

Responsible Investment Policy



Environmental



Social



Governance

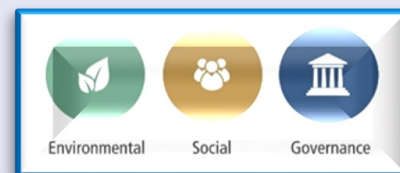
Essex Pension Fund

Responsible Investment Policy

Environmental, Social & Governance Considerations

Fiduciary duty

The fundamental responsibility of the Fund is to ensure that it has adequate monies available to pay pensions as they fall due. This objective must be achieved in a cost-effective way for members, employers and the taxpayer. Moreover, in reaching decisions, the Fund must comply with its fiduciary responsibilities.



Responsible Investment (RI) Policy

The ISC 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 Committee identified four key headline responsible investment beliefs, with a number of sub beliefs sitting underneath these headings. The Committee in formulating the Responsible Investment Policy below have incorporated the Fund's investment beliefs articulated on page 5.

Investment Strategy

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

Engagement and Voting

4. 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

5. The ISC will seek to implement mandates in line with its RI Policy.
6. ESG factors should (amongst others) be an integral component in the consideration of investment in a stock by active managers.
7. 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.
8. The ISC will seek to utilise mandates in line with its RI Policy and expects these to be made available via the ACCESS Pool.

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Monitoring/governance

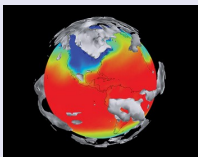
9. The ISC will monitor and challenge their providers on their ESG implementation and any intended changes over time.
10. The ISC will take a long-term view on RI, including the direction of travel as well as the current implementation.

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 Committee agreed at its November 2019 meeting to join Local Authority Pension Fund Forum ('LAPFF') as part of a drive to work collaboratively with others on RI issues.

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:



Climate change



Labour Practices



Resource scarcity



Employee relations



Pollution



Company governance



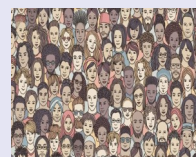
Weapons



Manager board structure



Remuneration



Gender diversity

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Exercise of voting rights

Assets outside the ACCESS Pool

The Fund has instructed its investment managers to vote in accordance with their in-house policies and practices within the framework of the ISC's agreed policies which has been shared with the investment managers as set out above.

Assets inside the ACCESS Pool

The ACCESS pool has formulated a voting guidance which it expects each of the underlying investment managers managing sub funds on its behalf to comply with or when this is not the case to provide an explanation.

The Fund fully supports the UK Stewardship Code and requires those of its investment managers who hold shares on its behalf to comply with it or to provide the ISC with an explanation of why it is not appropriate to do so, in the exercise of the mandate that they have been given, and how they will instead achieve and demonstrate the same level of responsible share ownership.

The majority of the Fund's investment managers are signatories to the UK Stewardship Code and have all gained a Tier 1 status (demonstrating a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary).

Engagement

The Fund expects its investment managers to take account of social, environmental and ethical considerations in the selection, retention and realisation of investments as an integral part of the normal investment research and analysis process. The Fund also expects its investment managers to engaged with companies held on all matters in regard to Good Stewardship. The Fund believes taking account of such consideration's forms part of the investment managers' normal fiduciary duty.

Ongoing Monitoring

The Committee actively monitors the Fund's investment managers' approaches. As part of this regular manager monitoring, the ISC will challenge their managers on how they consider and manage all financial risks faced by their investments, including those that arise from ESG considerations. The Committee also strives to improve and develop their knowledge and understanding on how ESG factors will impact the Fund's investments in the future.

Stock Lending

The policy on stock lending (below) reflects the nature of the mandates awarded to investment managers by the ISC, which include both pooled and segregated mandates:

Assets within the ACCESS Pool

The Fund participates in ACCESS's stock lending programme for investments under ACCESS Pool governance.

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Segregated Investments

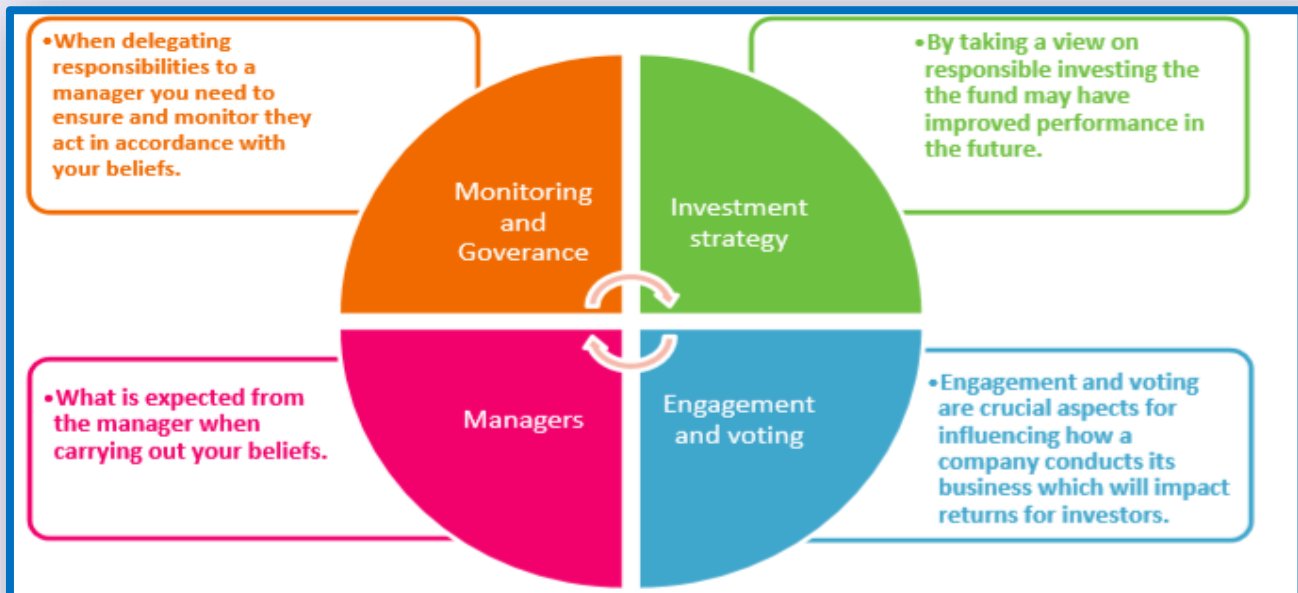
The Fund does not participate in stock lending schemes nor allow its stock to be lent.

Pooled Investments

In regard to the Fund's pooled investments, where the Fund is buying units in a pooled vehicle, stock lending is outside the control of the Fund and undertaken at the discretion of the pooled fund manager.

RI Investment Beliefs

The Committee have articulated a set of RI investment beliefs based on the four key headline beliefs below:



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.

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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.

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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.