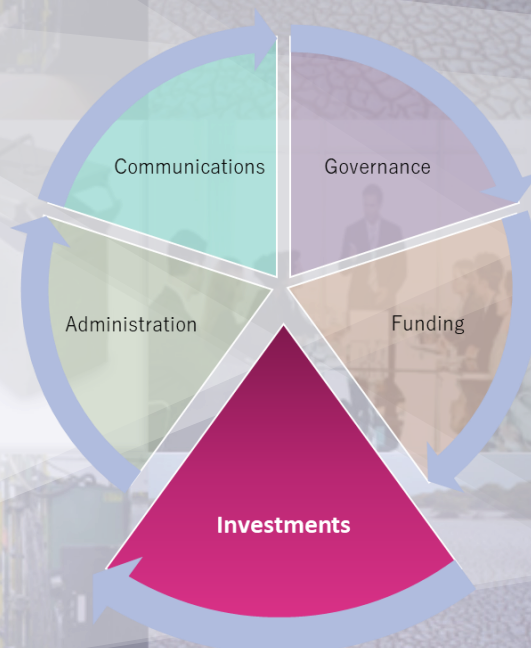


# Essex Pension Fund

## Investment Engagement Strategy February 2022

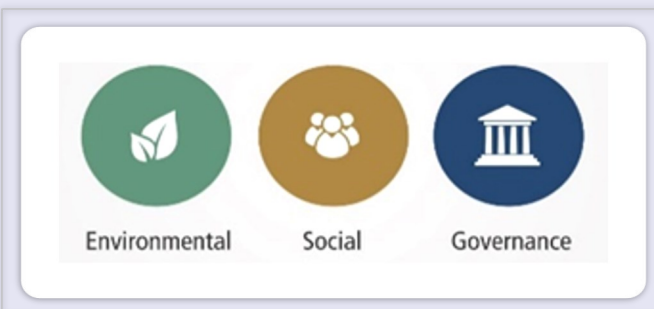


# Essex Pension Fund

## Investment Engagement Strategy

### Background and Introduction

*The Fund recognises that environmental, social and governance (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 Investment Steering Committee (ISC), in formulating the Fund's Responsible Investment (RI) Policy identified four key areas covered by the Fund's RI Beliefs, in addition to outlining its ten RI Engagement Priorities.*



In drafting this Investment Engagement Strategy (the “**Strategy**”) the Essex Pension Fund (the “**Fund**”) has taken account of these factors and has established a Framework. This Framework outlines how Members of the ISC and the Fund will engage with its Investment Managers and the companies they engage with on the Fund's behalf; and discharges their stewardship responsibilities.

### Aims and Objectives

The *aims* and *objectives* of the Strategy are:

- To establish a **Framework** for the Fund's engagements with its Investment Managers;
- To gain an understanding of how each of the Fund's Investment Managers **embed** ESG into their **investment process**;
- To review engagement **holistically**, recognising that all of the **ten RI Priorities** identified by the Fund are equally important;
- To gain an understanding of the level of Climate risk around the Portfolio and how each of the Fund's Investment Managers are **aligning** their mandate to meet the Fund's aspiration of **net carbon zero emissions by 2050**;
- To gain an understanding of how the Portfolio will **transition** to a **low carbon environment** and the steps being taken;
- To get an overall understanding of the investment mandate by assessing the Investment Manager organisation and Portfolio from both a '**Top Down**' and '**Bottom Up**' perspective; and
- To aid discussion, target setting, measurement, outcome and progress reporting.

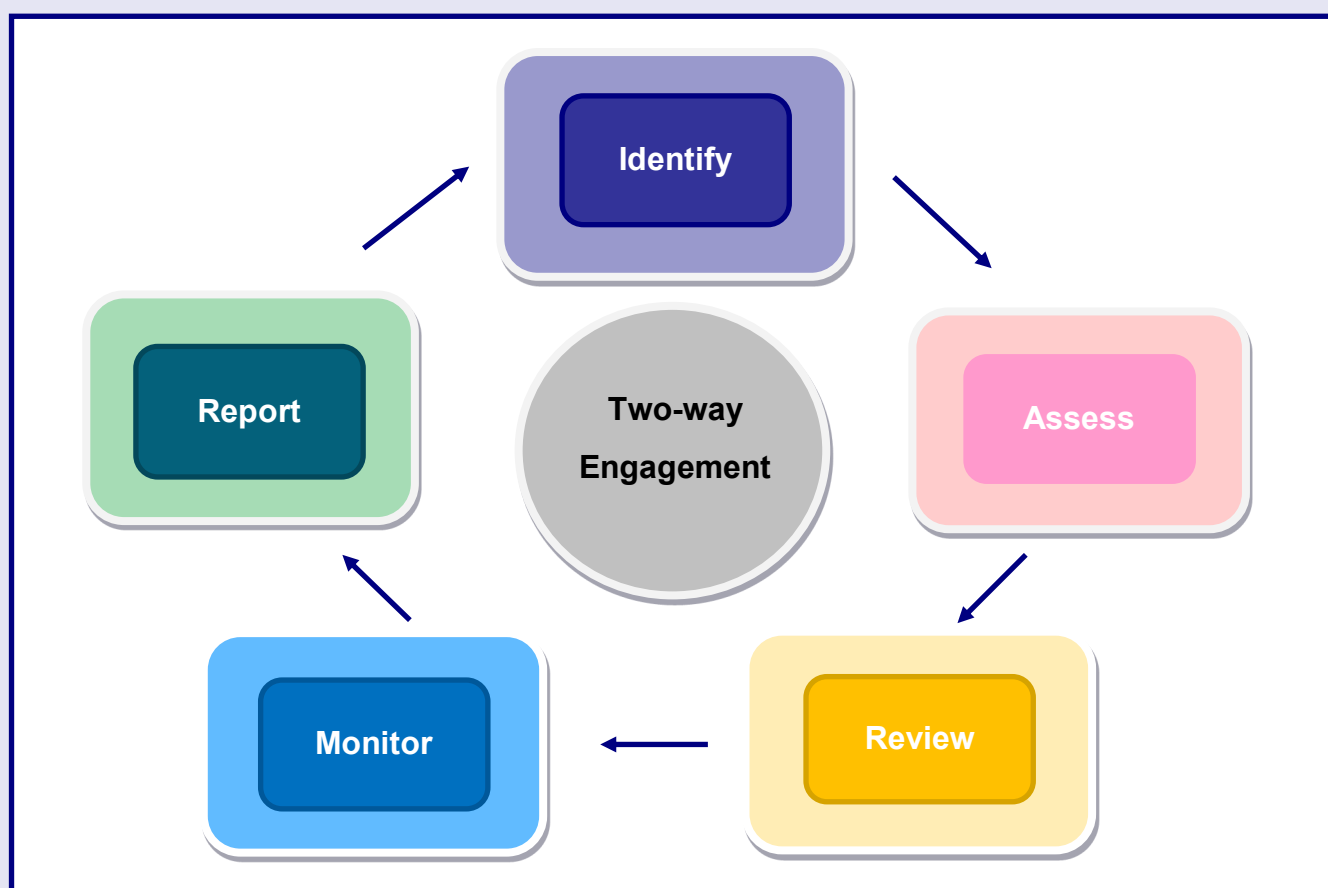


# Essex Pension Fund

## Investment Engagement Strategy

### Engagement Framework Process

The following illustrates the Engagement Framework process that the Fund has developed:



### Engagement Meetings

The ISC will look to formally meeting each of the Fund's Active Managers on a two-year rolling basis and its Index Tracking Manager triennially.

In addition, Fund Officers along with its Institutional Investment Consultant and Independent Investment Adviser (O&A) will implement a programme of activity to meet each of the Fund's active Investment Managers periodically. However, where a Manager has been flagged or put 'on watch' through the monitoring Framework the O&A will aim to meet the Manager more frequently.



# Essex Pension Fund

## Investment Engagement Strategy

### Identify

In formulating its engagement with the Fund's Investment Managers the Fund will use its stated RI Beliefs and RI Priorities as the basis of those discussions. These are detailed below:

### Responsible Investment Beliefs

#### Investment Strategy

By investing responsibly, the Fund expects to have improved investment performance in the future

#### Engagement & voting

Engagement and voting are crucial aspects for influencing how a company conducts its business which will impact returns for investors

#### Managers

The Fund should appoint managers with mandates that are fully aligned to our RI beliefs

#### Monitoring & Governance

When delegating responsibility to a Manager, the Fund will need to ensure and monitor that they act in accordance with the Fund's RI Beliefs and Priorities

### Priority for RI consideration and engagement

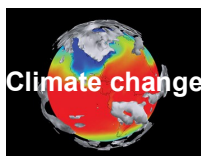
The Committee recognises that there are a range of interested parties all of whom will have differing interests in the Fund and as such have identified the following areas which it expects the Fund's investment Managers to treat as priorities when engaging with companies invested in on the Fund's behalf:



Gender diversity



Manager board structure



Climate change



Resource scarcity



Pollution



Environmental

Social

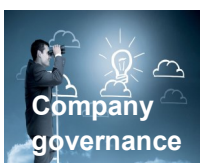
Governance



Weapons



Remuneration



Company governance



Employee relations



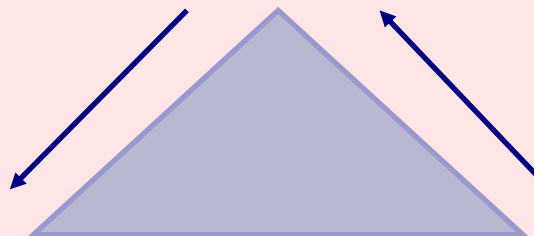
Labour Practices

# Essex Pension Fund

## Investment Engagement Strategy

Assess

### 'Top Down' and 'Bottom Up' Assessments



The Fund will utilise a variety of methods to assess the Fund's Investment Managers within both **'Top Down'** and **'Bottom Up'** Assessments.

#### 'Top Down' Assessment

A **'Top Down'** assessment reviews the Investment Manager's organisation's overall approach to ESG risks and how they apply this to the mandate they manage on behalf of the Fund.

#### 'Bottom Up' Assessment

**'Bottom Up'** assessments are deeper dives focussing on the actual implementation within the Fund's portfolio, identifying portfolio exposures to a range of ESG themes (including climate change), the trends and the long term expectations.

A variety of key analytics are used to provide a detailed view of the portfolio. For example the Fund utilises MSCI Analytics tool to analyse their equity and bond Portfolios.

Review

An agenda is prepared for each meeting comprising of a set of questions based on the outcome and findings from both the **'Top Down'** and **'Bottom Up'** analysis.

In each review, focus is given to overall ESG scores, climate change risk metrics and identifying the worst performing stocks in each portfolio i.e. those which score lowly on ESG. This helps to establish whether the Investment Manager has clear visibility of the reason(s) for poor scores and the likely direction of travel of the scores, to gain sufficient comfort that the overall expected long-term financial return is not comprised.

General ESG considerations are also covered in these review meetings. For example, how ESG is embedded into their investment processes, what the organisation is doing to meet 'net zero' within its own organisation, as well as collaborative initiatives and future ambitions.

# Essex Pension Fund

## Investment Engagement Strategy

### Monitor / Measure

A **Framework** has been put in place to ensure that each of the Fund's Investment Managers is monitored and reviewed by the ISC on a quarterly basis in terms of its overall investment capability and its RI rating.

Where a Manager has been flagged or put 'on watch' through the monitoring Framework the Fund will aim to meet and engage with the manager more frequently and provide appropriate challenge as and when required.

The Fund has agreed a set of climate risk metrics and other ESG metrics which it will measure and monitor each of the Fund's Investment Managers against periodically, with the expectation that meaningful improvements/enhancements will be achieved over the medium term.

### Report

The Fund requires each of its Investment Managers to provide written responses to questions raised within the engagement meetings. The outcomes are reported back to the ISC periodically to allow appropriate challenge and oversight.

Investments Managers are also invited to present to the ISC. At these meetings the Investment Manager will be expected to cover: performance in the context of markets conditions; organisational updates; and more specifically ESG matters.

As part of the **two-way engagement process** feedback is also provided to the Investment Manager.

### Collaboration

The Fund actively encourages engagement and works collaboratively with other investors to increase the impact of engagement.



The Essex Fund is one of eleven participating Funds in the **ACCESS Pool** (A Collaboration of Central, Eastern & Southern Shires) along with Cambridgeshire, East Sussex, Hampshire, Hertfordshire, Isle of Wight, Kent, Norfolk, Northamptonshire, Suffolk and West Sussex.

All eleven partner funds are committed to collaboratively working together to meet the Government's criteria for pooling and to utilise its combined weight of capital of the ACCESS partnering funds to positively engage with the companies it invests with. This includes the development of ACCESS RI Guidelines.

The Fund is a member of the **Local Authority Pension Fund Forum (LAPFF)** which currently represents the interests of 85 out of 98 LGPS funds in the UK.

# Essex Pension Fund

## Investment Engagement Strategy

### Escalation Policy

The Fund expects its Investment Managers to take the appropriate action when operating on its behalf engaging in stewardship activities. This includes 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 chain. 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.

### Key Risks

The key risks to the delivery of this Strategy are contained within the Fund's Risk Register which can be found on the [www.essexpensionfund.co.uk](http://www.essexpensionfund.co.uk) website.



### Measurement of Success

The ISC will measure engagement activities, their progress, outcomes and next steps periodically as a way of measuring the success of its and its Investment Managers' engagements.

In addition, the Fund is committed to reporting annually on compliance to the **12 Principles of the 2020 Financial Reporting Council UK Stewardship Code**.

### Approval, Review and Consultation

This Strategy was approved on 23 February 2022 by the ISC. It will be formally reviewed in line with the Fund's RI Policy and updated by the ISC at least every three years or sooner if matters included within it merit reconsideration.

### Further Information

If you require further information about this Strategy, please contact:

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