



Essex County Council

Essex Pension Fund Investment Steering Committee

13:00	Wednesday, 19 February 2020	Committee Room 2, County Hall, Chelmsford, CM1 1QH
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For information about the meeting please ask for:

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1	Membership, Apologies and Declarations of Interest To note the content of the report	5 - 6
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6 Urgent Business

To consider any matter which in the opinion of the Chairman should be considered in public by reason of special circumstances (to be specified) as a matter of urgency.

Exempt Items

(During consideration of these items the meeting is not likely to be open to the press and public)

The following items of business have not been published on the grounds that they involve the likely disclosure of exempt information falling within Part I of Schedule 12A of the Local Government Act 1972. Members are asked to consider whether or not the press and public should be excluded during the consideration of these items. If so it will be necessary for the meeting to pass a formal resolution:

That the press and public are excluded from the meeting during the consideration of the remaining items of business on the grounds that they involve the likely disclosure of exempt information falling within Schedule 12A to the Local Government Act 1972, the specific paragraph(s) of Schedule 12A engaged being set out in the report or appendix relating to that item of business.

7 PART TWO Minutes of ISC Meeting 27 November 2019

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

8 Structure Review - De-risking

8a Strategy Implementation Tracker

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

8b Bitesize Training - Timber

To receive training from Hymans Robertson

8c Timber Allocation

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

8d Bitesize Training - Direct Lending

To receive training from Hymans Robertson

8e Structure Review

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

9 Competition and Markets Authority Objectives

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

10 Structural Reform of LGPS Pooling Quarterly Joint Committee Update of ACCESS Joint Committee (AJC)

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

11 Independent Investment Consultant Arrangements

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

12 Urgent Exempt Business

To consider in private any other matter which in the opinion of the Chairman should be considered by reason of special circumstances (to be specified) as a matter of urgency.

Essex County Council and Committees Information

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in accordance with the requirements of the Local Government Act 1972. If there is exempted business, it will be clearly marked as an Exempt Item on the agenda and members of the public and any representatives of the media will be asked to leave the meeting room for that item.

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Essex Pension Fund Investment Steering Committee	ISC 01
Date: 19 February 2020	

Essex Pension Fund Investment Steering Committee Membership, Apologies and Declarations of Interest

Report by the Compliance Manager

Enquiries to Amanda Crawford on 03330 321763

1. Purpose of the Report

- 1.1 To present Membership, apologies and Declarations of Interest for the 19 February 2020 ISC.

2. Recommendation

- 2.1 That the Committee should note:
 - Membership as shown below;
 - Apologies and substitutions;
 - Declarations of interest to be made by Members in accordance with the Members' Code of Conduct.

3. Membership

(Quorum: 4)

6 Conservative Group: 1 Labour Group

Membership

Representing

Councillor S Barker

Essex County Council (Chairman)

Councillor M Platt

Essex County Council (Vice Chairman)

Councillor A Goggin

Essex County Council

Councillor A Hedley

Essex County Council

Councillor M Maddocks

Essex County Council

Councillor L Scordis

Essex County Council

Councillor C Souter

Essex County Council

Observers

Councillor C Riley

Castle Point Borough Council

Sandra Child

Scheme Members

Minutes of the Meeting of the Essex Pension Fund Investment Steering Committee (ISC) held in Committee Room 2, on 27 November 2019

1. Membership, Apologies and Declarations of Interest

The report of the Membership, Apologies and Declarations of Interest were received.

Membership Present:

Essex County Council

Cllr S Barker	(Chairman)
Cllr M Platt	(Vice Chairman)
Cllr A Davies	(Sub for Cllr L Scordis)
Cllr A Goggin	
Cllr M Maddocks	
Cllr C Souter	

Scheme Employer Representative

Cllr C Riley	(Observer)
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Scheme Member Representative

Sandra Child (UNISON)	(Observer)
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The following Officers and Advisors were also present in support:

Jody Evans	Interim Director for Essex Pension Fund
Samantha Andrews	Investment Manager
Amanda Crawford	Compliance Manager
Mark Stevens	Independent Advisor
Matt Woodman	Hymans Robertson
Alessandra Santiago	Hymans Robertson

The following Essex Pension Fund Advisory Board (PAB) Members were present as Observers of the meeting:

Debs Hurst	Scheme Member Representative
Stuart Roberts	Scheme Member Representative
James Sheehy	Scheme Member Representative

The following Investment Managers presented at the meeting:

Tom Prew	Stewart Investors (via telephone - Presentation only)
Jimmy Burns	Stewart Investors (Presentation only)
Joanna Terrett	Stewart Investors (Presentation only)

Members noted that the meeting would be recorded to assist with the minutes for the meeting.

Opening Remarks

The Chairman welcomed the Committee.

Apologies for Absence

It was noted that Cllr L Scordis, Cllr A Hedley and Cllr A Erskine, along with PAB Members Nicola Mark, James Durrant and Cllr S Walsh were unable to attend the meeting.

Declarations of Interest

Declarations were received from Cllr S Barker who stated she was in receipt of an Essex LGPS pension and that her son was also a member of the Essex LGPS pension scheme. Cllr A Goggin stated that his wife, sister and brother-in-law were in receipt of an Essex LGPS pension. Cllr Maddocks, Cllr C Riley and Sandra Child declared they were also in receipt of an Essex LGPS pension. Cllr A Davies declared that he has a deferred Essex LGPS pension.

Cllr S Barker also declared that she sits on the Foreign Travel Committee which related to Agenda Item 7.

Cllr M Platt declared that he is Deputy Cabinet Member for Environment & Climate Change Action.

Resolved:

The Committee noted the report.

2. Minutes

Minutes of the meeting of the ISC held on 17 July 2019 were approved as a correct record and signed by the Chairman.

3. Investment Steering Committee (ISC) Terms of Reference (TOR)

The Interim Director for Essex Pension Fund informed the Committee that the ISC TOR was approved by Full Council on 8 October 2019 and had now been published within the Council's Constitution.

Resolved:

The Committee noted the revised TOR.

4. Outcome of Responsible Investment (RI) Workshop: Investment Strategy Statement (ISS) Review

The Chairman introduced this item to the Committee stating that the recent RI Workshop was a productive day.

Hymans Robertson presented the report to the Committee reiterating that the ISS sets out how the investments of the Fund is managed and monitored. Members

were reminded that although reference to Environment, Social and Governance (ESG) issues are reflected within the current ISS, the Workshop was arranged to obtain a qualitative view from the Committee, the purpose, to establish RI beliefs that could then be translated into policy statements that would then form the basis of the overall review and revision of the ISS.

Members were reminded that prior to the Workshop, all ISC Members completed an RI questionnaire of which the results were discussed at the Workshop and from this a set of RI beliefs were then articulated.

Following discussions, the Committee requested the following changes be considered:

- the re-wording of Investment Strategy belief 'Having a responsible investment policy will lead to better financial outcomes' to 'Having a responsible investment policy could lead to better financial outcomes';
- a belief to be added in relation to the Fund's investments direction of travel; and
- to add a further belief that ESG should be incorporated into the reporting that the Investment Managers provide the Committee as a matter of course.

The Independent Investment Advisor praised the Committee for their efforts in reviewing ESG thus far.

The Interim Director for Essex Pension Fund reiterated that once the ISS was in place, the hard work to implement and monitor the achievement against it would commence.

Resolved:

The Committee agreed that:

- the RI beliefs outlined in the report, along with the amendments and additions suggested, were an accurate reflection of the outcome of the RI Workshop;
- Officer and Advisors will translate the RI beliefs, including the amendments and additions raised at today's meeting, into policy statements for inclusion into the revised ISS; and
- the content of the report was noted.

5. Local Authority Pension Fund Forum (LAPFF) Collaboration

The Chairman introduced this Item to the Committee notifying them that due to unforeseen circumstances the presenter was unable to attend the meeting.

It was highlighted to the Committee that one of the strong conclusions from the RI preparatory work was, Members articulating that they were in favour of collaboration with other investors. The Independent Investment Advisor, in his role at other LGPS funds was able to share his knowledge of the work that LAPFF provide for those funds. It was explained that LAPFF was one of the ways that the Fund could collaborate with other Funds. A brief overview was provided of the

work that LAPFF undertakes and the potential benefits that could be realised by the Fund if they were to sign up to become a member.

Resolved:

The Committee agreed:

- to sign up to be a member of LAPFF; and
- to invite LAPFF to a future meeting to present the work LAPFF have undertaken up to quarter end 31 December 2019.

6. Capital Markets Outlook Q3 2019

Hymans Robertson introduced the report to the Committee providing an update in relation to GDP growth, global markets and interest/inflation rates for the quarter ended 30 September 2019.

Resolved:

The Committee noted the content of the report.

7. Schedule of Meetings

The Committee received a report from the Compliance Manager detailing the remaining planned Committee and Board meetings for this municipal year.

It was reconfirmed that the ISC meetings for the remainder of the year would continue to take place at 1.00pm, however, it was noted that for 2020/21 Members had expressed a preference for the meeting time to be changed to 10.00am.

Members were also reminded that from December the PSB start time had changed to 10.00am.

The Chairman also notified the Committee of the events/conferences that were on the horizon during 2019/20. Members were advised to contact the Compliance Manager if they would like to attend any of the events discussed, by the given deadlines in order for approval of travel to be sought from the Foreign Travel Committee.

Investment Steering Committee

19 February 2020 – 1.00pm
25 March 2020 – 1.00pm

Pension Strategy Board

18 December 2019 – 10.00am
4 March 2020 – 10.00am

Resolved:

The Committee noted the schedule of meetings for 2019/20 and the report.

8. Urgent Part I Business

The Interim Director for Essex Pension Fund notified the Committee of a recent consultation in relation to Responsible Investment. Members were informed that the consultation document would be sent out after the meeting for comment. Following which a written response from the Chairman be drafted.

Resolved:

The Committee noted the update.

Exclusion of the Public and Press

That the press and public are excluded from the meeting during the consideration of the remaining items of business on the grounds that they involve the likely disclosure of exempt information falling within Schedule 12A to the Local Government Act 1972, the specific paragraph(s) of Schedule 12A engaged being set out in the report or appendix relating to that item of business.

Resolved:

The Chairman brought to the attention the above statement and the Committee agreed to proceed.

9. Investment Tables Quarter end 30 September 2019

The Committee received a report from the Interim Director for Essex Pension Fund in consultation with the Independent Investment Advisor, which provided details of the Fund's investment performance for the quarter ended 30 September 2019.

The Investment Manager provided an update on the work undertaken to date in regard to the review of the investment table format, presentation and content. It was explained that in consultation with the Independent Investment Advisor, the Chairman and the Vice Chairman the investment tables had been redesigned to now include dashboard summary along with the following sections:

- Asset Allocation;
- Performance;
- ACCESS; and
- Funding Level.

It was noted that the value of the Fund had increased to an all-time high of £7.4bn to date.

The Committee requested that the Independent Investment Advisor to provide narrative within the new template to give some qualitative context.

Resolved:

The Committee noted:

- the progress made to date in regard to the review of the investment tables;
- the revised format, presentation and content;

- that any further feedback that Members may have be communicated to the Investment Manager before the next meeting; and
- the content of the report .

10. Traffic Light Rating Report

The Committee received a report from Hymans Robertson which summarised the current views of Hymans Robertson on some of the Fund's investment managers.

Resolved:

The Committee noted the content of the report.

11. ISC Briefing Note on Manager Presenting – Stewart Investors

The Committee received a report from Hymans Robertson in relation to Stewart Investors, the Fund's emerging market manager.

Resolved:

The Committee agreed:

- to note the content of the Stewart Investors ISC briefing note of the Fund's emerging market mandate.

12. Investment Manager Presentation – Stewart Investors

The Chairman welcomed and introduced Tom Prew (dialled in via conference call), Jimmy Burns and Joanna Terrett from Stewart Investors who provided the Committee with a presentation in respect of the Fund's emerging market mandate.

Resolved:

The Committee noted the presentation.

Tom Prew, Jimmy Burns and Joanna Terrett then left the meeting.

13.a Strategy Implementation Tracker

The Committee received a report from Hymans Robertson on the progress made to date.

Resolved:

The Committee noted:

- the content of the report; and
- the progress made to date.

13.b Infrastructure Allocation

The Committee received a report from Hymans Robertson reconfirming decisions made in respect of the Fund's infrastructure allocation during their 20 February 2019 and 15 November 2017 ISC meetings respectively.

Resolved:

The Committee agreed:

- to increase the strategic allocation to infrastructure from 6% to 10% of the Fund by increasing the target allocation of both IFM Investors and JPMorgan from 1% to 3%;
- a further £150m commitment each be made to IFM Investors Global Infrastructure Fund and JPMorgan Infrastructure Investment Fund respectively;
- a further £60m to be committed to the Partners Group Infrastructure 2020 fund; and
- Officers in consultation with Advisors review and complete the necessary subscription documentation.

14. Structural Reform of LGPS Pooling Quarterly Joint Committee Update of ACCESS Joint Committee (AJC)

The Interim Director for Essex Pension Fund provided the Committee with an update on recent developments in relation to Pooling.

The Committee were informed that Cllr Andrew Reid was re-elected as Chairman of the AJC for a further term of two years. However, it was noted that since the last AJC meeting, Cllr Reid had tendered his resignation as Chairman of the AJC.

The Committee were also advised that Scheme Member representation on the AJC was considered and a decision of no change to the current arrangement was agreed.

Members were also advised that ACCESS met with civil servants on 4 July 2019 to discuss ACCESS's response to the Ministry of Housing, Communities and Local Government (MHCLG) informal consultation in regard to guidance on LGPS asset pooling.

The Committee were also informed of the appointment of Kevin McDonald as Interim Director of the ACCESS Support Unit (ASU) effective from 1 August 2019.

In addition, Members were advised that Link, ACCESS's ACS operator had launched two further sub funds. The Fund however, was not involved in these launches.

Resolved:

The Committee noted the:

- re-election of Cllr Andrew Reid as Chairman of the AJC for a further term of two years and his subsequent resignation;
- the consideration and decision of no change to the current arrangement in regard to Scheme Member representation on the AJC;
- meeting held on 4 July with ACCESS and Civil Servants from Minister of housing, Communities and Local Government (MHCLG) on ACCESS' progress and response to the MHCLG consultation on the draft investment pooling guidance;
- presentation from Link Fund Solutions;

- update in respect of the launch of tranche 3 sub funds;
- progress to date of Phase 2 sub-fund seeding arrangements;
- progress to date in respect of pooling ACCESS illiquid assets;
- progress in regard to monitoring Officers review of the revised Inter-Authority Agreement (IAA) and timetable for progressing through each authority's respective governance process;
- the appointment of Kevin McDonald as Interim Director of the ACCESS Support Unit effective from 1 August 2019;
- contract management update;
- update on progress made against business plan deliverables and budget forecast;
- ACCESS Pool's key risks, changes to risk profile and risk ratings; and
- agenda of 9 September 2019 AJC.

15. Competition and Markets Authority (CMA) Objectives

The Chairman asked for Hymans Robertson attendees to be excluded from the meeting for this item to be discussed.

The Interim Director for Essex Pension Fund informed the Committee of a recent requirement whereby the Competition and Markets Authority (CMA) had issued a requirement for all pension funds trustees to set strategic objectives for their institutional investment consultants by 10 December. It was explained that these objectives would then be used to measure the performance of Hymans Robertson.

Resolved:

The Committee agreed:

- the strategic objectives which Hymans Robertson will be measured against;
- that once a year a formal assessment be undertaken with Hymans Robertson, and the outcome reported back to the ISC; and
- to note the content of the report.

16. Urgent Exempt Business

No matters arising.

17. Closing Remarks

There being no further business the meeting closed at 4.25pm.

Chairman
19 February 2020

Essex Pension Fund Investment Steering Committee	ISC 03
Date: 19 February 2020	

Schedule of Future Meetings and Events

Report by the Compliance Manager

Enquiries to Amanda Crawford on 0333 0321 763

1. Purpose of the Report

- 1.1 To provide the Committee with an update on the schedule of future meetings and events incorporating the process of approval by the Foreign Travel Committee.

2. Recommendation

- 2.1 That the Committee:
 - advise Fund Officers which events they would like to attend; and to
 - note the content of the report.

3. Background

- 3.1 The Committee were made aware, at their meeting on 27 November 2019, that future meetings and events would be brought to each meeting to ensure the process of approval by the Foreign Travel Committee for attendance at any conferences/seminars is incorporated within the Committee's timetable.

4. Upcoming Event(s)

- 4.1 The next events to take place are:

Date	Title	Venue	Action
Wednesday 27 & Thursday 28 February	LGC Investment Seminar	Carden Park, Cheshire	No action – Cllr Barker and two Fund Officers are attending – approved by Foreign Travel Committee on 21 January 2020
Wednesday 18 March	Longview Conference	London	To notify Samantha.andrews@essex.gov.uk by COP Friday 28 February if any Member wishes to attend
Thursday 02 April	ACCESS Investor Day	Royal Horseguards, London	To notify Samantha.andrews@essex.gov.uk by COP Friday 13 March if any Member wishes to attend
Thursday 21 May	Baillie Gifford LTGG Seminar	London	To notify Samantha.andrews@essex.gov.uk by COP Friday 30 April if any Member wishes to attend

5. Schedule of Meetings

- 5.1 The meeting dates/times for the Committee to note are:

Investment Steering Committee	
Wednesday 25 March 2020	1pm – 4pm
Tuesday 21 July 2020	11am – 5pm
Wednesday 21 October 2020	10am – 1pm
Wednesday 20 January 2021	10am – 4pm
Wednesday 24 March 2021	10am – 1pm

Pension Strategy Board	
Wednesday 17 June 2020	10am – 1pm
Wednesday 23 September 2020	10am – 1pm
Wednesday 16 December 2020	10am – 1pm
Wednesday 17 March 2021	10am – 1pm

6. Finance and Resources Implications

6.1 The one-day events listed at 4.1 will incur rail travel costs only.

7. Background Papers

7.1 ISC 07 – 27 November 2019.

Essex Pension Fund Investment Steering Committee	ISC 05
Date: 19 February 2020	

Investment Strategy Statement - Responsible Investment (RI) Policy

Report by Hymans Robertson in consultation with the Interim Director for Essex Pension Fund and Independent Investment Adviser

Enquiries to Jody Evans on 0333 0138 489

1. Purpose of the Report

- 1.1 To provide the Committee with an update on progress made with the review of the Investment Strategy Statement (ISS) in particular, the section on Environmental, Social and Governance (ESG) considerations.
- 1.2 To present a RI Policy for inclusion in the ISS which outlines the principles and strategy for governing the Fund's assets including the approach to ESG and engagement.

2. Recommendation

2.1 The Committee **agree:**

- that the RI beliefs ratified at the November ISC meeting are an accurate reflection and have been translated fully into the RI Policy outlined in the attached report;
- the RI Policy outlined in the attached report be incorporated into the revised ISS;
- the RI Policy is issued to the Fund's Investment Managers for comment and for feedback to be brought back to the next ISC meeting; and
- that the priority areas identified for RI be shared with the Local Authority Pension Fund Forum (LAPFF) and the Fund's Investment Managers as the basis for engagement.

2.2 The Committee **note:**

- the priority areas for RI consideration and engagement; and
- note the content of the report.

Responsible Investment Policy

Addressee

This paper, prepared for the Investment Steering Committee ("ISC") of the Essex Pension Fund ("the Fund")¹, discusses the ISC's development of investment beliefs regarding Responsible Investment ('RI') and the translation of those beliefs into a policy for inclusion in the Fund's Investment Strategy Statement ('ISS').

Background

The ISC is required to maintain an Investment Strategy Statement ('ISS') setting out its principles for governing the Fund's assets.

The four main areas for setting its principles are:

- 1 The Fund's investment strategy and the process for determining suitability;
- 2 Risk measurement and management;
- 3 Asset pooling; and
- 4 Approach to Environmental, Social and Governance ('ESG') considerations.

The first three of these are a relatively straightforward documentation of an existing process. However, ESG is far more qualitative and depends on an individual's viewpoint. The area of ESG has also experienced far more scrutiny recently.

Reflecting the above, the ISC have been undertaking an in-depth and robust consideration of its ESG beliefs and policies as set out in this paper.

Beliefs workshop

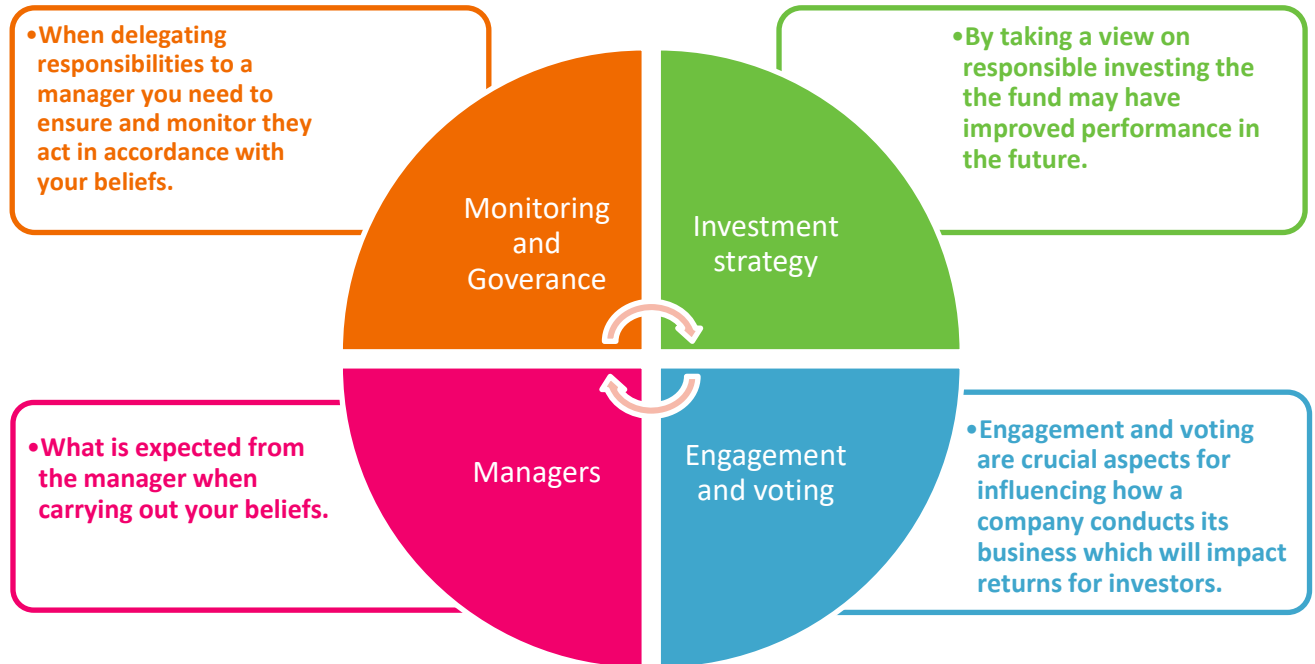
The first stage of this review was for the ISC to undertake an RI workshop on 25 October 2019 (encompassing all areas of ESG considerations) to receive training, consider and articulate their beliefs in relation to RI.

As part of the workshop, the ISC members were asked to complete a questionnaire to elicit their views around ESG and RI issues alongside a decision tree to help guide the views articulated into a coherent set of beliefs. The decision tree is included in the appendix 2 along with the progress achieved.

The following chart highlights the main areas for articulating ESG and RI beliefs.

¹ It should not be released or otherwise disclosed to any third party without our prior written consent except as required by law or regulatory obligation. We cannot be held liable for any loss incurred by any third party relying on this report.

Chart 1: Headline beliefs



Beliefs articulated

The output of the meeting (ratified with some minor amendments at the November ISC meeting) were the following set of beliefs.

Investment strategy (IS)

- 1 Having a responsible investment policy could lead to better financial outcomes.
- 2 Having a responsible investment policy could lead to better outcomes for society.
- 3 Long term, businesses with more sustainable practices should outperform.
- 4 Allowing for the impact of ESG issues has many dimensions to it.
- 5 The Fund should avoid/limit exposure to securities where environmental or social aspects will be financially detrimental to the portfolio.
- 6 Environmental and social investing only needs to not be detrimental to returns.
- 7 Poor management of ESG risks has led to financially material losses in the past and is expected to do so in the future.
- 8 ESG is a factor, but not the only factor in choosing investments.

Engagement and voting (EV)

- 1 Engagement in a company is more effective than disinvesting from the company.
- 2 Engagement and voting are influential and can be effective in changing behaviour and improving the Fund's performance as well as having a positive impact on the environment/society.
- 3 Collaboration with other investors gives the Fund a stronger voice.

Managers (M)**1 Passive managers**

- 1.1 The only influence an investor has on a passive manager is the choice of benchmark and level of engagement.
- 1.2 The choice of benchmark is important as it defines the investment portfolio.
- 1.3 The Fund should be an active owner seeking to influence behaviour in investee companies.
- 1.4 The Fund should consider alternative indices that reflect ESG factors.
- 1.5 The direction of travel of the investee companies is even more important than their current scoring on ESG factors.

2 Active managers

- 2.1 The social cost of companies will eventually need to be self-financed.
- 2.2 Managers should try as far as possible to price in the potential future impact of ESG risk in asset selection.
- 2.3 Active managers can take into account forward-looking metrics better than passive managers.
- 2.4 The Fund's investment managers should embed the consideration of ESG factors into their investment process and decision making, taking into account the direction of travel and not only current scoring.

Monitoring and Governance (MG)

- 1 The ISC should not rely on the pool for leadership on ESG issues.
- 2 The ISC should expect the pool to be able to implement investments in line with its RI policy.
- 3 The Fund needs to engage and challenge managers on integrating ESG issues in their investment process in line with the RI policy.
- 4 An RI policy focussed on improving financial outcomes will be to the benefit of Fund stakeholders.
- 5 It is best to engage stakeholders on the overall approach to managing the Fund rather than on RI policy only.
- 6 ESG factors should be incorporated into manager reporting in due course.

Proposed RI Policy

The next stage is to translate the beliefs into a set of policies for governing investments and inclusion in the ISS.

The Officers and Advisers have reviewed the beliefs articulated by the ISC and have drafted the following proposed policies for review and agreement by the ISC (a mapping of the agreed beliefs to the policies below is included in appendix 1):

Strategy

- The RI policy should be integral to the investment strategy and not considered in isolation.
- The Fund should minimise exposure to securities where environmental or social aspects could be financially detrimental to the portfolio.
- Investments expected to deliver positive environmental or social benefit are encouraged as long as they are not expected to dilute overall returns.

Engagement

- The ISC will only exclude stocks in limited or specific instances, but will actively encourage engagement and work collaboratively with other investors to increase the impact of engagement.

Managers/implementation

- The ISC will seek to implement mandates in line with its RI policy.
- ESG factors should (amongst others) be an integral component in the consideration of investment in a stock by active managers.
- For passive allocations, in choosing the reference benchmark careful consideration will be given to the ESG aspects of that benchmark. Although it is recognised that the passive manager has no choice of stocks within the benchmark index, the passive manager will be expected to actively engage with companies held to the benefit of the Fund and its members.
- The ISC will seek to utilise mandates in line with its RI policy and expects these to be made available via the ACCESS Pool.

Monitoring/governance

- The ISC will monitor and challenge their providers on their ESG implementation and any intended changes over time.
- The ISC will take a long-term view on RI, including the direction of travel as well as the current implementation.

Collaborative working

In line with their belief and policy to work collaboratively with other pension funds to increase the strength of its voice in RI matters, the ISC received a presentation regarding the Local Authority Pension Fund Forum ('LAPFF') at their November meeting.

Following that presentation, the ISC agreed to join the LAPFF as part of a drive to work collaboratively with others on RI issues.

Priority for RI consideration and engagement

Both the ISC and a range of interested parties with interests in the Fund have been asked to identify priority areas for RI consideration and engagement.

The following areas have been identified and will be considered priorities:

- | | |
|----------------------|--------------------------|
| • Climate change | • Weapons |
| • Resource scarcity | • Company governance |
| • Pollution | • Manage board structure |
| • Labour Practices | • Remuneration |
| • Employee relations | • Gender diversity |

Next steps

The ISC are asked to note the process undertaken and to agree or propose amendments to the proposed RI policy set out above.

Following agreement of the policy, the ISC are asked to agree:

- The RI policy is incorporated into the updated ISS;
- The updated ISS is issued to investment managers for comment following the February ISC meeting (or following the March ISC if substantial change is required);
- At the next ISC following comment from the managers, the ISC undertakes a review of managers' ESG and voting policies and how these are aligned with the RI policy and implications for Fund's investments and strategy;
- Following this review the ISS is issued for consultation.

In relation to the RI engagement priorities, the ISC are asked to note these and agree to share with the LAPFF and fund managers for consideration.

Prepared by:-

Matt Woodman, Senior Investment Consultant

Alessandra Santiago, Investment Consultant

Ola Bykowska, Investment Analyst

For and on behalf of Hymans Robertson LLP

Appendix 1 - Mapping beliefs to the policy

The RI policy below is mapped to RI beliefs in Appendix 1, the acronyms for the beliefs sections are defined in the main paper.

Strategy

- The RI policy should be integral to investment strategy and not considered in isolation. (Belief MG5)
- The Fund should minimise exposure to securities where environmental or social aspects could be financially detrimental to the portfolio. (Beliefs IS1, IS3, IS5, IS7, M2.1, MG4)
- Investments expected to deliver positive environmental or social benefit are encouraged as long as they are not expected to dilute overall returns. (Beliefs IS2, IS6)

Engagement

- The ISC will only exclude stocks in limited or specific instances, but will actively encourage engagement and work collaboratively with other investors to increase the impact of engagement. (Beliefs EV1 – EV3, MG3)

Managers/implementation

- The ISC will seek to implement mandates in line with its RI policy. (Beliefs MG1, MG2)
- ESG factors should (amongst others) be an integral component in the consideration of investment in a stock by active managers. (Beliefs IS4, IS8, M2.2 - M2.4)
- For passive allocations, in choosing the reference benchmark careful consideration will be given to the ESG aspects of that benchmark. Although it is recognised that the passive manager has no choice of stocks within the benchmark index, the passive manager will be expected to actively engage with companies held to the benefit of the Fund and its members. (Beliefs M1.1 - 1.4)
- The ISC will seek to utilise mandates in line with its RI policy and expects these to be made available via the ACCESS Pool. (Beliefs MG2)

Monitoring/governance

- The ISC will monitor and challenge their providers on their ESG implementation and any intended changes over time. (Beliefs M1.5, M2.4, MG3, MG6)
- The ISC will take a long-term view on RI, including the direction of travel as well as the current implementation. (Beliefs M1.5, M2.4, MG3, MG6)

Appendix

PRIMARY OBJECTIVE:

TO DELIVER A SMOOTHER, MORE SUSTAINABLE, INVESTMENT RETURN OVER THE LONG TERM CONSISTENT WITH FUNDING PLANS

