB meeting and are available on the Council's website at Welcome to Essex County Council. The Fund keeps a separate Declaration Log which is updated after each meeting.

Once a year, Members of each of the Boards and Committee along with external advisers to the Fund are required to complete an Annual Declaration of Interest.

Elected Members of Essex County Council who are members of the PSB and ISC have a legal obligation to abide by the requirements of the Localism Act 2011 and Essex County Council's Code of Member Conduct relating to the treatment and disclosure of certain pecuniary interests, including any that may affect the stewardship of the Fund's investments. For those Members, disclosure under the Fund's policy may be in addition to that required under the Council's policy. Details of the declared interests of Elected Members are maintained and monitored on a Register of Member Interests. Councillors who are involved with the Fund but are not Essex County Council Elected Members are also required to follow the same Code of Conduct requirements as determined by their elective Council.

Elected Members do not receive any remuneration other than their Council allowance for being members of the PSB and ISC.

Officers of the Fund

Officers are required to complete an Annual Declaration of Interest and are required to update the Head of Compliance and Governance immediately if their circumstances have changed that would then require a further declaration to be made.

Essex Pension Fund Officers are employees of Essex County Council and are bound by the same pay and conditions of all Council employees. The Director for the Pension Fund and her Officers work solely for the Pension Fund and do not have any other Council responsibilities within their roles. Officers do not receive any performance related pay and receive no incentive for investing with any investment managers or within specific asset classes. All investment manager appointments are made either by the ACCESS Pool Operator or by the ISC following professional investment advice and a whole of market search. ISC members are required under the Fund's Conflict of Interest Policy to declare to the Fund's Head of Compliance and Governance whether they may have a potential conflict in regard to any third party supplier/investment manager decision making. If it is deemed there is a conflict, then the ISC member will not be party to the selection decision making process.

Third Party Suppliers/Investment Managers

The Fund expects the investment managers and advisers it employs to have effective policies addressing potential conflicts of interest, and for these to be publicly available on their respective websites. These are explored as part of any appointment of an investment manager or adviser and reviewed as part of the standard monitoring process. The Fund also reviews the internal controls reports of its third-party suppliers annually.

Outcome

The Fund's approach to managing conflicts of interest has operated as outlined in its policy. Over the period in question, there have not been any specific conflicts of interest identified in regard to stewardship matters for members of the ISC. However, there was one instance where a declaration was made from a member of the Institutional Investment Consultant team to the Fund that he had a close blood relative who worked for one of the Fund's investment managers. This potential conflict was recorded and assessed. It was noted that the family member worked for a different part of the investment manager firm and as no advice was being given to the Fund on this occasion it was determined that no conflict had arisen.

The Fund seeks assurance from investment managers that all clients are treated fairly where potential conflict of interests may arise; for example, where they may be managing portfolios invested in different parts of the capital structure of the same company. The Fund seeks comfort annually that those investment managers have policies in place, along with information barriers, that ensure the teams invested in the different parts of the capital structure act separately and in the best interests of the Fund. As part of the engagement programme, the Fund encourages its investment managers to have effective policies that address potential conflicts of interest in relation to stewardship, including engagement and voting. Through the Fund's engagement meetings this is an area that is challenged so the Fund can gain assurance that this is happening in practice.

In addition, Fund Officers work with their external advisers to sign up and implement a Conflict-of-Interest Management Plan. The purpose of the Plan is to:

- Ensure that Officers are aware that Advisers may from time to time provide services to other parties involved with or connected to the Fund;
- record that these services would only relate to benefits provided outside of the Fund (e.g., in other LGPS Funds or private sector schemes sponsored by the employers); and
- set out how Advisers will proceed should any of these parties request services in relation to the benefits provided by the Fund.


West Mersea Beach, Mersea

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

Activity

The Fund recognises that if market-wide and systemic risks are not well managed, this could lead to asset losses and limit the ability of the Fund to deliver its objectives set out in the Investment Strategy Statement (ISS). The PSB is responsible for the Fund's Risk Strategy which is reviewed, and kept up to date by a separate, dedicated Compliance team.

To identify and respond to market-wide and systemic risks, the Fund conducts a full annual risk assessment of Fund exposures and its own activities. Activities undertaken to identify and respond to market-wide and systemic risks include:

- Ongoing training of the PSB in relation to these issues.
- Full triennial asset liability modelling which assesses exposures to market fluctuations, interest rates, currency and credit quality amongst others.
- Annual updates to asset liability modelling to monitor the impact of current conditions. This included a review of the impact of the aftermath of the pandemic across all asset classes and manager mandates.
- Biannual review of strategic matters and quarterly monitoring of market returns and risks and investment managers (including the Pool). This included a review of the implications of rising/ persistent inflation and the ongoing Russian invasion of Ukraine.
- Regular engagement sessions with the managers on the stewardship and RI capabilities to ensure they are managing the Fund's exposure to ESG risks, including systemic risks such as climate change. This includes the monitoring of climate metrics to understand the Fund's exposure to these risks.
- The Fund works with its Pool provider to ensure that it also has a risk management strategy in place and that it is monitored and regularly assessed.
- The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which works on behalf of the Fund together with a number of other local authorities to identify and better manage these risks. Part of the work undertaken by LAPFF is at a market-wide level.
- The ISC is supported by their advisers, Hymans Robertson and Mark Stevens, in the identification and management of these risks.

The Risk Register includes the potential risk to the Fund's investments from market fluctuations, interest rates, currency, credit and failure by its investment managers or custodian as these are key to promoting a well-functioning financial system. The risks from ESG factors including the impact of climate change to the sustainability of long-term returns is also recognised. The Risk Register is regularly maintained and a full review is undertaken annually.

Section 1: Purpose and Governance

Outcome

The Fund recognises that one important tool to tackle climate risk challenge and promote well-functioning markets is by engaging with investment managers and monitoring their voting and engagement approach. The Fund strongly emphasises the importance of engagement on climate related risks, setting climate change as a key priority theme, through their dialogue with investment managers. In particular, the Fund encourages investment managers to support engagement with investee companies on climate-related issues and promote an increase in the disclosure on climate-related risks by companies to investors.

The Fund's main mitigations against market-wide and systemic risks is a well-diversified investment strategy, which is regularly reviewed, and a long-term investment horizon. The diversification of the Fund is the key outcome of the ISC's regular reviews of strategy in conjunction with its investment beliefs. Other outcomes from the Fund's activities to manage these risks include:

- Specific cyber risk training for all Officers and Members of the PSB, ISC and PAB.
- The adoption of an investment strategy that exposes the Fund to risk levels considered reasonable by the ISC. The risk level is managed by the agreed allocation to equities, bonds and alternatives determined in the regular reviews.
- The review of the implications of the pandemic led to more frequent engagement with the property manager Aviva on the implications of material uncertainty clauses on market operations, and a disciplined approach to rebalancing between managers whose performance had benefited significantly from lockdown. This activity has continued as part of the Fund's good practice.
- Consideration of the suitability of a number of managers flagged as amber or red as part of the traffic light system in the quarterly manager monitoring.
- The Fund made changes to investment strategy to manage climate and ESG risk by terminating both an active equity and bond manager where both the management of the portfolio and/or management of RI aspects within that portfolio were not deemed to align with the Fund expectations.
- The continuing recognition of the importance of RI and ESG risk impacting the long-term value for investors as outlined in the Fund's RI Policy. To this end, the Fund has been reviewing the potential impact of climate change on its investments under the TCFD Framework and has established baseline measurements against a set of climate risk metrics which will be monitored on a yearly basis. These include greenhouse gas (GHG) emissions, carbon intensity, carbon footprint metrics, the percentage of the Fund's assets for which a public Paris-aligned commitment has been made i.e. net zero by 2050 and low carbon transition score.
- Officers have held a full day workshop with all of the Fund's Advisers around identifying climate related risks associated with the Fund and identifying mitigations that can then be reflected in the Fund's revised Risk Register.

Section 1: Purpose and Governance

- Established the ISC's understanding of the ESG and climate risks across the portfolio and a baseline for future review of all managers and mandates as well as the net zero and RI objectives of the Fund. The ISC having reviewed the alignment of all its investment mandates to the Fund's RI Policy. It has developed with UBS, its index tracking manager, a new ESG fund. Launched in September 2022 with a £1.5bn investment, the new fund is designed to invest in companies believed to be best placed for the transition to a low carbon economy. This Fund not only aligns to the Fund's 2050 net zero aspiration, but also to the Fund's RI Priorities and the United Nations Sustainable Development Goals. The Fund has also implemented a benchmark change to its RAFI investment, transitioning £0.9bn to the RAFI Low Carbon Transition Fund. By switching from regional equity funds tracking traditional market indices to a combination of sustainable and lower carbon approaches, the Fund has achieved a 52% reduction in its weighted carbon emission intensity (WACI) (tCO_2/$m sales) metric compared to its 2021 baseline assessment.
- The ISC had training around impact investing and how these solutions could be incorporated within the alternative asset allocation. To this end, the ISC committed £100m to Stafford Timberland's Carbon Offset Opportunities Fund as part the Fund's top up commitment programme.
- The Fund uses an annual investment 'Scorecard' to assess its effectiveness in managing market-wide and systemic risks. When last assessed, 32 of 34 measures were scored as well managed, the other two were not applicable for the year.
- Given the importance of the exposures and management of these risks, the Fund's Risk Register is also captured within the wider Administering Authorities Risk Register and is monitored and reported to the Corporate Leadership Team of ECC.

Further action

The ISC's 2023/24 Business Plan deliverables will include assessing its investment managers and their portfolios against the agreed climate metrics baseline positions to establish year 1 outcomes. The next iteration of the investment scorecard will seek to better integrate market-wide risks.

Burnham on Crouch

Principle 5 – Signatories review their policies, assure their processes and assess the effectiveness of their activities

Activity

As part of ongoing monitoring of investment managers' compliance with the Fund's RI and stewardship policies, Hymans Robertson is asked to prepare a top-down analysis of the investment managers approach to responsible investment; a bottom up ESG and carbon report on the portfolio holdings using MSCI analytics; and an engagement note, which are reviewed by the ISC. This is to ensure that stewardship reporting produced by the investment managers is fair, balanced and understandable with the ability for the ISC, Officers and Advisers (O&A) to challenge managers where they fall short of expectations in the scheduled engagement meetings.

The Fund's Three-Year Business Plan identifies when each of its relevant policies will be reviewed:

- The Funding Strategy Statement is reviewed at each actuarial valuation or when there is a significant change in policy. The last review was in 2022/23 as part of the actuarial valuation process.
- The Investment Strategy Statement (ISS) is reviewed every three years or when there is a significant change in policy. The next review is due in 2023. The Fund's RI beliefs are included in the ISS (see Principle 1).
- The RI Policy will be reviewed in line with the ISS.
- The Conflict of Interest Policy is reviewed triennially and was recently reviewed in 2022/23. The next review is due in 2025/26.
- The Training Strategy and Training Plan is reviewed every two years with progress on the latter reported to the PSB quarterly and individually half yearly.
- The Risk Strategy is approved triennially. The Risk Register is a live document kept under constant review with a full review annually.
- The Cyber Policy is a new Policy for the Fund in 2022, and will be kept under periodic review by the PSB in line with the Risk Strategy.
- The Business Continuity Strategy and Plan was formalised in 2021. The Plan is a live document kept under constant review and tested periodically.
- The Investment Engagement Strategy and Stakeholder Engagement Strategy are new policies adopted in 2022 by the ISC and PSB respectively.

The Fund also regularly reviews its governance effectiveness including commissioning the Independent Governance and Administration Adviser (IGAA), Karen McWilliam to review the governance effectiveness of the Fund's Boards and Committee. The last such review was in 2022.

Section 1: Purpose and Governance

Outcome

Since developing the Fund’s RI Policy and priorities, and the Fund’s Investment Engagement Strategy, O&A continue to undertake an extensive RI engagement programme with each of its Investment Managers.

Now in the second round of meetings, the Fund has followed up on action points from the first round of meetings, has implemented a new engagement log which better captures O&A areas of engagement, outcomes and follow up actions.

The Fund has reviewed each mandate in turn against agreed climate metrics (in line with TCFD) to establish the Fund’s 2021 baseline position.

The Fund has developed its Investment Strategy Decision Framework which is designed to enable the ISC to make clear, structured, context based strategic decisions for the Fund. Based round the three pillars below it formulises the Fund’s decision-making process.

Pillar 1	Pillar 2	Pillar 3
Implementing and maintaining the existing strategic targets	Evolving existing allocations	Exploring changes to existing or new mandates

The ISC also received a training session and discussed the implications of their RI Beliefs for the overall portfolio in the context of moving towards more sustainable investment portfolios and those with positive social and/or environmental impact.

In order to determine how the current portfolio may evolve in regard to the above to capture the Fund’s RI Beliefs, the Fund established and adopted a RI Framework for integrating the Fund’s RI Beliefs into the overall portfolio construction as detailed below:

Step 1	Step 2	Step 3	Step 4
Establish beliefs	Set objectives	Assess your options	Implementation

Section 1: Purpose and Governance

On the latter, the Committee explored all options available with the help of their index tracking equity manager UBS and their advisers. After taking into consideration its stated RI priorities, cost, implementation time and attractiveness of the solution for ACCESS partners and other investors, the ISC agreed to implement a hybrid of the UBS climate aware approach and other RI scoring methodologies.

The details of the RI beliefs and policy are covered in Principle 1.

The Governance Effectiveness Review in 2022 found that the *"governance of the Fund was excellent"* and that the *"Administering Authority demonstrated best practice"* in many areas. It highlighted that all key strategies and policies had clear objectives in place, adhered to legal and professional guidance requirements and that there was a clear programme in place to ensuring their periodic review. Despite this outcome, the Fund will continue to look for ways to enhance its effectiveness going forward.

Further action

The ISC will consider further proposals during 2023/24 to evolve the alternative asset allocation to more sustainable investment solutions and have identified infrastructure and private equity as priorities.

The ISC will continue to implement its Investment Engagement Strategy in its next round of manager meetings and will continue to liaise with other ACCESS funds in implementing the ACCESS RI guidelines and advancing phase two of ACCESS's RI Business Plan 2023/24 deliverables.

Following agreement by the ISC in February 2023 to focus on a subset of the Fund's RI Priorities, the next round of engagements with investment managers will focus on Resource Scarcity (E), Employee Relations (S), Company Board Structure (G) and Climate Change.


Maldon

Section 2: Investment Approach

Principle 6 – Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them

Context

The structure of the Fund, membership profile and asset allocation are covered in the background to this submission. Two key aspects of the Fund are that it is open to new entrants and that 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 Fund can take a very long-term view when making investment decisions. The ISC view the long term as in excess of twenty years.

Activity

The Fund communicates and receives feedback from its stakeholders in a variety of ways including:

- All key Fund policies are consulted on with key stakeholders and published on the website
- Staff, Scheme member and employer newsletters
- Employer webinars and YouTube videos
- All Committee and Board meetings are open to the public and agenda papers are published
- All Committee and Board representatives receive all Committee, Board and ACCESS papers regardless of their voting and participation status
- Both the PSB and ISC have employer and scheme member representation, including voting rights on the PSB
- Responding to stakeholder investment related enquiries
- Periodic investment news items posted on the website

ISS consultation

The most recent review of the ISS included the Fund's new RI Policy, which was extensively consulted on with as many stakeholders as possible. This included:

- All PSB and PAB Members
- All investment managers, including the ACCESS Operator, Link Asset Solutions
- The Fund's Custodian, Northern Trust Company Limited
- The Fund's investment advisers, Hymans Robertson and Mark Stevens, the Fund Actuary, Barnett Waddingham and the Fund's Independent Governance & Administration Adviser, Karen McWilliam
- All Essex Pension Fund, County Council staff and all Employers
- All Active Members via the letter accompanying the 2020 Annual Benefit Statement as well as posting the consultation document on the Essex Pension Fund website

Section 2: Investment Approach

Following the agreement of the revised RI Policy in 2020, the Fund has maintained a greater focus on RI Business Plan deliverables and has incorporated these into the Fund's Three-Year Business Plan which is on the website.

Following feedback from the consultation, the Fund acknowledged that it needed to improve its engagement around RI issues with its stakeholders. The Fund has uploaded RI statements to its website throughout the year providing up to date information on the Fund's approach to RI and what the ISC is working on. The last statement was issued in November 2022 and can be found at: EPF News.

The Fund also makes public the progress being made with its RI Project Plan and the discussions it is having around RI.

Stakeholder Engagement Strategy

The Fund has developed its Stakeholder Engagement Strategy, which formalises how the Fund engages with its different types of stakeholders building around a core set of values and behaviours.

The Strategy builds on the recent review of how the Fund seeks feedback from its Stakeholders and improves its services. This resulted in the Fund changing its approach from an annual all encompassing survey to a more precise, timely, thematic approach targeted to its specific audience.

In addition, the Fund captures all complements and complaints and reports them quarterly to the PSB along with the outcomes of Employer and Member surveys.

Outcome

RI Direction of Travel

The Fund records the engagement it receives from all stakeholders on RI issues.

This year a short survey was sent out to all 57,000 active members as part of their annual benefit statements to ascertain their views on whether they agreed with the direction the Fund is taking with RI. Whilst the response rate of 0.01% was disappointing, it was encouraging to receive feedback that the direction the Fund is progressing was welcome, albeit for some not quick enough.

Taking into consideration the limited but positive feedback, the Fund has forged ahead and transitioned 100% of its index tracking investment totalling c£2.4bn to sustainable low carbon funds.

Section 2: Investment Approach

The Pension Fund records the engagement it receives from scheme members on RI matters as part of its Freedom of Information (FOI) process. The Fund responds to approximately thirty separate investment enquiries a year. Statistics relating to FOI enquiries are reported quarterly to the PSB as part of the Fund's Scorecard.

Further action

The Fund has key deliverables in its 2023/24 Business Plan to review the Investment Strategy Statement and undertake a full stakeholder consultation. A key objective, will be to look to ways in which the Fund can improve response rates from our Stakeholders. The Fund will look to utilise scheme members annual benefit statements as a means of communicating widely its consultation. It will also look to undertake targeted surveys, and use other forums to increase participation. The outcome from the summer's consultation will then be considered by the ISC at its meeting later in the year.

Following agreement, 2023/24 will also see the Fund work with its preferred website provider to build a bespoke website for the Fund. This will include engaging with a variety of stakeholders in regard to its specification and design so that the Fund can provide a website that is fit for purpose not just for today but in the future. As part of the specification the Fund is looking to have a dedicated area where it can post Fund information on its investments, RI and stewardship activities.

Although the Fund provides regular updates on the work the ISC has undertaken on RI, it recognises this is still an area that can be improved and is committed to developing an annual RI report to its stakeholders to communicate the work it is undertaking.

The ISC have agreed a set of climate change metrics. The Fund has now established a baseline against which to measure some meaningful medium-term targets in line with its net zero aspirations, assessing the alignment of each mandate to those aspirations. This will be part of reporting to stakeholders. The Fund intends to report against the Taskforce for Climate -related Financial Disclosure (TCFD) criteria as at 31 March 2023.

Clacton-on-Sea Pier, Clacton

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

Context

The Fund believes that the systematic integration of stewardship and investment is key to fulfilling its responsibilities as both are vital to delivering the Fund's objectives and both represent interrelated opportunities and risks in achieving those objectives.

The Fund has developed a set of RI beliefs and an RI Policy, set out in the ISS, that reflect the importance of stewardship in the investment process. The Fund's RI Policy sets out ten RI priorities which it expects the Fund's investment managers to treat as a priority when engaging with companies invested in on the Fund's behalf and to report on as part of the ISC's manager engagement programme. The ten priorities can be classified under the following ESG headings and can be broadly mapped to the seventeen United Nations Sustainable Development Goals.

Environmental	Social	Governance
Climate change	Labour practices	Company governance
Resource scarcity	Employee relations	Manage board structure
Pollution	Remuneration	Diversity
Controversial Weapons		

Through the priorities identified, the ISC recognises that ESG factors (including those related to climate risk) can influence long term investment performance and the ability to achieve long term sustainable returns.

Activity

The Committee developed its RI beliefs and Policy over 2019/20. It identified four key areas where integrating responsible investment and stewardship with investments was important, with a number of beliefs in each area.

The RI Policy outlines the expectations of Fund's investment managers to embed the considerations of ESG factors in their investment process and decision making. It recognises that this takes different forms depending on the asset class and whether the mandate is being managed on an active or index tracking basis.

Index tracking investment managers

The Fund accepts that in using an index tracking manager, the Fund is unable to actively take ESG factors into account in choosing an investment. The Fund recognises that the only influence it has in this regard is the choice of benchmark and has recently switched to ESG and low carbon alternatives.

However, the Fund expects its index tracking investment manager to act as an active owner to influence the behaviour of companies, to act in investors' best interests in enhancing the sustainability of long-term value of its investments and encouraging sound governance practices. The Fund expects its index tracking manager to engage with companies in the index on ESG issues and exercise all voting rights, particularly in line with the Fund's ten RI priorities.

Active investment managers

The ISC has delegated responsibility for making individual investment decisions to a range of active investment managers, which manage around 75% of the Fund.

The Fund requires its active investment managers to proactively consider all relevant factors, including ESG factors, when making investment decisions on the Fund's behalf. To ensure that ESG factors are considered in investment decisions, the Fund has developed an Investment Engagement Strategy which provides a framework for the Fund's engagement with its investment managers and how the ten priorities are systematically addressed with managers through a review process which is both:

- 'Top down' – establishing an overall view of the firm's approach to RI including commitment to the Stewardship Code and how they address the Fund's priorities.
- 'Bottom up' – a deeper dive into the specifics of the portfolio, including analysis of the underlying holdings to ensure the manager is operating consistently with their stated approach and are aligned to the Fund's RI Policy.

This systematic approach includes investment managers completing a pre-meeting questionnaire, Hymans Robertson's detailed RI ratings, portfolio analytics including the use of MSCI Analytics tools for listed equities and bonds and reviewing the firm's documentation and policies. This sets the engagement agenda with the manager. The newly developed Engagement Log will be a key tool going forward to record and monitor progress against the Fund's expectations.

The Fund pays particular attention to the ten RI priorities and that the investment manager has visibility of the risks associated with these priorities and seek to mitigate this risk to the long-term expected financial return.

If the Fund does not receive satisfactory responses to these questions, it will engage further with the investment manager. These engagements will be monitored regularly for the direction of travel. If all avenues are exhausted and no meaningful progress is made, the ISC may in exceptional circumstances take the decision to disinvest from that strategy.

Closed-ended limited partnerships

The Fund requires that its active investment managers embed ESG considerations into their investment process when selecting investments, which it believes will translate into superior investment returns in the long term. Whilst the Fund expects its investment managers to be able to influence the investment decisions of these partnerships, it accepts that once it has committed to the partnership it cannot control the investments that are made, as such careful consideration is taken at the manager selection stage of these factors.

Section 2: Investment Approach

Direct property

The Fund has made a strategic allocation to UK commercial property. It recognises that as a landlord it has an opportunity to affect the quality of buildings that it owns.

The Fund has appointed an investment manager with full discretion over the management of its property portfolio. However, the Fund expects the manager to take regard of the Fund's RI Policy and its ten RI priorities in its management of the portfolio. The Fund engages and challenges the investment manager on improving the environmental and climate risk ratings of each of the properties it owns. The investment manager reports annually against the GRESB benchmarking factors.

Tenders

As well as ongoing engagement with its current investment managers, the Fund considers managers' ESG and stewardship credentials, the integration into their investment processes and their alignment with the Fund's RI policy as part of all appointment processes, including those that are conducted in co-operation with the ACCESS pool.

Outcome

As explained above and in the Fund's RI Policy, all investment management activity for the Fund is delegated to external investment managers who manage their part of the portfolio on a discretionary basis. The Fund's ensures that stewardship and investment are integrated through engagement with its current managers on the alignment of their own engagement activities with the Fund's RI Policy and in its selection process for any new manager appointments. The results manifest themselves in four ways:

1. Bespoke manager engagement in line with the Fund's RI Policy and priorities

The Fund has developed a differentiated and bespoke approach to engagement with all managers across all asset classes, including with the ACCESS pool, which reflects the nature of the different asset classes, investment vehicles and management styles. Despite some of the difficulties in quality and consistency of data and analytics for private market assets, this consistent approach has established the Fund's RI priorities with the managers and established a baseline for and expectations of the managers for future engagements. Engagements includes bi-monthly ACCESS partnering fund investor meetings with ACCESS's investment managers in addition, to the Fund's own programme of engagement.

Now that a baseline of the investment managers respective approaches to RI and ESG has been established, the Fund agreed to move to an outcomes-based approach to engagement. This involves focused RI priorities to help establish engagement objectives and strengthen the impact of engagement around four core themes as well as the development of an Engagement Log whereby a traffic light system is used to assign engagement outcomes and track progress against engagement objectives.

Section 2: Investment Approach

2. Manager appointments and terminations

Integration of stewardship and ESG factors into the investment process has become an increasingly important part of the selection and retention of investment managers. This has had tangible outcomes:

- Termination of an active equity and active bond manager

3. The design and structure of mandates

Following on from the influence stewardship and ESG factors had last year on the termination of an active equity manager and the appointment of a new direct lending manager, they have again been influential and had tangible portfolio outcomes. The decision was made to replace the emerging market equity mandate manager and an active bond manager for managers who were better able to demonstrate their Stewardship and RI capabilities.

The ISC have been working with their index tracking equity manager, UBS to develop an alternative equity index to a market capitalisation index that better reflects their ten RI priorities. UBS developed a variation of their Climate Aware Fund that incorporates a wider range of ESG issues which map across to the ISC's RI priorities. Several flavours of this theme were presented to the ISC for their consideration during 2022.

Launched in September 2022 with a £1.5bn investment, the UBS Life Global Equity Sustainable Transition Fund seeks to deliver returns broadly in line with the global developed equity markets with better exposure to metrics that measure:

- the expected contribution of companies towards climate change;
- overall ESG scores; and
- alignment with United Nations Sustainable Development Goals.

In addition, this Fund aims to align with the EU Climate Transition Benchmark regulation such that its weighted average carbon intensity is lower than the benchmark and reduces year on year.

The ISC completed the alignment of UBS index tracking mandate by transitioning its remaining investment of c£900m in the RAFI index to a lower carbon version of the same index.

The ISC also received a targeted training session and discussed the implications of their RI Beliefs for the overall portfolio in the context of moving towards more sustainable investment portfolios and those with positive social and/or environmental impact.

In order to determine how the current portfolio may be evolved in regard to the above to capture the Fund's RI Beliefs, the Fund established and adopted an RI Framework for integrating the Fund's RI Beliefs into the overall portfolio construction as detailed below:

Step 1	Step 2	Step 3	Step 4
Establish beliefs	Set objectives	Assess your options	Implementation

Section 2: Investment Approach

This Framework assisted the ISC in its decision to maintain the existing timber allocation and to evolve its timberland mandate. To this end the ISC agreed a £100m anchor commitment to the Stafford Carbon Offset Opportunities Fund. An article 9 fund will develop new sustainable commercial timberland plantations and restore nature forests as well as generate millions of verified carbon offsets for the Fund.

4. Specific engagement by the managers on underlying holdings on behalf of the Fund

Some recent engagements examples are discussed below:

Example One

Company: UnitedHealth
Mandate: Global Equity Mandate (ACCESS sub fund managed by M&G)
Alignment to Fund's RI Priorities: Climate Change
Objective: Decarbonisation plan including scope 3 assessment and SBTi (Science Based Target initiative) validation
To further encourage US diversified managed healthcare company UnitedHealth's decarbonisation plans, including scope 3 assessment and SBTi validation, as well as suggesting improved disclosure on governance and incentives in the next sustainability report. This continued from our engagement with the company in March 2022. M&G also used the opportunity to question UnitedHealth's involvement in the opioid crisis in the US, and related lawsuits, as this had been flagged as a negative by ESG ratings providers.
Outcome achieved
M&G were pleased to see that UnitedHealth has now committed to SBTi validation, and plans to submit its targets for approval next year. The company recently hired a chief sustainability officer, reporting to the chief executive, and subsequently published a much-improved sustainability report in June 2022 (and will take M&G's points on board for next year's report). It intends to create an ESG steering committee, to be in place by the end of year, led by the chief sustainability officer and comprised of business leaders, to help further act on sustainability considerations. The company also plans to have its scope 3 inventory completed by the end of the year. M&G will continue to engage with UnitedHealth as it moves along its path to decarbonisation. In terms of opioids, the company confirmed that it had not been named in any lawsuits or been implicated thus far. It also confirmed that it was engaging with the rating agencies to articulate its position on the controversary, and was confident that it would be able to get the flag removed.
In progress/follow up
M&G will continue to monitor the situation, but believe that UnitedHealth is taking the issue seriously, and doing what it could to rectify it.

Section 2: Investment Approach

Example Two

Company: European Mid-Market Buyout Manager
Mandate: Private Equity Mandate (managed by Hamilton Lane (HL))
Alignment to Fund's RI Priorities: Diversity
Objective: Diversity
HL categorise a diverse manager where there is 25% or more diversity in at least two of the following four categories: ownership level, carried interest, investment committee, or investment team. In addition, HL seek to partner with managers who share their dedication and exhibit best practices, including: an official DE&I policy statement at the managing and portfolio company levels; a focus on expanding diversity of decision-making within portfolio company management; a diverse board composition; diversity mandates for hiring third-party service providers; monitoring and reporting of social KPIs. HL discussed diversity with the Partner group as well as the Head of ESG during their diligence process. Post-investment, HL was solicited for feedback during a call on creativity in hiring and potential professional resources to explore to enhance hiring diversity. The general partner then presented at an AGM that they had materially enhanced hiring of diverse professionals and was moving focus on retention and development. During the Limited Partner Advisory Committee (LPAC), HL asked the general partner to outline what had changed.
Outcome achieved
The GP had a) performed a hiring review with a top recruiter in European PE and b) added a new title to enhance capabilities to hire entry level candidates and c) was working on creating women's networks, women's offsites and developing governance and training to ensure proper management, development and retention of the diverse candidates.
In progress/follow up
Hamilton Lane issues an annual ESG and diversity survey to all managers with whom it has invested discretionary capital, across primary, secondary and direct investments. In 2022 this encompassed over 450 managers and represents the full spectrum of the private markets, from VC to mega-buyout, private credit and real assets. The annual ESG and diversity survey is an abbreviated version of the ESG RFI that they issue to managers during the full diligence process. Responses are stored in DealCloud, for easy access and analysis. The survey requests detail from managers on their planned Diversity and ESG projects for the next 12 months. The year-over-year nature of the request allows HL to assess whether managers are meeting their goals or falling short. ESG questions broadly cover the organization's approach, integration into investment decision making, monitoring of portfolio companies and reporting process to limited partners, as well as climate-specific policies and action. Granular diversity of the manager's employees is also collected. By collecting data on such a large portion of the industry, HL are granted a high-level view of emerging best practices.

Example Three

Company: Thermo Fisher

Mandate: Active bond mandate (ACCESS sub fund managed by M&G)

Alignment to Fund's RI Priorities: Labour Relations

Objective: Human and labour rights (eg supply chain rights, community relations)

To ensure that US medical technology and analytical equipment business Thermo Fisher Scientific had effective policies and procedures in place to help avoid the misuse of its equipment.

By way of background, following public reports regarding human rights violations against the Uyghur people in China's Xinjiang region, coupled with speculation that Thermo Fisher's STR (Short Tandem Repeat) DNA products were being potentially used in a manner inconsistent with human rights principles, the company ceased any new sales of human identification (HID) products to Xinjiang Public Security Bureaus in March of 2019. This equipment is usually used in, for example, forensics - to match DNA to an established database - and cannot, in and of itself, be used to identify or profile ethnic minority populations.

M&G met with the company's investor relations and the senior director of corporate social responsibility to discuss the issue.

Outcome achieved

M&G were satisfied that Thermo Fisher had taken the issue seriously, and responded by improving its policies and procedures. It has adopted and implemented a Code of Business Conduct and Ethics, applicable to all directors, officers, and employees, who receive annual training on the code. In order to help ensure that no products or services are sold that could potentially be used in unintended ways to violate human rights, the company implemented a multi-level purchasing process designed to prevent the ordering and resale of HID products to public security bureaus in the region (and has produced a broader list of countries it will not sell to, based on country risk assessment). The company has an approved network of authorised distributors that agree to comply with this purchasing process under the terms of their contract.

Thermo Fisher also has in place a cross-functional Bioethics Committee, consisting of the Chief Operating Officer, the Chief Science Officer, and leaders representing its life sciences and diagnostics businesses and legal and communications functions. The Bioethics Committee regularly assesses the ethical and social implications of scientific developments in biotechnology and has regularly reviewed Thermo Fisher's existing policies and provided updates to the company's Science and Technology Committee of its board of directors.

In progress/follow up

M&G will further engage with the company on matters of bioethics to ensure they have effective policies and procedures in place to help avoid the misuse of its equipment.

Example Four

Company: Volkswagen (VW)	
Mandate: Active Bond Mandate (ACCESS sub fund managed by Janus Henderson (JH))	
Alignment to Fund's RI Priorities: Labour practices	
Objective: Labour conditions; Human rights in the supply chain	

JH's objective for this engagement was to gain further background to the issue. JH discussed what direct oversight VW has of the factory given it is operated by SAIC and what steps are being taken directly by VW senior management to investigate the claims and ensure policies are in force.

VW was first linked to these allegations in 2020 and responded promptly to the initial report 2020 which incorrectly linked VW to suppliers using forced labour. More recently allegations relate to the region more generally and VW has not been specifically named in these reports. VW has issued several detailed responses refuting the allegations and responding to MSCI. VW has found no evidence of forced labour at SAIC VOLKSWAGEN Xinjiang Automotive Co Ltd. Employees are hired on the basis of their skills – irrespective of age, religious beliefs or ethnic origin. The majority of employees have been working there since opening in 2013. VW is not aware of any cases where employees were in internment camps however accept that they have limited oversight of the plant.

VW board level management last visited the factory in 2017 (this is a very small plant in the context of the group). A further visit was scheduled end 2019 but didn't go ahead and has since been made impossible by lockdowns / travel restrictions into and across China. The region is still under travel restrictions, but VW confirmed executives planned to conduct a site visit as soon as it has become feasible. A recently appointed Chief Human Rights Officer is responsible for oversight of this issue.

Importantly, VW has notified the United Nations (UN) Global Compacts (UNGC) which has taken no action against the firm. MSCI's decision is based on its own view of compliance with the principles and is not endorsed by the UN (MSCI does not actually refer to UNGC in its reports, but simply to Global Compacts). Additionally, MSCI's decision to assess this as a FAIL has been driven by MSCI "ESG Controversies Methodology Enhancements", introduced in June 22, which prior to that, had not seen VW as non-compliant.

From a financial materiality perspective, this case has little impact on VW's business, with the plant producing 6,000 vehicles p.a. compared with the three million produced across China annually and so would have limited impact on VW business even if VW stepped away from the plant completely.

From an ESG perspective, this could become a financially material issue if future financing is hampered by the application of MSCI's fail category among investors and/or security prices are significantly affected.

Section 2: Investment Approach

Example Four (cont.)

Outcome achieved
JH regarded VW’s response as appropriate and satisfactory and recognise the difficulty of disproving allegations. From an asset backed security (ABS) perspective, JH are less concerned from a credit perspective due to delinkage from the corporate as a vehicle producer, given the ABS are effectively financing individual/commercial acquisition of a vehicle that happens to be produced by VW. There is some risk that remains via servicing operations and JH are cognisant that there is still some possible contagion from credit to ABS as JH saw with Dieselgate but JH current exposure is limited. JH would also note that all of the Article 8 funds on the JH platform have exited or are exiting VW positions on expectations that this case will remain in the news, and this may have lasting effects on the company’s bond prices. JH have made no change to their ESG quadrant ratings for the time being: Corporate credit rating: Yellow (Material ESG risks; Credible medium-term action plan) and ABS rating Green (No material ESG risks)
In progress/follow up
JH will continue to monitor the situation and engage with MSCI to understand its methodology in greater detail. JH will also follow up with VW when the Xinjiang province reopens to encourage a site visit and have expressed to VW that we would like them to provide more transparency over worker background and composition.

Section 2: Investment Approach

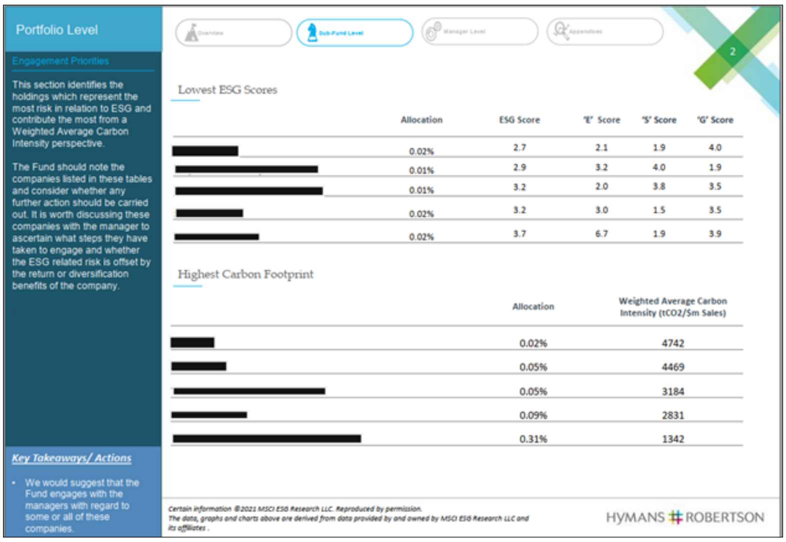
Principle 8 – Signatories monitor and hold to account managers and/or service providers

Activity

The Fund sets out clear expectations of all managers and service providers. A critical function of the Fund is to monitor managers and service providers against these expectations and hold them to account. This is achieved through reporting from and engagement with managers and service providers.

- The Fund requires all its investment managers to report to them on a quarterly basis on performance, risk, asset allocation and stewardship and ESG matters.
- Separately, the Institutional Investment Adviser reports to the ISC on a quarterly basis on managers' performance, business issues and on their ESG credentials, identifying any emerging issues in a traffic lights report. This includes ongoing ratings and RI ratings for all managers.
- As part of the engagement with managers on ESG matters, they are required to respond to a detailed questionnaire and report on how they have integrated ESG factors into their investment decisions. This includes analysis of their portfolios for particular ESG risks and assessment against a range of climate metrics (examples are shown below).
- O&A of the Fund meet with the managers at least once a year and more frequently if there are significant emerging issues. At these meetings, they will tackle the particular issues and, more recently, focus on the ESG risks in the portfolio as part of the Investment Engagement Strategy. The outcomes of the meetings are reported back to the ISC for review at their quarterly meetings. The Engagement Log going forward will be a key tool for recording engagements and outstanding activities.
- Any significant issues with managers are escalated to the ISC, who may meet the managers to challenge them on their management of the financial risks, including those that arise from ESG considerations, in their portfolio.
- An independent annual review of manager performance and fees is presented to the ISC at one of their strategy meetings each year, to assess value added and to allow for comparisons and assessment of progress over time.
- The ACCESS pool also has policies in place to review and hold managers to account. These policies are reviewed by the ISC. In addition, bi-monthly investment manager investor meetings are also held.
- The Fund reviews internal control reports from its investment managers, the ACCESS Pool Operator, its Custodian and other third party providers annually.
- The Fund periodically receives updates on the work and engagements that LAPFF have undertaken on the Fund's behalf.
- The ISC also monitors the performance of its Institutional Investment Consultant and Independent Investment Adviser against a set of strategic objectives agreed annually.
- The PSB monitors the performance of the Fund's Independent Governance and Administration Adviser and Actuary.

Section 2: Investment Approach



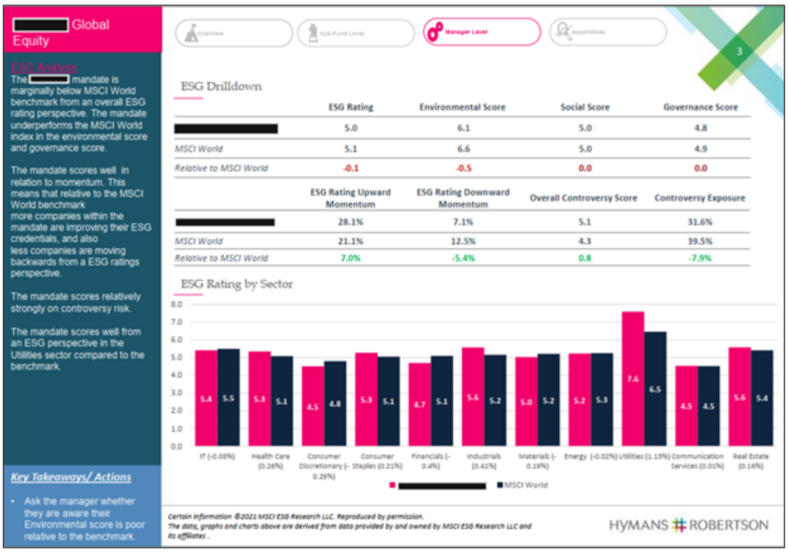
Example ESG and climate metrics

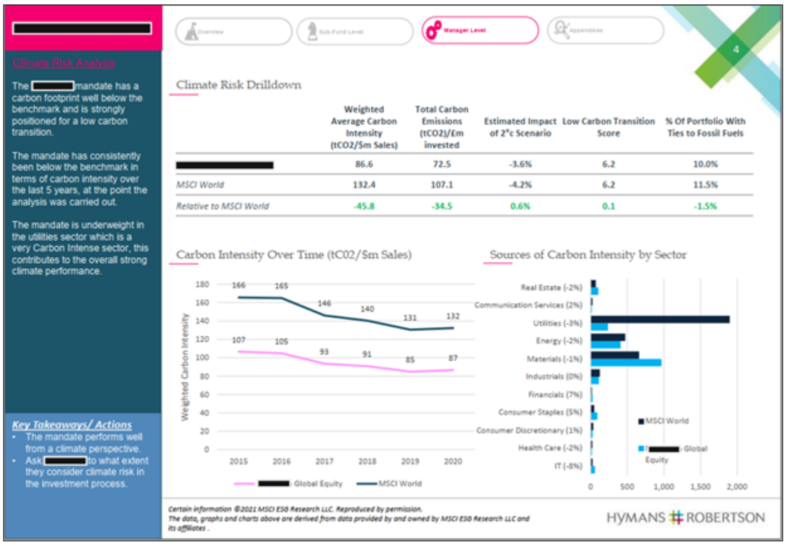
Stock holding analysis

- ◊ Overall ESG score for individual stocks along with the breakdown of E, S and G scores
- ◊ Identifies the stocks with the highest carbon footprint
- ◊ Enables focused engagement with the managers and scrutiny on why they are comfortable investing in certain stocks

ESG metrics

- ◊ Quality of management of ESG risks
- ◊ Trends in ESG risk management
- ◊ Exposure to controversies
- ◊ ESG ratings by sector, allows the Fund to see what sectors are driving the ESG scores





Climate metrics

Levels of emissions

- ◊ Ownership of emissions
- ◊ Impact of 2 degree temperature rise scenario
- ◊ Exposure to companies with fossil fuel ties
- ◊ Engagement with low carbon transition
- ◊ How the carbon intensity is trending over a time period

Section 2: Investment Approach

Outcome

All performance and business issues with managers are being addressed as part of the regular manager review.

The Fund's first round of engagement meetings with its equity, bond, property, infrastructure, and timberland managers has given it better insight of its investment managers and portfolios, particularly in relation to stewardship and integration of ESG. During these engagements it was noted that many were PRI and FRC 2020 UK Stewardship Code signatories and were signed up to many industry wide initiatives like Climate Action 100+ and the Investment Manager net zero initiative. An understanding was also sought as to why managers were equally not signatories.

The Fund has built on its insight gained through the first round of engagements continually seeking to refine the process. This has included enhancements to its top-down analysis reporting and the development of the RI Engagement log which will be used to measure outcomes achieved and areas of focus and follow up.

2022 saw the acceleration and completion of the ISC's decision to terminate one of the Fund's equity managers. Whilst the manager was able to demonstrate it was evolving its approach to ESG, remained separate from the core investment process rather than embedded in it.

In addition, following a further round of engagement the Fund, backed up by the Institutional Consultant's manager RI ratings, terminated a further equity mandate and active bond mandate, replacing the mandates with strategies that better aligned strategically and from an RI perspective.

All other manager second round engagements demonstrated a satisfactory level of integration of ESG criteria in the investment process and alignment with the Fund's RI policy.

The formal monitoring of the Institutional Investment Consultant by the ISC is in its fourth year of review. Each objective and its associated activities are RAG rated by Officers and the Chairman and Vice Chairman of the ISC. Areas for improvement are identified along with next steps. The ISC were content that the service being provided meets their objectives.

Further action

The ISC are committed to enhancing their knowledge of Stewardship and ESG matters, including progress made by managers on their climate commitments. This will be factored into the ISC training needs and the structure and agenda for manager engagements in the following year. In addition, dedicated time will be set aside at each meeting for specific training, ongoing monitoring of investment managers including RI credentials and climate data quality and coverage, the Fund's quarterly RI engagement with managers and the Fund's progress in achieving its 2023/24 RI Project Plan.

Epping Ongar Railway

Principle 9 – Signatories engage with issuers to maintain or enhance the value of assets

Activity

Investment management is delegated to external investment managers. The expectations of managers in terms of engagement on behalf of the Fund are set out in the Fund's RI Policy and RI priorities and developed further as part of the engagement programme with the managers. This includes the Fund's commitments to a net zero transition. These expectations are clearly set out as part of the Fund's Investment Engagement Strategy. The Fund:

- holds dedicated RI engagement meetings with its investment managers
- participates in bi-monthly investor meetings with ACCESS partner funds where ESG matters are discussed with managers
- participates in twice yearly Pool Operator's investor days where several managers will be invited to present to discuss their strategy and portfolio
- attends quarterly LAPFF meetings and participates in LAPFF run events
- expect managers to engagement with companies in relation to business sustainability, climate risks and RI priorities identified in the RI policy
- assesses managers' portfolios in relation to climate risk, other ESG factors and against the Fund's agreed TCFD climate risk metrics

In addition, the Fund receives quarterly stewardship reports from all managers and LAPFF.

Outcome

Engagement activities are now a regular feature of the monitoring of the Fund's investment managers. Examples of some recent stewardship activities and engagements that have been reported to the ISC and Officers and Advisers include:

Section 2: Investment Approach

Example One

Company: Glencore
Mandate: Index Tracking Mandate (managed by UBS)
Alignment to Fund's RI Priorities: Company Governance
Objective: Mitigate material ESG risks
The company has flagged in the ESG Risk Dashboard for absolute risk from negative news flow. It has been the subject of bribery and corruption investigations, is associated with a range of site-specific issues, and its health & safety data shows a high number of fatalities. In June 2022, the company was further flagged for controversies relating to one of its operations. The stock is attractive on the basis of a desirable asset mix, improving operational execution and attractive free cash flow yield of approximately 15%, well ahead of peers. UBS believe the material ESG risks can be mitigated and after adjusting for the risks, there could be upside in the valuation as performance improves. UBS identified business conduct, safety, and security as financially material engagement goals requiring further investment in systems and a change in governance and company culture. UBS have had a variety of contacts with the company including meetings with the Chair, CEO, CFO, General Counsel, Head of Mining Division and Head of Sustainability. UBS have further engaged with the company and its operational management on the specific controversy flagged in mid-2022.
Outcome achieved
In 2021 the company completed its CEO and chair succession and refreshed its Board. In 2022 the company settled the largest of its bribery and corruption actions and committed to third party oversight for three years. The company also now has a Board committee for business conduct and culture, a strengthened compliance framework, and new operational management. The company shows evidence of increased management action to improve the health & safety track record. Fatality numbers have declined but are still higher than the company's peers.
In progress/follow up
The company continues to be named in a large number of site-specific controversies. While our engagement on the controversies flag has shown a strong case of credible corrective for this specific operation, UBS continue to engage on the overall management of sustainability issues across the group.

Section 2: Investment Approach

Example Two

Company: Samsung Electronics

Mandate: Global Equity Mandate (ACCESS sub fund managed by M&G)

Alignment to Fund's RI Priorities: Resource Scarcity

Objective: Environmental Disclosures

To ask Korean hardware producer Samsung Electronics (SE) for better disclosure on environmental metrics. In addition, M&G asked the company to announce its net zero target for 2050 or sooner, with shorter-term targets to 2030, with both to be validated by the Science Based Target initiative (SBTi), with a clear decarbonisation strategy.

Outcome achieved

Samsung Electronics performs well versus peers on environmental metrics (strong efforts in reducing water use; significant revenues from cleantech product lines; clear recycling targets, addressing electronic waste; discloses to Carbon Disclosure Project and reports in line with TCFD guidelines).

However, it has not published details of its absolute carbon reduction/net zero targets, despite the Korean government (in 2020) committing to net zero emissions by 2050. M&G have been disappointed to see Samsung Electronic so late to the table, as they would expect the company to be a leader, rather than reactionary.

Samsung Electronic explained that it was finalising its environmental investment strategy, due to launch in H2 2022, and was aligning it with international standards, as well as with the new incoming government. However, the company said that at this point it would be challenging to commit to SBTi approval.

In progress/follow up

This remains a live action. M&G will review the company's sustainability report and targets when published later this year and follow up on the outcome.

Section 2: Investment Approach

Example Three

Company: Naturgy Energy Group, S.A. (CVC Capital Partners)
Mandate: Private Equity Mandate (managed by Hamilton Lane)
Alignment to Fund's RI Priorities: Climate Change
Objective: Climate Change
Through Hamilton Lane's ongoing portfolio monitoring using RepRisk, they were alerted to a story noting that well over half of Spain's carbon emissions stem from 10 companies, including Naturgy, and that Spain as a whole is lagging on emission reduction goals. Since this posed transition risk and regulatory risk as the EU steps up climate action and disclosure requirements, Hamilton Lane contacted the general partner to seek information on potential mitigation and emission reductions plans.
Outcome achieved
The deal team had a detailed conversation with the GP on broader climate risk and the specific report. The manager and company have targets in place to decarbonize. Naturgy is making progress as it relates to reducing CO_2 emissions and rebalancing its output towards renewable energy, with 34% of energy generation coming from renewable sources in 2022. It has set specific goals, to be achieved by 2025, including reducing scope 1 and 2 emissions by 48% compared to 2017 by 2025, and scope 3 emissions by 20% compared to 2017. They also provided updates on progress to date.
In progress/follow up
Hamilton Lane's ESG team will continue to closely monitor any further risks, incident reports, and progress towards stated goals.

Section 2: Investment Approach

Example Four

Company: Veolia Environment SA

Mandate: Active Bond Mandate (ACCESS sub fund managed by M&G)

Alignment to Fund's RI Priorities: Controversial Weapons

Objective: Validity of International Shareholder Services (ISS) red flag

To verify the validity of the ISS red flag assigned to French service and utility company Veolia in relation to exposure to nuclear weapons inside NPT (Treaty on the Non-Proliferation of nuclear weapons).

M&G held a call with the Deputy Chief Financial Officer to discuss the ISS-assessed red flag in relation to exposure to nuclear weapons inside NPT. While M&G's policy is comfortable with nuclear exposure inside the NPT, they wanted to understand how Veolia had responded to the flag and proposed next steps.

Outcome achieved

The company confirmed that the ISS report is factually accurate. The company have discussed the red flag with ISS as they were keen to understand the methodology behind awarding the red flag. ISS confirmed that they do not apply a materiality threshold and that the decision to award the flag is binary. The company confirmed that the flag is in relation to a contract to provide maintenance operations on non-military elements of military submarines. The contract is provided through a joint venture (JV) between Veolia and Naval Group and the service provided is the provision of electricity power during the maintenance period. The contract accounts for approximately 0.0001% of the revenues of the Veolia Group.

Veolia explained that they are reviewing how soon they can exit the contract without damaging shareholder value and/or creating damage to their JV partner.

In progress/follow up

In terms of next steps, Veolia will share details of when the contract will expire with both M&G and ISS and M&G will continue to monitor the issue.

Principle 10 – Signatories, where necessary, participate in collaborative engagement to influence issuers

Activity

The Fund participates in collaborative engagement in a number of ways, including:

1. Appointed investment managers

The Fund's investment managers are able to decide if collaboration with other investors will benefit the engagement activities they carry out on the Fund's behalf. In addition, they can pool their assets across all clients when engaging with underlying companies (e.g. this is very relevant for the Fund's index tracking equity manager UBS in terms of influence). They also collaborate with other organisations through the likes of Climate Action 100+ (CA100+) and the UK Investor Forum.

2. The ACCESS pool

Essex is one of the eleven participating funds in the ACCESS Pool. All partner funds are committed to working collaboratively including in the areas of stewardship and manager engagement.

The partner funds have agreed voting guidelines which all investment managers under pool governance are expected to take into consideration when voting on behalf of the funds on a comply and explain basis. The funds are also collaborating on RI activities through the adoption of ACCESS specific RI guidelines, which were the result of an extensive collaborative exercise supported by a third-party RI Adviser, Minerva. They will set the framework for the investment managers to use the combined weight of capital of the Pool to engage with the underlying companies. The Fund is an active representative of the group working on this and is actively participating in phase two of the workstream with a deliverable to procure a third-party supplier to support ACCESS's RI Business Plan deliverables which include reviewing ACCESS's Voting Policy and RI reporting requirements in the forthcoming year.

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

The Fund is a member of the LAPFF, which currently represents the interests of 88 out of 98 LGPS funds in the UK.

Outcome

One of the RI beliefs developed by the Fund relates to the benefits of collaboration with other investors to increase the strength of its voice in RI matters. This subsequently drove the ISC's decision to become a member of LAPFF. The Fund provides LAPFF with a list of company holdings and the Fund's priorities for the year. The LAPFF engage with these companies on a variety of issues relating to ESG.

LAPFF's key engagement themes for 2022 related to environmental risk and climate change including just transition, human rights, policy and regulation, and reliable accounts, which was aligned with the Fund's RI priorities.

Section 2: Investment Approach

The Fund and ACCESS colleagues have collaborated on a consistent approach to manager reporting and monitoring, which includes specific examples around ESG and their quarterly engagements. Investment managers also provide more information around climate risk metrics of the portfolios including reporting the portfolio against the Fund's agreed TCFD metrics.

The following examples show collective collaboration with the company Nestlé from two different engagement themes firstly social and health aspects and secondly from an environmental angle:

Example One

Company: Nestlé
Mandate / collaboration: Index tracking Equity Mandate (UBS)/Healthy Markets Coalition
Alignment to Fund's RI Priorities: Social Impact
Objective: Social **-** Collaborative Engagement on Health & Nutrition - achieve a healthier product portfolio
The company is identified by the Healthy Markets Initiative as a manufacturing company with an outsized potential to impact public health. As part of the Healthy Markets Coalition, UBS sought to get a further insight into the company's work on health and nutrition and discuss the company's aspirations in terms of increasing healthiness of product portfolio and sales and improving transparency.
Outcome achieved
UBS were pleased to hear that health and nutrition remain high on the company's agenda. The company has made steps in improving the nutritional value of its products through product reformulation and acknowledges the importance of increased transparency and the need for a level playing field across the sector.
In progress/follow up
The company is already working on assessing the various government-endorsed Nutrient Profiling Models but has not yet committed to disclosing against any of those or setting targets to increase healthiness of its sales and portfolio. UBS will continue to engage with the company to encourage them towards this direction.

Section 2: Investment Approach

Example Two

Company: Nestlé
Mandate / collaboration: LAPFF member of As You Sow's Plastic Solutions Investor Alliance (PSIA)
Alignment to Fund's RI Priorities: Pollution
Objective: Reduction of single use plastic
Encourage use of sustainable alternatives to packaging.
Outcome achieved
LAPFF representatives joined a collaboratives call hosted by the alliance. Nestlé talked about sustainable alternatives to packaging but did not provide information on the alternatives themselves, noting them as projects. Company representatives also talked about the approach taken to a circular economy and current systems in place in developing countries, aiming to recycle as much plastic as the company produces. Although recycling is essential it does not stop plastics from entering the ecosystem. There are also energy costs associated with recycling that were not disclosed.
In progress/follow up
LAPFF will continue to push companies to research alternatives to single-use plastic. LAPFF continues to support the PSIA and will consider additional companies for engagement on plastics throughout the coming year.

Example Three

Company: ELFA CLO Investment Committee - CLO questionnaire
Mandate / collaboration: Active Bond Mandate (managed by Janus Henderson (JH))
Alignment to Fund's RI Priorities: Various
Objective: Various
Securitisation originator/manager D&I, CLO manager approach to UNGC principals + framework criteria, Carbon emissions, Governances.
Outcome achieved
Background and Scope: In July 2021 European Leveraged Finance Association ("ELFA") set up CLO investment committee to sit along its other committees including Loan and Private Debt Investor, Disclosure and Transparency, Diversity and Inclusion as well as Engagement and ESG committees. JH assumed the co-chair responsibilities of the CLO Investment committee from August 2021.

Example Three (cont.)

Outcome achieved

As background, ELFA is a trade association comprised of European leveraged finance investors from over 60 institutional fixed income managers, including investment advisers, insurance companies, and pension funds. ELFA seeks to support the growth and resilience of the leveraged finance market while acting as the voice of its investor community by promoting transparency and facilitating engagement among European leveraged finance market participants.

CLO Investment committee comprises over 15 financial institutions, representing a wide range of CLO investors across Europe.

Key objectives and deliverables:

While the committee has a wide range of objectives, focus on sustainability took centre stage through 2021 and 2022.

ESG disclosure has become a key issue for investors in the leveraged finance market, driven by end-investors and growing scrutiny from shareholders, stakeholders and regulators. However, the leveraged finance market continues to lag the equity markets when reporting ESG. The lack of standardisation in ESG disclosure by CLO managers makes relative comparisons very difficult for CLO investors.

ELFA's CLO Investor Committee, under co-chairs' leadership, has collated key questions that CLO investors ask CLO managers about ESG composition and investment framework to compile a comprehensive questionnaire in two parts: one targeted at the manager level and the other aimed to gather information on the CLO managers' investment framework.

The CLO ESG Questionnaire was the result of over nine months of collaboration with a focus group of CLO managers so that its design can accommodate all types of managers, from small to mid-size to large institutional managers.

The CLO Investor Committee's vision is to create the gold standard on ESG reporting to improve transparency, liquidity and efficiency for the good of the CLO market and all its participants. The CLO ESG Questionnaire enhances transparency by aiming to collate a significant proportion of the questions that CLO investors ask, recognising the importance of making ESG information publicly available to satisfy shareholder and stakeholder scrutiny. This is a critical step for the CLO market to advance to levels of transparency observed in other markets. It also provides direction on disclosure without setting rigid parameters of what is 'good' or 'bad' in matters of sustainability.

Publication, promotion, and adoption:

The questionnaires were launched and disseminated in the public domain on 26 October 2022. From the launch date, ELFA CLO Investment committee embarked on

Example Three (cont.)

Outcome achieved

intense public promotion campaign. JH played a pivotal part in its co-chair role, leading numerous engagements which included:

- variety of interviews through industry related media channels, including publication of an article in CreditFlux, a leading magazine for leverage finance and CLO markets;
- participation in conference panel discussions as well as a variety of virtual round table events; and
- creation of media content resulting in ELFA hosted podcast.

Over a short period of time JH led direct engagement meetings with leading CLO arranging banks including Barclays, Bank of America, JP Morgan, Citibank, BNP Paribas, Jeffries, Goldman Sachs and Natixis. The key objective of these engagement was to increase key parties' awareness of the publication to ensure adoption of the questionnaires by CLO managers. It is intended for these arranging banks to distribute the CLO ESG Questionnaire at the time of the CLO offering to create efficiencies for both CLO managers and those involved in the syndication process.

ELFA CLO investment committee also communicated directly with all 62 European CLO managers to re-emphasise the importance of CLO questionnaires. Given the wide range of CLO managers across European market, it was not surprising that the publication triggered a mixed response. The type of market reaction can be categorised in 3 main groups:

- Welcoming reaction - this group includes managers who are perhaps more advanced in matters of sustainability within their firms. The publication of the questionnaires allows these managers to really showcase their advances in a structured, broadly adopted framework, which no doubt will bode well in relative value comparison across the industry.

- Welcoming but cautious reaction – every CLO manager is at a different stage of their sustainability developments. This group included managers who are perhaps just at the start of their development and the questionnaires provided a clearly formulated guide to what matters most for CLO investors and their clients. This information was very useful as it provided structured framework for these managers as they develop their sustainability road map and allows to identify priorities and establish appropriate timelines.

- Negative reaction - this group of managers voiced numerous concerns ranging from the length of the questionnaires, the inability to complete in a short space of time to questioning the value and relevance of some information that is being asked.

Section 2: Investment Approach

Example Three (cont.)

Outcome achieved

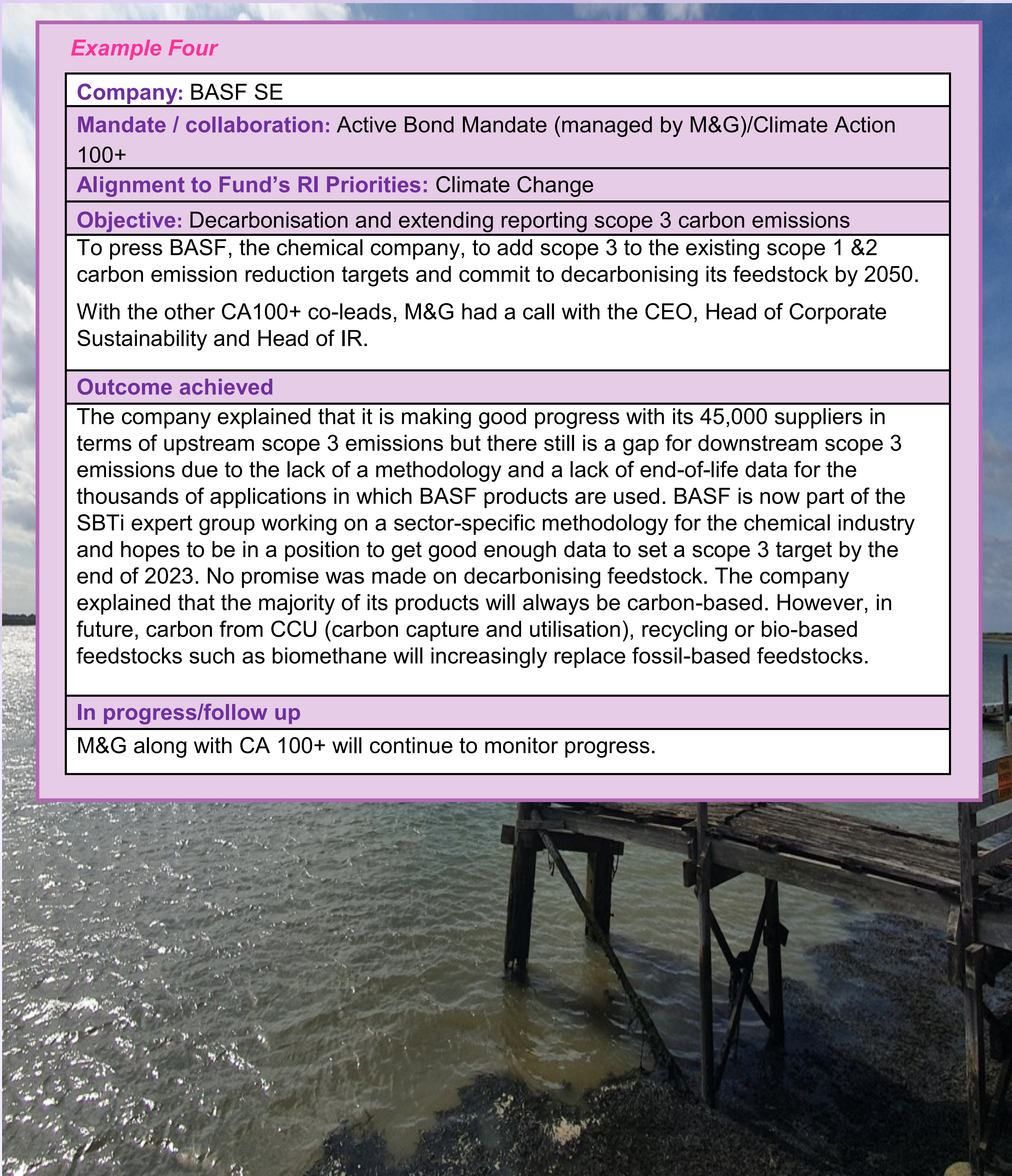
To that end, JH led numerous direct engagements under ELFA umbrella, especially with the managers who voiced concerns. The success of this initiative firmly lies on broad adoption of the questioners, the debate that was triggered since the publication provides immediate justification and re-emphasise the importance of this initiative.

While this first version of the CLO ESG Questionnaire is considered to be in its final form, the ELFA CLO Investor Committee will continue its engagement with CLO managers and intends to make refinements over time based on CLO manager feedback and to incorporate future changes to investors' disclosure requirements.

In progress/follow up

Ensuring broad adoption of CLO questionnaires is critical objective for 2023. JH will continue to lead the initiate and play critical part in all activities which will include continued direct engagement to address managers' concerns, collaboration with other ELFA committees to ensure commonality of goals as well as public promotion through workshops, conferences and round table discussion.

The greatest value of the initiative is in the information that will be provided through questionnaires. As Information starts flowing through it will allow JH to form a comprehensive view across a variety of metrices covering a wide range of areas including diversity and inclusion, talent development, governance, climate and decarbonisation related to the firms and their investment portfolios. This data is expected to unlock the opportunities for relative value analysis, identifying leaders and laggards across different metrices and directing our engagement and investment decisions accordingly.



Example Four

Company: BASF SE

Mandate / collaboration: Active Bond Mandate (managed by M&G)/Climate Action 100+

Alignment to Fund's RI Priorities: Climate Change

Objective: Decarbonisation and extending reporting scope 3 carbon emissions

To press BASF, the chemical company, to add scope 3 to the existing scope 1 &2 carbon emission reduction targets and commit to decarbonising its feedstock by 2050.

With the other CA100+ co-leads, M&G had a call with the CEO, Head of Corporate Sustainability and Head of IR.

Outcome achieved

The company explained that it is making good progress with its 45,000 suppliers in terms of upstream scope 3 emissions but there still is a gap for downstream scope 3 emissions due to the lack of a methodology and a lack of end-of-life data for the thousands of applications in which BASF products are used. BASF is now part of the SBTi expert group working on a sector-specific methodology for the chemical industry and hopes to be in a position to get good enough data to set a scope 3 target by the end of 2023. No promise was made on decarbonising feedstock. The company explained that the majority of its products will always be carbon-based. However, in future, carbon from CCU (carbon capture and utilisation), recycling or bio-based feedstocks such as biomethane will increasingly replace fossil-based feedstocks.

In progress/follow up

M&G along with CA 100+ will continue to monitor progress.

Section 2: Investment Approach

Example Five

Company: n/a
Mandate / collaboration: Hamilton Lane (HL)/Initiative Climat International (iCI)
Alignment to Fund's RI Priorities: Climate Change
Objective: Climate Change
iCI is a platform of leading private equity investors dedicated to understanding and reducing carbon emissions from private equity backed companies. It was founded by a group of French private equity investors in 2015 to help ensure the private equity industry plays its part in meeting the goals of the 2015 Paris Agreement on climate change. Its members commit to active engagement with portfolio companies to manage and reduce emissions and to promote sustainability. As an indirect investor in private markets, HL pledge to iCI is not to engage directly with companies, but to engage with private equity firms under which client capital is entrusted to develop an emissions reduction and climate change action plan.
Outcome achieved
HL are taking meaningful steps towards this goal and their dedicated ESG team frequently meets with GPs to discuss best practices around sustainability in investment and reporting. HL encourages all managers, regardless of their strategy, to begin measuring emissions in their portfolios to the best of their ability. HL also attend all North American and Global chapter meetings of iCI to discuss trends and regulations around climate risks and disclosure.
In progress/follow up
HL survey all managers it invests with annually on ESG topics. It is tracking whether managers have adopted net-zero targets, and for what portion of their portfolios they collect emissions data. There has been some improvement year on year. 2022 survey data is currently being collected and its hoped to see continued improvement.

Section 2: Investment Approach

Principle 11 – Signatories, where necessary, escalate stewardship activities to influence issuers

Activity

The Fund has adopted its own Investment Engagement Policy, which outlines the Fund's Escalation Policy and the steps it will take if the investment manager falls short of the mark. The Fund going forward will be rolling out an outcomes-based approach to engagement, which will assign outcomes to investment managers responses to various RI issues. Where further progress on an issue is needed, the O&A will set objectives with associated timelines to be communicated to the investment manager and where no progress is seen, escalation will take place.

The Fund expects its Investment Managers to take the appropriate action when operating on its behalf engaging in stewardship activities. This includes integrating ESG factors in its investment process, documenting engagement, recording activities arising from engagement, reporting on outcomes including when engagements haven't been successful, and escalating issues when and if required. The Fund will monitor progress periodically. If meaningful progress is not forthcoming or if the Investment Manager is not behaving in a matter that is in line with the Fund's RI Policy and/or in the best long-term interests of the Fund, the Fund will escalate this up the organisation's management. If all avenues of engagement are exhausted, then the ISC, following professional advice, may decide to divest wholly or partly its mandate from the Investment Manager. The diagram below shows the steps commonly taken by the Fund's investment managers:

Escalation

10 If concerns continued to be not addressed/no meaningful progress likely in future actions include:
- Vote against company at shareholder meeting on related management proposal
- Reach out to other significant shareholders as part of collaborative action
- Reduce company rating and in turn reduce size of portfolio holding
- Sell out holding in order to minimise loss of shareholder value

9 If specific engagement not made within agreed/reasonable timeframe, issue escalated via a meeting held with senior members of management/Chair of Company to discuss concerns

8 Outcome clearly documented against agreed objective, including identifying next steps & progress timescales

7 Engagement Log periodically reviewed for progress made and prioritisation

6 Continual assessment of companies including tracking engagement progress via an Engagement Log

5 Two-way engagement to identify material ESG related issues and a means for providing proactive feedback

4 Identify key ESG engagement themes & undertake quarterly engagement meetings

3 Evaluate effectiveness of company's management on arrange of ESG and corporate issues and undertake a risk assessment

2 Meet with Management ongoing with prospective 'buy' companies

1 Integrate ESG factors within investment process/stock selection

Outcome

The Fund monitors its investment managers engagement activities through regular reports and discussions and expects its investment managers to take appropriate action when engaging in stewardship activities of its behalf, including actions to escalate when appropriate.

The Investment Engagement Policy has been working effectively. Below details a few examples to that effect:

Example One

Company: US Foods

Mandate: Global Equity Mandate (ACCESS Sub fund managed by Longview)

Alignment to Fund's RI Priorities: Management Board Structure

Objective: Director appointments

Longview held engagements with the company's largest shareholder, and the management and Board of US Foods to hear all views and establish our stance regarding the ongoing proxy battle over the appointment of directors to the Board.

Outcome achieved

The board of US Foods (the Board) and the company's largest shareholder had a dispute over the appointment of directors to the Board in April 2022. The appointment was due to be decided by a shareholder vote at the 2022 Annual General Meeting in May.

The dispute involved five of the Board's eleven seats. The shareholder in question opposed five of the Board's re-nominations, putting forward five of their own candidates. They argued that significant change was needed for US Foods to fulfil its long-term potential and a substantial refresh of the Board was required. They also pointed to lower operating profitability compared to US Foods' competitor, Sysco, mismanagement by and incapability of the CEO, and criticised management's capital allocation decisions.

The Board argued that management had successfully grown the business and improved operating profitability since the company listed in 2016. A new Chief of Supply Chain, Bill Hancock, had been appointed and his appointment was supported by the company's largest shareholder. In March 2022, they also appointed two new Board members with relevant board experience.

Longview held a call with the shareholder in January 2022, and a call with US Foods' CEO and CFO in March 2022. Longview also spoke to three Board directors, including the Chairman, in April 2022. Lastly, Longview reviewed the materials published by both parties and prepared internal research on the issues.

Following its engagements and deliberations on the matter, Longview resolved to vote in support of four of the shareholder's five nominees to the Board.

Section 2: Investment Approach

Example One (cont.)

Outcome achieved

Longview found that they had made compelling arguments justifying their position and that they need a sufficiently large presence on the Board to affect change. The appointment of four directors would not give them majority control, however, it would allow their appointees to work with the two new Board directors appointed in March 2022 to enable the change required. Longview believed that this allocation of seats struck the appropriate balance of power.

On 10th May 2022, just before the 2022 Annual General Meeting (AGM) scheduled for 18th May, the Board announced that it had reached a cooperation agreement with the shareholder. The agreement resulted in Pietro Satriano stepping down as CEO and Board Director, and the Board appointment of three of the shareholder's nominees. Ten of the 12 incumbent Board directors were reappointed. One of the incumbents had previously informed the Board that he would not run for re-election. US Foods now has 13 directors on its board.

Also, Robert Dutkowsky has been appointed Executive Chair of the Board and Andrew Iacobucci has been appointed Interim Chief Executive Officer. Robert Dutkowsky had served as non-executive Chairman of the Board and Andrew Iacobucci was Chief Commercial Officer. The Board has formed a five-member search committee to identify a permanent CEO, with two of the shareholder's Board members on the search committee.

Longview Partners voted in support of the cooperation agreement.

Escalation

Complete, objective achieved.

Example Two

Company: Grifols SA
Mandate: Active Bond Mandate (ACCESS sub fund managed by M&G)
Alignment to Fund's RI Priorities: Climate Change
Objective: Decarbonisation plans validated by the Science Based Target initiative (SBTi)
To encourage Spanish plasma-derived medicine producer Grifols to publish short, medium and long-term decarbonisation plans validated by the Science Based Target initiative (SBTi). M&G also stressed the importance of climate initiatives being monitored by top management with regular review, as well as linking targets to long-term incentives.
Outcome achieved
Grifols currently has a project underway with an external party in relation to carbon reduction. This is helping the company to align with Paris, and Grifols plans to have a methodology in place by the second half of 2022 for scope 1 and 2 emissions. It is also calculating and analysing scope 3, and will include its findings in a report due in the first quarter of 2023. The company said it would run the results with the SBTi methodology and make them public, and then make a commitment to SBTi, which we encouraged.
Escalation
In terms of governance, the chief investment officer monitors climate initiatives twice a year, and M&G have suggested more regular monitoring, as well as ESG KPIs being included in long-term incentives. M&G will follow up with Grifols once the initial methodology is in place, and will continue to monitor the company's progress.

Section 2: Investment Approach

Example Three

Company: n/a
Mandate: Private Equity Mandate (managed by Hamilton Lane (HL))
Alignment to Fund's RI Priorities: Governance/Stewardship
Objective: Investment due diligence
For HL to ensure that the smaller private equity groups they are investing with continue to institutionalise as they grow in size. During the due diligence process, it became clear that the manager was unwilling to fill in HL's documentation to a sufficient standard. This caused there to be significant gaps in there understanding of how the GP was operating and managing risk. It also demonstrated to HL's investment team that it would be extremely challenging, if not impossible to monitor the GP to the standard HL would expect.
Outcome achieved
HL made the decision to discontinue the relationship until such a time as the necessary changes to the organisation's openness and transparency could be adopted.
Escalation
HL continues to monitor its existing investments with the manager to the extent possible and remains open to reviewing further fund offerings if circumstances change.

Hadleigh Castle

Section 2: Investment Approach

Example Four

Company: Exxon

Mandate: Index Tracking Equity Mandate (managed by UBS)

Alignment to Fund's RI Priorities: Climate Change

Objective: Transition towards a low-carbon business strategy

The Company was identified due to its lack of commitment to transition away from fossil fuels towards a low-carbon business strategy, and the track record of the Company's management was below industry average.

UBS assessed the company using the UBS-AM climate scorecard which provides a systematic baseline linked to the TCFD for climate-related engagements.

UBS engaged with the Company through the Climate Action 100+ investor coalition.

UBS set engagement objectives aimed at encouraging the company to develop a stronger sense of direction in terms of greenhouse gas (GHG) reduction ambitions, the strategic impacts of climate change, and to develop an action plan for transition.

Outcome achieved

At the end of 2020, the Company announced GHG reduction targets aimed at decreasing carbon intensity of its upstream business. However, these targets were limited in scope and were weaker than most of its industry peers.

UBS noted that, over the course of the engagement, the Company was reluctant to address the key question of the changes it needs to make in order to reflect the pressures on its business model.

Escalation

At AGM 2021, UBS voted against the election of the Chair/CEO for the second consecutive year and used the need for more progress on climate change transition in other director elections.

In July 2021, following a systematic review of progress after three years of climate change engagements, UBS-AM excluded this company from certain UBS-AM Sustainable Investing strategies.

From mid-2021 onwards the company has been more open to engagement and contact has increased. The company has also moved forward in terms of announcing a medium -term 2030 Scope 1 & 2 reduction target. It also enhanced its climate report. UBS AM, through bilateral and collaborative engagements, emphasised the need for the company to signal its Net Zero ambition.

In March 2022, the company launched a 2050 Net Zero target for its operated assets, a range of mid-term climate targets and $15 billion investment in its transition activities. UBS engaged the company during proxy voting season to communicate its expectation on the need for better coverage of emissions (beyond operated to equity-owned) as well as inclusion of Scope 3 emissions in climate plans.

Section 3: Exercise Rights and Responsibilities

Principle 12 - Signatories actively exercise their rights and responsibilities

Context

Equities

The Fund believes that exercising rights and responsibilities is fundamental to improving investment outcomes. Rights exist primarily through shareholdings, although they can be derived through other means.

The Fund's RI Policy includes its approach to exercising rights attached to investments. This includes the Fund's belief that if companies comply with the principles of the UK Corporate Governance Code, this can be an important factor in helping them succeed. The Fund also accepts the need for a flexible approach in the long-term interests of stakeholders including shareholders, company employees and consumers, and that the principles accepted as best practice in the UK may differ to those globally. The Fund's investment managers should cast their votes for the Fund's long-term benefit, although the Fund recognises that individual managers may vote differently for very valid reasons, so would look to understand those reasons rather than constrain their approach.

The ACCESS pool has formulated ACCESS Voting Guidelines which it expects each of the underlying investment managers to operate within on a 'comply and explain' basis.

The Fund's investment managers (both active and index tracking) are required to report to the Fund on their engagement with company management and voting, highlighting any instances when they have voted against company management.

Where investment managers were appointed directly by the Fund to segregated mandates, the Fund expects these managers to vote in line with its own in-house voting policy or explain the rationale behind their vote if that is not the case. Similarly, for investments held through the ACCESS pool in a segregated sub-fund, the expectation is that investment managers will vote in line with the ACCESS's Voting Guidelines. For investments in pooled vehicles, the 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 its decisions and ultimately the ISC has the option to divest if it is dissatisfied with the manager's approach.

The Fund does not participate in stock lending in its segregated investments. As from September 2022 the Fund no longer holds any segregated mandates. However, for the Fund's pooled investments the decision to stock lend is typically outside the control of the Fund and at the discretion of the pooled investment manager. ACCESS also has a Stock Lending Policy and participates in a stock lending programme for investments under ACCESS Pool governance. In agreeing to this, there is an expectation that the investment manager will recall stocks on loan in order to participate in key strategic votes.

Fixed income

The Fund expects its fixed income managers to carry out extensive pre-investment analysis of issuers around their structure and covenants and employ an engagement approach when seeking amendments to terms and conditions in indentures or contracts and when reviewing prospectuses and transaction documents. Investment will depend on a favourable transactional structure being agreed.

Activity

The Fund's Policy mentioned in its ISS includes the requirement for all its investment managers to exercise the Fund's responsibility to vote on company resolutions wherever possible.

For shares on loan, the investment manager assesses whether to recall the securities in order to participate in certain proxy votes. This will be based on the manager's assessment of whether it is in the best interests of the Fund to vote or generate the revenue from lending the stocks.

All managers provide quarterly reports detailing voting and commentary on resolutions where the manger has not voted in line with management. The ISC also receive all reports considered at the AJC quarterly, which includes information on the investment managers' voting activity, highlighting where the investment managers have voted against company management and the ACCESS voting guidelines.

Outcome

The following provides a summary of the voting the Fund's investment managers have undertaken during 2022:

Manager [1]	Number of Meetings	Votes Cast (no)				With/Against Management		
		For	Against	Abstain/ Other	Total	With	Against	Other
UBS	12,363	103,442	19,795	-	**123,237**	83.9%	16.1%	-
Marathon[2]	297	4,452	248	257	**4,957**	90.8%	4.8%	4.4%
Stewart Investors[2]	71	776	15	28	**819**	98.6%	1.4%	-
Baillie Gifford	42	406	28	5	**439**	95.4%	3.4%	1.2%
Longview	34	302	219	22	**543**	53.0%	46.0%	1.0%
M&G	47	640	62	25	**727**	90.4%	9.6%	-

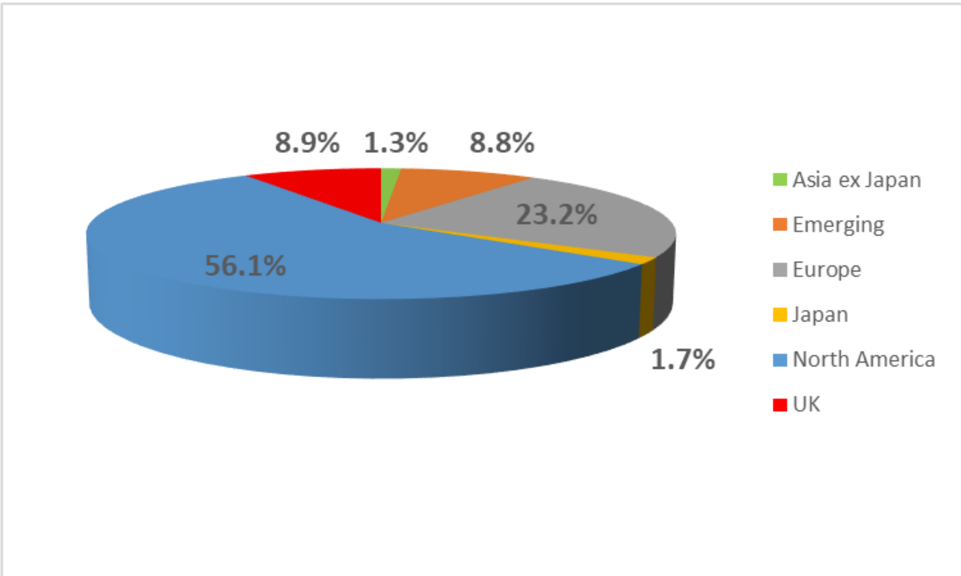
[1] UBS run the index-tracking global equity mandates, Stewart Investors run an emerging markets equity mandate and the other managers run global equity mandates

[2] Stewart's and Marathon mandates were both terminated in September 2022

Section 3: Exercise Rights and Responsibilities

The below chart analyses the number of votes undertaken by the Fund's global equity managers' for 2022 by geographical region:

% of 1,709 global equity votes cast in 2022 by geographical regions

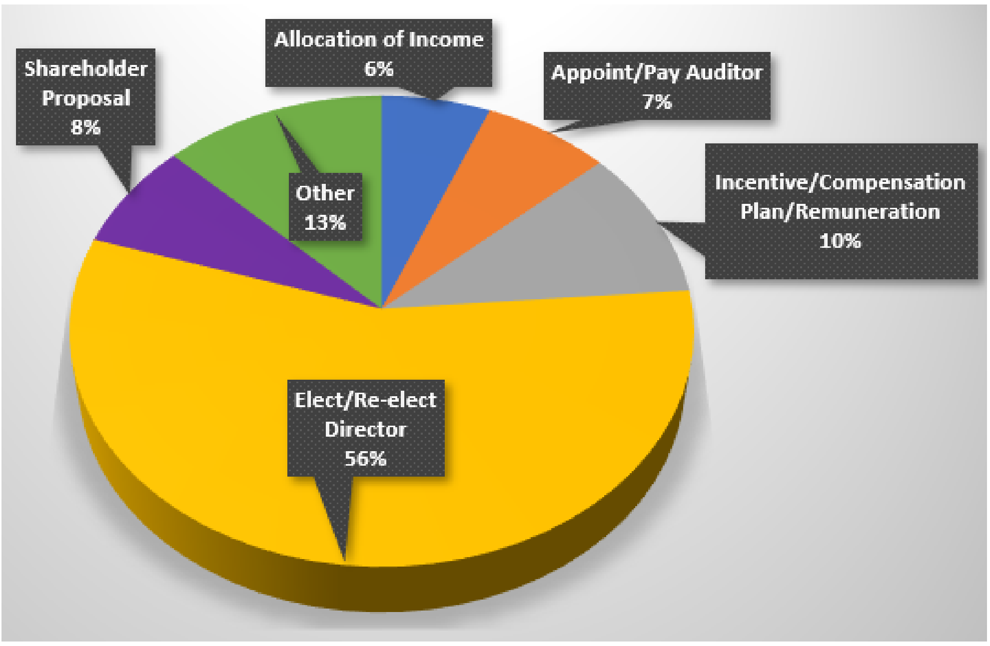


As shown in the chart, when drilling down into the three ACCESS global equity sub funds, over half of the votes were cast in relation to companies in North America.

Section 3: Exercise Rights and Responsibilities

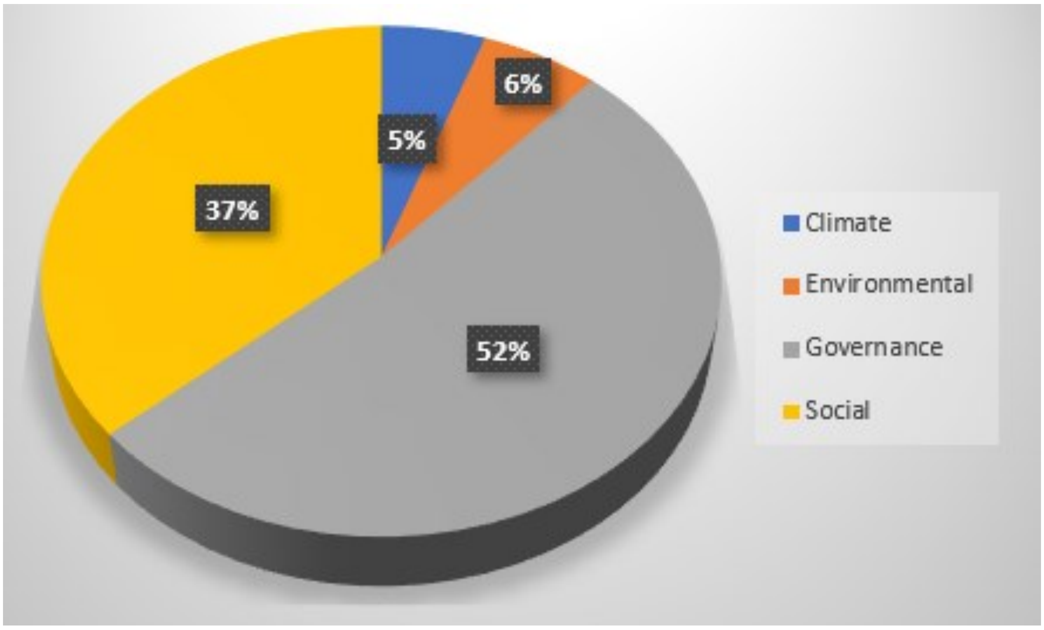
In addition, of the 1,709 company meeting proposals that were held in 2022, they can be categorised as follows:

Company Meeting Proposals by Type



and of the 129 Shareholder proposals they can be further categorised as:

Shareholder Meeting Proposals by Type



Section 3: Exercise Rights and Responsibilities

Examples of engagement held include:

Example one

Company: various
Mandate: Private Equity Mandate (managed by Hamilton Lane (HL))
Alignment to Fund's RI Priorities: Good Stewardship
Objective: exercise of voting rights
For HL to both exercise its rights as a Limited Partner Advisory Committee (LPAC) member and its responsibilities to the Fund regarding voting.
Outcome achieved
HL actively exercises its rights as a member of numerous LPACs and, moreover, has a voting seat on over 350 advisory boards globally. HL's voting policy ensures that all the Fund's securities are voted on in the best interests of the Fund with "best interests" to mean the best economic interests of the stakeholders and/ beneficiaries of the Essex Pension Fund.
In progress/follow up
HL continues to request LPAC seats in order to maintain oversight on decision-making within specific LPAC oversight topics.

Example Two

Company: Amazon
Mandate: Global equity mandate (ACCESS sub fund managed by Baillie Gifford)
Alignment to Fund's RI Priorities: Employee relations
Objective: Employee Rights
At the 2022 Amazon AGM, Baillie Gifford supported a shareholder resolution requesting additional reporting on freedom of association. While Amazon claims its policies and practices protect employees' rights to freedom of association and collective bargaining, several high-profile controversies suggested that a more meaningful review would be helpful.
Outcome Achieved
Given the nature of complaints and allegations, Baillie Gifford's ESG team and investment team agreed that shareholders would benefit from a more thorough examination of Amazon's policies and practices regarding the topic. Despite our support, the resolution at the Amazon AGM failed to pass.
In Progress/Follow up
The issue remains a priority for their engagement with the company. In spring 2022, for example, Baillie Gifford discussed the recent successful unionisation vote at a New York facility, as well as employee engagement efforts.

Section 3: Exercise Rights and Responsibilities

Example Three

Company: Moderna	
Mandate: Global equity mandate (Baillie Gifford collaborative engagement with proxy advisors, Oxfam charity and Moderna	
Alignment to Fund's RI Priorities:	
Objective: Social Impact	
A shareholder proposal was filed at the Moderna 2022 AGM requesting that the company commission a third-party report to analyse the feasibility of promptly transferring its intellectual property and know-how to facilitate the production of its Covid -19 vaccine in low and middle-income countries. Prominent proxy advisor recommended supporting the proposal. Baillie Gifford first discussed the resolution with its proponent, Oxfam, to ensure the charity's concerns were fully understood and to help guide further engagement with Moderna management. Baillie Gifford then met with the chair of Moderna's board in Edinburgh and engaged with the firm's senior management to thoroughly explore the nuances of the situation before coming to a decision.	
Outcome achieved	
It was felt that the steps Moderna had announced to expand access to mRNA technologies in the future and ensure the world is better prepared for future pandemics are commendable. These include a commitment to never enforce its Spikevax patents in 92 low- and middle-income countries, to establish a manufacturing capability in Kenya, and to open up its platform to scientists through its mRNA Access programme. While Baillie Gifford could have voted in favour of this proposal, the research and engagement ultimately led Baillie Gifford to oppose it. Baillie Gifford did not come to this decision lightly. But felt that the company should instead focus its efforts on its commitments described above, as well as its extensive product pipeline, to ensure it realises the enormous potential of the mRNA platform over the long term.	
In progress/follow up	
Baillie Gifford will continue to monitor Moderna's progress on these commitments.	

Section 3: Exercise Rights and Responsibilities

Example Four

Company: European Early-Stage Venture Capital Manager

Mandate: Private Equity Mandate (Managed by Hamilton Lane (HL))

Alignment to Fund’s RI Priorities: Stewardship/Governance

Objective: Cybersecurity Practices: Due diligences pre investment

Hamilton Lane identified through their operational due diligence (DD) process, which is completed for every fund investment that HL assess in their full DD process, that the manager needed to improve its cybersecurity practices.

The deal captain for fund investment due diligence and LPAC seat holder for the fund discussed the challenges that HL had identified with the general partner and communicated that HL would need to hold off on the final discussion with the general partner until HL were comfortable with a response and action plan to improve their Cybersecurity practices.

Outcome achieved

The general partner received the feedback well and responded to the cybersecurity questions and recommendations positively, providing a sufficient action plan around cyber, amongst some other process / governance improvements that HL had noted during the discussions.

In progress/follow up

Following receipt of the action plan, HL moved forward with investment committee discussions, resulting in an approval. HL teams will monitor the practices during our ownership period.

Section 3: Exercise Rights and Responsibilities

Example Five

Company: Universal Display

Mandate: Index Tracking Mandate (Managed by UBS)

Alignment to Fund's RI Priorities: Manager Board Structure

Objective: Encourage Board refreshment

UBS have had an on-going and longstanding engagement with the company, principally in regard to Board refreshment and executive pay. In relation to executive pay, the Company had made sufficient progress towards UBS's objectives and committed to make further progress following last year's failed say-on-pay vote.

However, the progress made on Board refreshment and succession planning remains below expectations. The company's Board has an average tenure of 18 years, with six out of nine directors and all of the Board's leading roles held by long-tenured directors.

While bringing undoubted experience to the Board, UBS have asked the Company to accelerate its Board refreshment, which will ensure that the risks of wholesale changes of Board members in a short period are reduced and new viewpoints added.

Outcome achieved

As a result of UBS's engagement, they elected to support the say-on-pay proposal at the AGM on 23rd May, but withheld support for the re-election of all long-tenured non-executive directors standing at the AGM.

In progress/follow up

UBS continue to engage with the company and will monitor progress made.

Section 3: Exercise Rights and Responsibilities

Stylus, 116 Old Street, London (part of the Fund's direct property portfolio)

Further action

The Fund recognises that this is an area that continues to require further development. A key deliverable in the 2022/23 Business Plan was to develop a report detailing the full voting record of all of the Fund's investment managers which will then be published and updated on the Fund's website annually. Whilst the Fund has made some progress in providing more analysis as per this Submission it is recognised that there is still work to be done in receiving consistent information from the investment managers. Given that all the Fund's equity mandates are now managed inside the Pool this deliverable was put on hold whilst ACCESS finalised its RI guidelines which were issued in April 2023 and until ACCESS had completed its second phase of its RI work which will include a full review of ACCESS's voting guidelines and its requirement in regard to engagement, voting and TCFD reporting.

In addition, the Fund during 2023/24 has a deliverable to develop a specification and procure a third-party supplier to support the Fund in designing a bespoke Fund website that will not only be fit for purpose now and in the future but will allow the Fund to have a dedicated section within it for updating stakeholders on the Fund's investments and RI outcomes.