

Essex Pension Fund RI Project Plan

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Introduction

Purpose and addressee

- This paper, which is addressed to the Investment Steering Committee (“ISC”) of the Essex Pension Fund (“the Fund”), proposes a project plan to enable the Fund to develop its overall approach to responsible investment in line with its policy, including completing a submission to become a signatory to the 2020 UK Stewardship Code in 2022.
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Background

- The areas of Environmental, Social and Governance (‘ESG’) and Responsible Investment (‘RI’) within the investment of LGPS assets (and wider pensions and investment in general) have been experiencing increasing scrutiny over the past few years.
- The ISC is committed to being a responsible investor and has undertaken an in-depth review of its ESG and RI beliefs, objectives, monitoring and implementation over the past couple of years.
- As part of demonstrating its commitment to addressing these issues, the ISC has set a target of becoming a signatory to the 2020 UK Stewardship Code in 2022, which is seen as the ‘gold standard’ for demonstrating good practice in these areas.
- This paper sets out a project plan of actions, timing and measures to achieve this year’s business plan in relation to responsible investment and stewardship.

Responsible investment (RI) and Stewardship Code

There is a significant amount of activity planned over the next year under the banner of Responsible Investment (RI), as follows:

- Implementation of agreed RI policy, the next steps of which are:
 - Development and implementation of Fund's engagement strategy with its investment managers, including ACCESS;
 - Commencement of the annual review of all investment managers' compliance with the Fund's RI and stewardship policy;
 - Review of passive equity mandate and underlying index construction.
- Developing climate change policy objectives and metrics as part of the Taskforce for Climate-related Financial Disclosures (TCFD) framework.
- Becoming a signatory to the 2020 UK Stewardship Code.

There are many tasks in common across these three areas (e.g. developing the engagement strategy with managers will be a key component of the Stewardship Code submission; the metrics identified as part of the TCFD framework can be aligned to the metrics used in monitoring the managers' approaches). It therefore makes sense to consider all areas as part of the overall plan.

Timeline for achieving submission

Key dates

Stewardship code

- The key date to be a 2022 signatory is 30 April 2022 for final submission covering the period 1 January 2021 to 31 December 2021.

TCFD

- Currently there are no requirements for LGPS to report under TCFD; however, consultation on this is expected very soon with likely requirements coming in from 2022/23, with reporting in the second half of 2023.

ISC dates [to be confirmed]

- Below is a list of the ISC meeting dates, which mark key milestones in the project plan.
- 16 June 2021
- 13 October 2021
- 24 November / 2 December 2021
- 23 February 2022

Project plan (ISC meetings)

Meeting	Deliverables	Decisions and actions
16 June 2021	<ul style="list-style-type: none"> • Training on requirements • Proposed scope and project plan 	<ul style="list-style-type: none"> • Agree scope of activities and project plan
Training	<ul style="list-style-type: none"> • TCFD framework and requirements • Key climate metrics (for manager monitoring, TCFD metrics and targets) • Equity benchmarks with RI credentials (for passive equity mandate) 	
13 October 2021	<ul style="list-style-type: none"> • Proposal on passive equity benchmarks • Early draft of Stewardship Code submission (template with gaps) • Proposed climate metrics and targets (for manager monitoring and TCFD) • Meet manager with focus on RI themes (with new format briefing note) 	<ul style="list-style-type: none"> • Agree approach to passive equity benchmarks and document as part of RI policy • Agree climate metrics and targets • Identify areas for ongoing engagement with manager
24 November / 2 December 2021	<ul style="list-style-type: none"> • Initial engagement plan with all managers including progress to date • Proposal on communication and engagement with key stakeholders • Meet manager with focus on RI themes 	<ul style="list-style-type: none"> • Agree engagement plan • Agree communication plan • Identify areas for ongoing engagement with manager
Training	<ul style="list-style-type: none"> • Follow up Stewardship Code training, including Fund escalation policy 	<ul style="list-style-type: none"> • Agree Fund escalation policy
23 February 2022	<ul style="list-style-type: none"> • Final draft of Stewardship Code submission, including Fund escalation policy • Annual review of managers' compliance with Fund's RI and stewardship policy • Meet manager with focus on RI themes 	<ul style="list-style-type: none"> • Delegate completion of Stewardship Code submission to O&A for submission by 30 April 2022 • Identify areas for ongoing engagement with manager

Project plan (O&A)

Meeting	Deliverables / outcomes	Information / engagements
May	<ul style="list-style-type: none"> Develop scope and project plan 	
June - July	<ul style="list-style-type: none"> TCFD, metrics, benchmarks training materials Scope of benchmark review and range of market approaches Draft (skeleton) of overall engagement approach 	<ul style="list-style-type: none"> Obtain manager and ACCESS policies on managing conflicts Obtain initial information on actual engagements and voting activity (to be included in regular reporting)
20 July O&A	<ul style="list-style-type: none"> Determine preferred approach to passive 	<ul style="list-style-type: none"> Test engagement approach with up to two equity managers
July - Sept	<ul style="list-style-type: none"> TCFD consideration of metrics and targets Further research on passive benchmarks Develop reporting templates for engagement approach, including initial manager reporting requirements Develop skeleton stewardship code submission 	<ul style="list-style-type: none"> Discussions with ACCESS and UBS re: passive equity benchmarks MSCI (or alternative) re: climate metrics
14 Sept O&A	<ul style="list-style-type: none"> Agree passive equity proposals and proposed climate metrics and targets for ISC 	<ul style="list-style-type: none"> Test engagement approach with up to two non-equity managers
Sept	<ul style="list-style-type: none"> Finalise October ISC papers – passive equity, stewardship code submission early draft, proposed metrics and targets for manager reporting and TCFD 	

Project plan (O&A) - continued

Meeting	Deliverables / outcomes	Information / engagements
19 Oct O&A (may need another or later date)	<p>Consider results of ESG and climate scenario modelling for TCFD and stewardship code principle 4</p> <p>Review of communication and engagement with all stakeholders</p> <p>Review of collaborations and potential collaborations</p>	Engagement with 2 managers using proposed approach
Oct – Nov	<p>Develop implementation plan on passive equity approach</p> <p>Finalise papers for November / December ISC – overall engagement approach, proposed comms strategy and potential collaborations</p>	
Dec 2021 – Jan 2022	<p>Develop Fund escalation policy</p> <p>Training materials on Stewardship Code and escalation of engagements and climate scenario modelling</p>	<p>Obtain manager and ACCESS policies on escalation of engagements</p> <p>Obtain further information on actual engagements and voting activity (part of regular reporting)</p>
11 Jan O&A	<p>Review progress of stewardship code submission, including live examples of impact of engagements</p> <p>Review proposed escalation policy</p>	Engagement with two managers using agreed approach
Jan – Feb 2022	<p>Annual review of managers' compliance with RI and stewardship policy</p> <p>Finalise papers for February ISC including final draft of Stewardship Code submission</p>	O&A meeting to finalise February papers
Mar – Apr 2022	Finalise Stewardship Code submission	O&A meeting to finalise submission

Implementing RI Policy



Manager engagement and annual review – key tasks

- Develop process of engagement and plan for covering all managers (directly or via ACCESS) over the next year. To include:
 - Programme of meetings with managers
 - Key areas for engagement with the managers
 - Key portfolio metrics and analysis
 - Reporting requirements from managers
 - Approach to each manager engagement – preparatory materials and documentation templates
 - Identify levels of delegation / roles and responsibilities – O&A, ISC
- Implement programme of manager engagements (e.g. approximately 2 managers at each O&A meeting; separate O&A meetings to focus on manager engagements) – including preparatory materials and recording of outcomes and next steps.
- Develop additional reporting to the ISC on engagements, including:
 - Manager briefings to include engagement goals with managers attending ISC meetings.
 - Annual review of managers' compliance with Fund's RI and stewardship policy.
- Defining the reporting required from the managers as part of their regular reporting (we propose this is done at the point of engaging with each manager).
- Review and documentation of final engagement process based on experience (this will likely be an iterative process over the years).

Review of approach to passive equities – key tasks

- Agree scope of review and key quantitative metrics.
- Review of market approaches, including those available from UBS.
- Engagement with ACCESS on potential solutions.
- Engagement with UBS on potential solutions.
- Final proposal to ISC.

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TCFD



TCFD recommendations

- The Task Force established recommendations for disclosing clear, comparable and consistent information about the risks and opportunities presented by climate change.
- Their widespread adoption will ensure that the effects of climate change become routinely considered in business and investment decisions and will help better demonstrate responsibility and foresight in their consideration of climate issues, leading to smarter, more efficient allocation of capital, and helping to smooth the transition to a more sustainable, low carbon economy.
- The Task Force divided climate-related risks into two major categories: risks related to the transition to a lower-carbon economy; and risks related to the physical impacts of climate change. Recommendations were based on four thematic areas.



Governance

- The organisation's governance around climate-related risk and opportunities

Strategy

- The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.

Risk management

- The processes used by the organisation to identify, assess and manage climate related risks.

Metrics and targets

- The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Recommended disclosures

Governance

- a. Describe the board's oversight of climate-related risks and opportunities.
- b. Describe management's role in assessing and managing climate related risks and opportunities.

Strategy

- a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.
- b. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.
- c. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Risk Management

- a. Describe the organisation's processes for identifying and assessing climate-related risks.
- b. Describe the organisation's processes for managing climate-related risks.
- c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

Metrics and Target

- a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.
- b. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
- c. Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets.

Key tasks

- Currently there are no requirements for LGPS to report under TCFD...
- ...however, consultation on this is expected very soon with likely requirements coming in from 2022/23.
- Although there will be differences, it is likely to be largely aligned with guidance for private sector schemes.
- Some authorities have developed TCFD reporting. Even if not fully aligned with the final outcome of consultation, this will be a very useful step.
- There is material overlap with the broader implementation of RI policy and the requirements for the stewardship code submission, which should help.

Key tasks based on private sector guidance include (tasks in 2021/22 plan shown in bold):

- Gap analysis of what is in place (or will be in place as a result of other activity) versus requirements for full reporting.
- Identify and assess the impact of climate related risks and opportunities that will impact the investment and funding strategy of the Fund over different time horizons.
- Scenario analysis to assess the resilience of the Fund's assets, liabilities and investment and funding strategy to climate related risks in at least two scenarios (including one scenario that reflects an annual temperature rise of 1.5 to 2 degrees Celsius).
- Develop and maintain processes for identifying, assessing and managing climate-related risks and ensure the integration of climate-related risks into overall risk management (e.g. risk registers).
- **Identify key metrics to monitor (guidance is a minimum of two emissions based metrics – one absolute measure and one intensity based – and an additional climate change metric) and source of data required to calculate the chosen metrics on an annual basis.**
- **Set targets for chosen metrics and measure performance against targets annually, including a review of the targets/**
- Draft TCFD reporting.

2020 UK Stewardship Code

2020 UK Stewardship Code overview

The following is taken from Mark Steven's paper to the ISC (see paper for detailed commentary on each principle).

The code defines stewardship as “the responsible allocation, management and oversight of capital to create long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society”. The code for asset owners such as the Essex Pension Fund covers all asset classes and comprises 12 comply and explain principles (rather than prescribed requirements). Any submission is expected to contain information in the following format:

1. Context (why are we doing this?)
2. Activities (what are we doing and how are we engaging?)
3. Outcomes (what are the desired consequences and have these been achieved?)

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, the environment and society*
- *Principle 2: Signatories' governance, resources and incentives support stewardship*
- *Principle 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first*
- *Principle 4: Signatories identify and respond to market wide and systemic risks to promote a well functioning financial system*
- *Principle 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities*

2020 UK Stewardship Code overview (continued)

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*
- *Principle 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities*
- *Principle 8: Signatories monitor and hold to account managers and/or service providers*

Section 3: Engagement

- *Principle 9: Signatories engage with issuers to maintain or enhance the value of assets*
- *Principle 10: Signatories, where necessary, participate in the collaborative engagement to influence issuers*
- *Principle 11: Signatories, where necessary, escalate stewardship activities to influence issuers*

Section 4: Exercising rights and responsibilities

- *Principle 12: Signatories actively exercise their rights and responsibilities*

Submission

- Organisations will have to submit an annual Stewardship Report explaining how they have applied the Code over a 12-month period. The report must be reviewed and approved by the applicant's governing body, and signed by the chair, chief executive or chief investment officer.
- The FRC will evaluate reports and notify organisations of the outcome of their application shortly before the first list of signatories is published (privately for failed submissions). Organisations that meet the reporting expectations will be listed as signatories to the Code on the FRC website with a link to their report.
- Once the applicant has been accepted as a Code signatory and the report is approved by the FRC, the report will be a public document and must also be made available on the signatory's website.
- The key date to be a 2022 signatory is 30 April 2022 for final submission covering the period 1 January 2021 to 31 December 2021.

Evaluating the current position on Stewardship Code

Evaluating the current position

The following table, taken from Mark Steven's paper to the ISC, evaluates the Fund's position against each of the principles.

Purpose and Governance	Principle description	Stewardship objective	Current status	Resource requirement	Comments
P1	Purpose of EPF and investment beliefs	Understanding of the strategy and culture of the signatory	Updated ISS and /RI workshops completed	Low: as majority of information already available	Expected to be a one off exercise
P2	EPF internal governance structure and resources	Identification of the governance structure and resources	Documentation of the governance structure and personnel and training will be required much already exists	Low: this will be a matter of formalising and documenting the various governance roles	Much of this documentation already exists it will be a matter of making it code ready
P3	Management of conflicts of interests	Detail how any actual or potential conflicts are handled	Managers will need to be contacted about how conflicts are managed on behalf of the fund	Low: initial documentation of process will be available with minimum updates needed for future submissions	ACCESS will need to provide updated information on this principle for pooled assets
P4	Identification / monitoring of systemic risks	Detail role played in industry initiatives in improvement of financial system	Mainly for fund manager input although integration into risk register seems appropriate	Low: another input from manager monitoring templates	Risk controls and fund rebalancing can be documented for this principle

Evaluating the current position

Purpose and Governance	Principle description	Stewardship objective	Current status	Resource requirement	Comments
P5	Review of effectiveness	Requirement to review and monitor policies for effectiveness	A review process will need to be agreed with managers	Substantial: requirement in the build out phase also impacts P10	A review structure will need to be agreed with every manager employed by the fund
P6	Communication of stewardship approach to beneficiaries	EPF need to communicate why the stewardship activities adopted are appropriate for beneficiaries	Much of this can be derived from the ISS and the included in regular updates	Low: in terms of additional workload, some enhancements may be required to website or newsletters	The regular communication to beneficiaries either directly or via website can be repurposed to fulfil this principle
P7	Integration of ESG/RI policy in appointment of managers	Need for the integration of ESG/RI policies into mandate awards and on going monitoring	Although this principle is partly implemented more work on evidencing will need to be carried out	Moderate: This work will form part of building of the manager reporting templates and a review of ITT processes	The on-going integration will be included on manager reporting templates. ACCESS will ultimately be involved.
P8	Monitoring, accountability and holding to account of managers and service providers on RI/ESG policy issues	Requirement to hold managers to account confirmation that assets run in line with RI policy	The existing process will need to be enhanced, documented and implemented	Substantial: Development of the enhanced monitoring process and reporting template will evolve into a regular review and engagement process with managers	Linked with P7 This can be thought of as the core BAU outcome of becoming a signatory to the code.

Evaluating the current position

Purpose and Governance	Principle description	Stewardship objective	Current status	Resource requirement	Comments
P9	Engagement with issuers	Signatories via representatives should engage with issuers	Details of manager engagement and outcomes will need to be documented and evidenced	Substantial: although the data will be provided by managers a substantial amount of collation and documentation required	Linked to P7 and P8 This one of the major on going tasks for signatories
P10	Collaborative engagement	Covering both direct EPF collaboration i.e. LAPFF and manager collaboration i.e. Climate 100+ UN PRI	Reporting and evidence process will need to be developed with managers	Moderate: the submission will need to provide specific examples of collaboration and outcomes	This will need to be incorporated in the manager monitoring template
P11	Escalation policy towards issuers	Explain the expectations for escalation set for asset managers of the fund	This has not been formally agreed and will need to be included in the review policies developed with managers	Low: the additional information required for this principle can be included in the manager templates	Thought will need to be given for how different asset types are treated in this regard
P12	Exercising of rights including voting policy	Signatories must actively exercise rights across all geographies	Although voting policy is in place additional work will be required for other asset classes. Also an important role for ACCESS	Moderate: a process and policy will need to be agreed with all managers including an on-going review process	This principle will form part of the extensive ESG/RI template used for monitoring external managers across multiple principles

Dependencies

There are a number of dependencies for completion of the stewardship code submission on work already intended as part of the engagement programme and on additional work and information which are important to understand in outlining a project plan.

Principle	No dependency	More information *	Benchmark review	Engagement programme	Evidence of impact	Additional work
1	All					
2	Part			Yes		
3		Conflict policies				
4			Yes	Yes		ESG scenarios
5				Yes	Yes	
6	Part	Engagements			Yes	Review comms
7	Part			Yes	Yes	
8				Yes	Yes	
9				Yes	Yes	
10	Part	Collaborations				Other collaborations?
11	Part	Escalation policies		Yes		Escalation policy
12	Part	Voting activity				

* Managers and ACCESS

Thank you

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