# Essex Pension Fund

# FRC UK Stewardship Code Submission March 2022

lgps | Local Government Pension Scheme

# Contents

# Essex Pension Fund Background and Contents

## About the Essex Pension Fund

The ***Essex Pension Fund*** is one of 87 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.

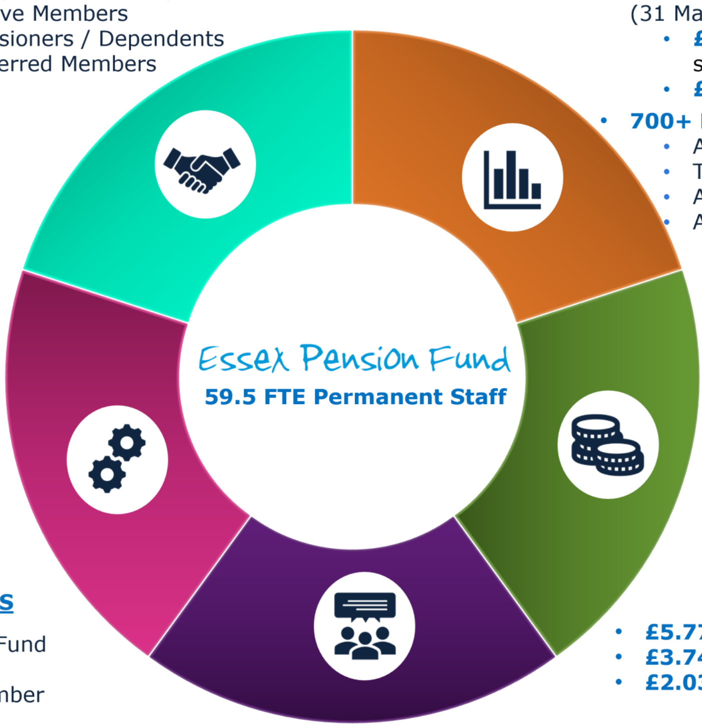
### Essex Pension Fund Key Facts

**FUND MEMBERSHIP**

- **169,692** Members (31 March 2021)
  - **54,568** Active Members
  - **46,210** Pensioners / Dependents
  - **68,914** Deferred Members

**FUNDING/EMPLOYERS**

- **98.8%** Interim Funding Level (31 March 2021)
  - **£8.41bn** Assets (based on a smoothed 6-month average)
  - **£8.51bn** Liabilities
- **700+** Employers, including:
  - Administering Authority (ECC)
  - Tax Raising Bodies
  - Admission Bodies
  - Academies




**INVESTMENTS**

- **c£8.7bn** Value of Fund (31 March 2021)
- **ACCESS Pool** member

**FINANCIAL**

- **£5.77M** Total Budget
- **£3.74M** Operational Budget
- **£2.03M** 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

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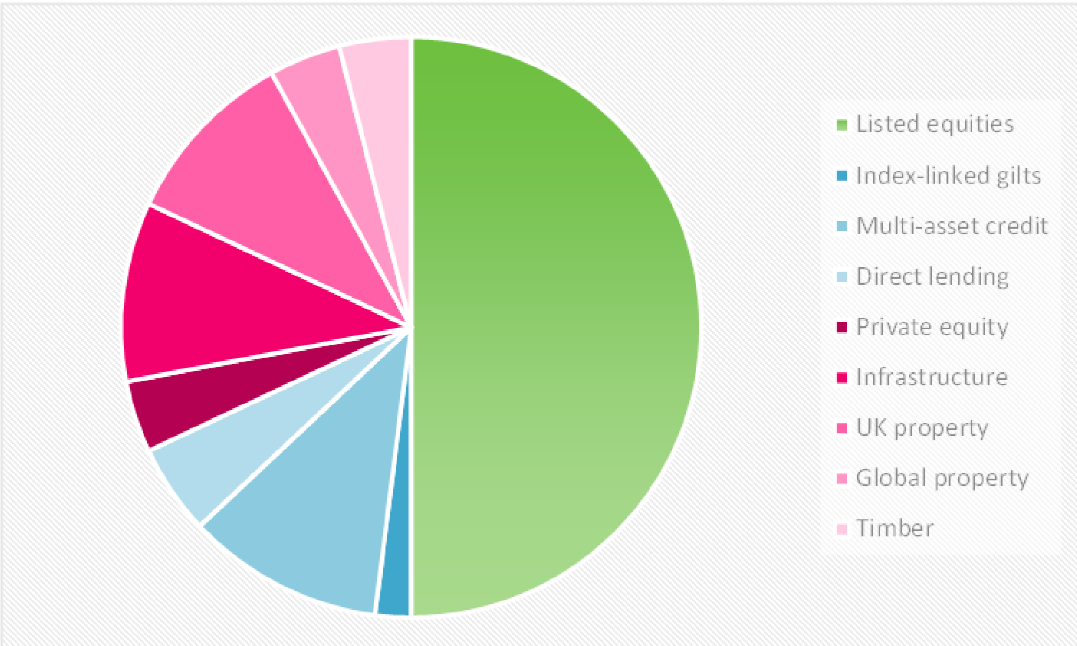
## Fund Asset Allocation

The assets of the Fund are invested in a wide range of different asset classes.  The largest allocation (50%) 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.  The asset allocation is summarised in the chart below:

Target asset allocation driven by investment beliefs




## 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:

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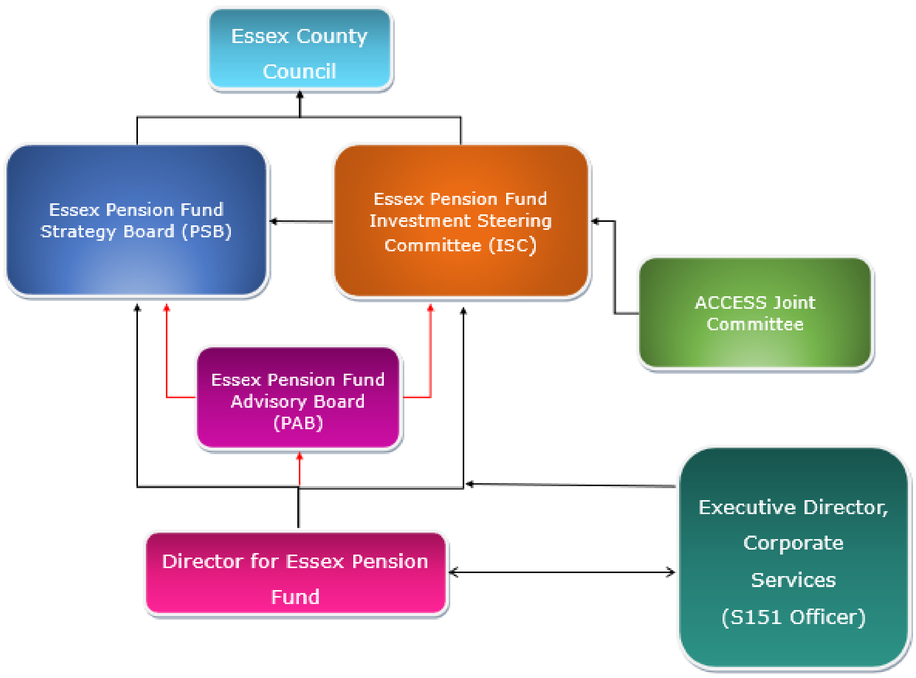
Governance Structure




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 Interim Deputy Directors, who act as subject matter experts in governance, administration, funding and investment respectively.

The Fund are 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's intends to invest its assets via the Pool when suitable sub-funds available. To date over 60% of assets have been transferred to the pool.

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 passive 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 beliefs, the investment strategy resulting from those beliefs, the approach to managing risk and how the Fund will pool investments.

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Hadleigh Castle, Hadleigh

## Roundup of Key Stewardship Activities

- Adoption of the Fund's **Investment Strategy Statement** and **Responsible Investment (RI) Policy**, including a full stakeholder consultation in 2020
- Development and adoption of the Fund's **Investment Engagement Policy** and **Stakeholder Strategy**
- Dedicated monthly **RI/stewardship meetings** with the Fund's investment managers
- **Specific training** on Responsible Investment, Stewardship Code, Task Force on Climate related Financial Disclosures (TCFD), Transition Pathway Initiative and Impact Investing
- **Specific ESG analytic reports** on the Fund's investment managers and portfolios
- Development of the **RI Project Plan**
- **Review of the Fund's index tracking equity mandate**, agreeing that UBS will design an approach for the Fund to better align with the Fund's RI Policy
- Formulation of a **Strategic Implementation Framework, Strategic Implementation Tracker, and Investment Scorecard**
- Agreement of **climate change objectives and metrics** in line with TCFD
- Institutional Investment Consultant **Competition Market Authority (CMA) annual review** of progress against strategic objectives
- Outcome of the **Governance Effectiveness Review**
- Implementation of the **PSB, ISC, PAB Training Plans**
- Implementation and testing of the Fund's **Business Continuity Strategy and Plan**
- Development 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 passive management

Passive or 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 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 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 passive or 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 ISC is therefore currently considering 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 it expects the Fund's investment managers to engage with companies invested in on the Fund's behalf:

| Environmental | Social | Governance |
|---|---|---|
| Climate change | Labour practices | Company governance |
| Resource scarcity | Employee relations | Manage board structure |
| Pollution | Remuneration | Gender diversity |
| Weapons | | |

# Section 1: Purpose and Governance

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 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 passive 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.

## 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 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 has focussed on RI and stewardship, particularly as part of the development of the RI beliefs and policy.

Officers have six strategic meetings a year with the Fund's investment advisers (Hymans Robertson and Mark Stevens), and have introduced 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. A quarterly report is also 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.

# Section 1: Purpose and Governance

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


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 *80%* in 2013 to *97%* in 2019, 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.

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 to selecting an appropriate firm for a direct lending mandate in 2021 and has also led the ISC to review its approach to passive equities. A new ESG focussed approach to passive equities is now being developed. The Fund is also considering the overall ESG impact of its investments and whether there should be more focus on positive impact across the portfolio in lines with the RI beliefs.

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 set climate metrics such as greenhouse gas emissions and carbon footprint that it will monitor and set targets against. The Fund is also committed to aligning the portfolio to the implications of the Paris Agreement of being net zero by 2050. The Fund is engaging its managers on their transparency and net zero commitments as part of the engagement programme.

# Section 1: Purpose and Governance

## Further action

As part of its 2022/23 Business Plan, the ISC intends to assess its managers and their portfolios against their climate metrics and the net zero target to establish a baseline to set meaningful targets against. A subsequent round of manager engagement meetings will be held in 2022/23 to follow up on previous actions and to assess progress to date. The Fund intends to develop a stewardship log as part of the subsequent round of meetings. In addition, the Fund is committed to producing 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 has also signed up to 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 the Stewardship Code, TCFD, net zero commitments and the Transition Pathway Initiative. 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 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.

- 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 is working with its passive equity manager UBS to develop an ESG focussed index approach as an alternative to a market capitalisation approach.
- The Fund has been working with its ACCESS partner funds and ACCESS's RI Adviser, Minerva to develop a set of collective RI guidelines. This is in early draft form.
- 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.

A recent 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.

## 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-five areas of activity around the five core areas outlined in the 2021/22 Business Plan were completed under budget.

The Fund recognises that voting and engagement is an area for improvement and has included this as a priority within its 2022/23 Three-Year Business Plan.

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 stock lending.

## Section 1: Purpose and Governance

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.

***Example - Bermuda Park, Nuneaton***

*A recent example of this was 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 engagement meetings with Aviva. It has now gained assurance that if the tenant fails to achieve this, the investment manager will undertake the work, reducing greenhouse gas emissions and the progression towards net zero and improving the quality of the asset. This has given the ISC greater insight into the integration of RI considerations into the property manager's decision-making process.*

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, one manager with coverage of only a third of the portfolio, another with full 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.

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 Note.

### Further action

The ISC's 2022/23 Business Plan deliverables will include the next cycle of RI engagement meetings to follow up on progress and actions raised in the first round.

# Section 1: Purpose and Governance

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

## Context

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 with 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 in place a Conflict of Interest Policy. In addition, recognising its separate governance arrangements, the Fund has developed its own Conflict of Interest Policy.

The Policy 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.

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. The Fund keeps a separate Declaration Log which is updated after each meeting.

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. Non elected members are also expected to adhere to the Fund's Policy.

Officers are required to complete an Annual Declaration of Interests.

# Section 1: Purpose and Governance

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.  *For example,* when appropriate the Fund has noted:

- *A Member of the Committee being in receipt of a Aviva Group Pension.  Although the Member was not previously employed by the investment management arm of the business, the Chairman was made aware of a potential conflict.  As a consequence, the Member stood down from participating in discussions about a proposal around the management of the property mandate by Aviva Investors.*
- *A declaration by a Member of the Committee who also sat on a committee with the director of a company the Fund was invested in.*

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 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.

Burnham on Crouch

## *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 early stages 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 inflation and the recent 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 recent setting 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.

# Section 1: Purpose and Governance

## Outcome

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:

- 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.
- 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.
- Confirmation of the termination of an equity manager where both the management of the portfolio and 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 risks 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 agreed a set of climate risk metrics to monitor. These include greenhouse gas (GHG) emissions, carbon intensity and carbon footprint.
- 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 is considering moving its passive (index tracking) equity investments to an ESG focussed approach as a result.
- The Fund uses an annual investment 'Scorecard' to assess its effectiveness in managing market-wide and systemic risks. When last assessed, 29 of 30 measures were scored as well managed, the other as room for improvement with 4 RI measures still to be activated.
- 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 2022/23 Business Plan deliverables will include assessing its investment managers and their portfolios against the agreed climate metrics to establish a baseline against which meaningful targets can be set. The next iteration of the investment Scorecard will seek to better integrate market-wide risks.

# Section 1: Purpose and Governance

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

### Activity

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 2021/22 to include the Fund's Flexibilities Policy. The next review is due in 2022/23 as part of the actuarial valuation.
- 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 was developed recently and will be reviewed in line with the ISS.
- The Conflict of Interest Policy is reviewed triennially. The next review is due in 2022/23.
- 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, recently agreed by the PSB.
- The Business Continuity Strategy and Plan was formalised in 2021. The Plan is a live document kept under constant review.
- The Investment Engagement Strategy and Stakeholder Engagement Strategy are new policies agreed 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.

Over the last two years, the Committee has dedicated considerable time and focus to establishing its RI beliefs and formulating its RI Policy and priorities. Following some preparatory work in the summer of 2019, the ISC convened a workshop in October 2019 involving in-depth training and discussion on ESG.

### Outcome

The outcome of the RI workshop and subsequent work was the development of a set of RI beliefs, priorities and ultimately an RI policy which was finally approved after wide consultation with stakeholders at the ISC's October 2020 meeting. The ISC fully considered all consultation responses prior to the approval of the ISS, including a handful that indicated that the Fund had not gone far enough by not having a policy of divesting from companies deriving their revenue from the production of fossil fuels.

# Section 1: Purpose and Governance

The RI Policy has since been developed into an implementation plan including an Investment Engagement Strategy and an extensive manager engagement programme. The ISC have also developed key climate metrics (in line with TCFD) and, ultimately, a review of the approach to passively managed equities.

On the latter, the Committee explored all options available with the help of their passive 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 found that the governance of the Fund was excellent and that the Administering Authority demonstrated best practice in many areas.  It highlighted that the Boards and ISC were working effectively, 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.

## Further action

The ISC will consider a formal proposal regarding its agreed approach to aligning its passive (index tracking) portfolio to the Fund's RI Policy at its June 2022 meeting.  It is expected that a solution will be in place during 2022/23.

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 partnering funds in working towards a common set of RI guidelines.

West Mersea Beach, Mersea

## 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.

#### 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 started to upload RI statements to its website providing up to date information on the Fund's approach to RI and what the ISC are working on. The last statement was issued in December 2021 and can be found at: Climate Statement.

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 recently 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

### ISS consultation

The Fund records the engagement it receives from all stakeholders on RI issues. Over the six-week ISS consultation period sixteen responses were received from a variety of stakeholders.

Number of Respondents by Stakeholder Type and Themes

| Stakeholder | Number of Responses | Response Themes (2) no of responses |
|---|---|---|
| Investment Manager/Custodian | 4 | Acceptance of ISS (4) |
| Fund's Advisers | 1 | Acceptance of ISS (1) |
| Member of the PSB | 1 | Climate Change (1) |
| Fund Employers | 1 | Funding (1) |
| Scheme Members | 7 | Climate Change (5)/ Acceptance of ISS (2) |
| Non-Scheme Members | 2 | Acceptance of ISS (1)/ Benefit Enquiry (1) |
| **Total** | **16** | |

## Section 2: Investment Approach

The majority of responses indicated an acceptance of the ISS and RI Policy or involved comments on the climate change aspects of the RI Policy. A handful of consultation responses highlighted that the Fund had not gone as far as they would like in terms of having a clear policy of divesting from companies that derived their revenue from the production of fossil fuels.

These responses along with the others were considered fully by the ISC prior to the approval of the ISS. The Fund's RI Policy clearly states that the ISC will only exclude stocks in limited or specific instances, an example controversial weapons within its passive mandate, but will actively encourage engagement and work collaboratively with other investors to increase the impact of engagement. This was fed back to consultation respondents.

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 2022/23 Business Plan to review its website and communication strategy. This will include how best it can help the Fund's many stakeholders with enhancements to its website and online benefit portal, ensuring website information is current, relevant, applying the use of plain English and accessible content and consideration of how member views can be sought.

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

The ISC have recently agreed a set of climate change metrics. The Fund is currently in the process of establishing 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.

### *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 the systematic integration of stewardship and investment is key to fulfilling their responsibilities as both 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

# Section 2: Investment Approach

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 against the seventeen United Nations Sustainable Development Goals.

Ten RI Priorities


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 (passive) basis.

### Index tracking (passive) 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 as such is currently considering alternatives.

# Section 2: Investment Approach

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 70% 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 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.

## 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.

### 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 manager, partly for strategic reasons but more recently it became clear that their engagement approach was not deemed to align with the Fund's priorities and was unlikely to in the foreseeable future.
- Appointment of a new direct lending manager where their credentials in using their lending

power to effect positive corporate change through reduced costs of borrowing based on improvement of key measures was key to their appointment.

### 3. The design and structure of mandates

The ISC has been working with their passive equity manager UBS to develop an alternative equity index to a market capitalisation index that better reflects their ten RI priorities. UBS has 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. The ISC are in the process of reviewing the final proposal with a view to switching their passive equities to the new approach over 2022/23.

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

Some recent engagements examples are discussed below:

***Example One***

| |
|---|
| **Company: Natura** (cosmetics, fragrance and toiletries business) |
| **Mandate:** Emerging market equities (Stewart Investors) |
| **Objective:** Governance – balance sheet leverage, board decisions |
| The manager had engaged with Natura on several topics since first invested in 2007. Most recently, it became concerned about the company's use of shorter term, US dollar debt to fund a number of acquisitions. This put strain on the balance sheet, but also the use of foreign currency debt can prove to be very risky in the event of severe currency depreciation. This was exacerbated by management maintaining a high dividend pay-out rather than use earnings to pay down debt to mitigate the increased leverage. The manager has had prolonged engagement with the company both through formal correspondence and in face-to-face meetings on their approach to debt, dividends and the balance sheet.<br><br>The manager eventually sold its holding as it became increasingly uncomfortable with the company's valuations in light of its significantly geared balance sheet. However, after divesting in 2019, the manager continued to meet with management and engage them on this matter. Subsequently, after years of engagement on this issue, the company held a rights issue which helped the pay back shorter term, foreign currency debt and lengthen the tenure of remaining debt. They also withheld their dividend that year. The manager, therefore viewed the balanced sheet as "fixed" and have since started to invest in the company again. |
| **Outcome achieved** |
| Prolonged engagement over many years ultimately paid off, even though the manager had to disinvest due to the risks being run. Their continued engagement had the desired results and so they could reinvest. |
| **In progress/follow up** |
| The manager was satisfied with the company's response and consider this engagement topic to be closed. |

*Example Two*

| | |
|---|---|
| **Company:** **Amazon** (online retailer) | |
| **Mandate:** Global equity (ACCESS sub fund managed by Baillie Gifford) | |
| **Objective:** Various engagements relating to ESG matters and RI priorities | |
| To reduce ESG risks being run in the company. | |
| **Outcome achieved** | |
| The first meeting held with the company was back in 1999, although the holding did not become part of the portfolio until 2004. Since then, the manager has engaged with the company on a wide range of topics including improving their disclosures, appointing an independent director, aspects of corporate culture, tax and working conditions, board diversity, gender pay gap, labour rights and reporting on climate change. The manager have noted several enhancements to the company's overall governance and working practices, which have contributed to the share price increasing 3,500% since the initial engagement back in 1999. | |
| **In progress/follow up** | |
| Continued engagement in areas that have not yet seen enhancement. | |

*Example Three*

| | |
|---|---|
| **Company:** **Premier Foods** (British food manufacturer) | |
| **Mandate:** Active bond mandate (M&G) | |
| **Objective:** Governance – board diversity | |
| To improve board gender diversity. | |
| **Outcome achieved** | |
| The manager initially sent a letter to the company's chair and communicated concerns that they do not think enough is being done in regard to board diversity. Following the letter, a call was had with the Chair. Diversity is clearly a priority for both the Fund and the board and something that has been addressed throughout the organisation, not just at management level. The board currently has two male shareholder representatives, which brings down the board diversity number. | |
| **In progress/follow up** | |
| Succession planning is underway and the manager expect to see progress prior to the 2022 AGM. | |

# Section 2: Investment Approach

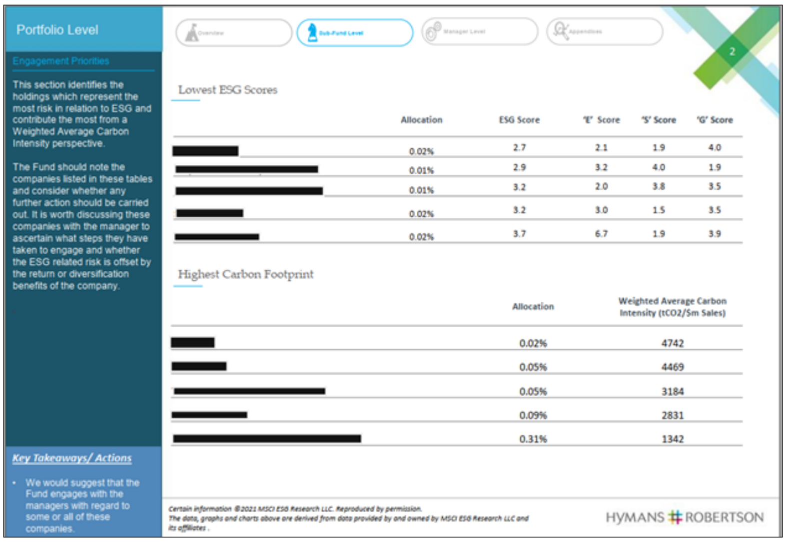
## *Principle 8 – Signatories monitor and hold to account managers and/or service providers*

### 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).
- Officers and Advisers 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.
- 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 annual review of manager performance and fees is presented to the ISC at one of their strategy meetings each year, to assess value added.
- The ACCESS pool also has policies in place to review and hold managers to account. These policies are reviewed by the ISC.
- 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



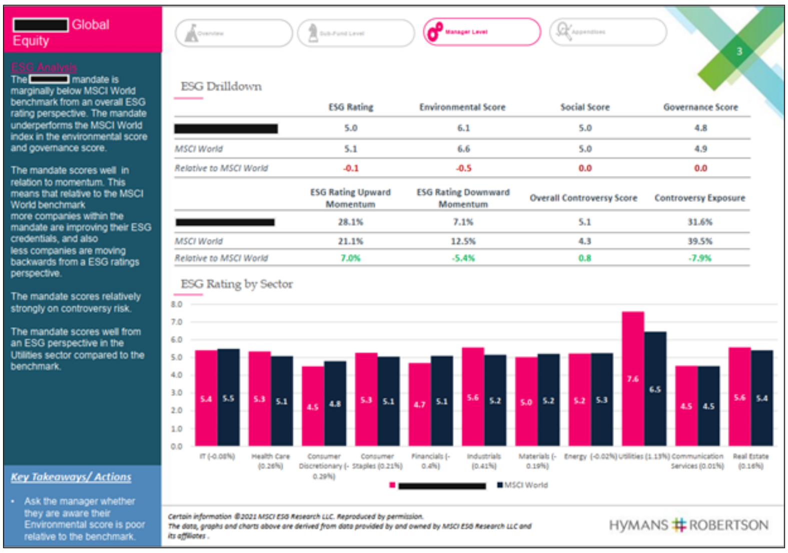

## *Example ESG and climate metrics*

### 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 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 engagement with one of the Fund's equity managers identified that it did not have a demonstrable process for embedding ESG criteria into its investment decisions. Whilst they were able to demonstrate they are evolving their approach to ESG matters, it remains separate from the core investment process. This was backed up by the Institutional Investment Consultant's manager RI rating and encouraged an acceleration of the ISC's decision to terminate the mandate. All other manager 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 third 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.


Colchester Castle, Colchester

## 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.

### *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 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 several LAPFF run events including Tailing Dam with the Brazilian Community and the role of electric vehicles
- expects managers to engage with companies in relation to business sustainability, climate risks and the RI priorities identified in the RI Policy
- assesses managers' portfolios in relation to climate risk and other ESG factors.

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

## 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:

*Example One*

| |
|---|
| **Company:** **201 Deansgate, Manchester** (direct property holding) |
| **Mandate:** Direct property (Aviva Investors) |
| **Objective:** Environmental – climate change |
| Develop a formal strategy for tenant engagement, actively encouraging tenants to participate in electric vehicle charging, solar PV, net zero due diligence, conditional value at risk (CVaR) and green leasing offerings. |
| **Outcome achieved** |
| In July 2020, 201 Deansgate became part of Aviva Investors' Smart Building Programme. The programme, managed by Carbon Intelligence, involves quarterly engagement with the site team on the performance of the building and identifies optimisation opportunities to reduce energy consumption. To date, the programme has achieved a total net energy saving of 442,390 kWh. During 2021, the improvements were made to the efficiency of heat pumps and cooling systems, monitoring of energy use by zones, new more efficient boilers, upgraded shower, changing and bike storage facilities to encourage more cycle to work. |
| **In progress/follow up** |
| Action completed. |

# Section 2: Investment Approach

*Example Two*

| |
|---|
| **Company:** **UNITE UK Student Accommodation Fund** (student accommodation) |
| **Mandate:** UK property (Aviva Investors) |
| **Objective:** Social inclusion – community wide initiative |
| Creation of Unite Foundation by Unite Students in 2012 to alleviate educational disadvantage via the award of scholarships providing student accommodation and other support for three years for young people with no support of family. |
| **Outcome achieved** |
| 434 scholarships awarded of which 130 students have successfully graduated to date. Continuation rates after year one and two of 92%. |
| **In progress/follow up** |
| Monitor success of scholarship programme. |

*Example Three*

| |
|---|
| **Company:** **Pandora** (Jeweller manufacturer and retailer) |
| **Mandate:** Global equity (ACCESS sub fund managed by M&G) |
| **Objective:** Governance |
| Insufficient and ineffective governance procedures and information flow between management team and Board leading to poor communications to the marketplace which was impacting on the share price. |
| **Outcome achieved** |
| Engagement over an 18-month period, leading to a new CEO and Chairman being appointed and improved communication between the Board and management, which in turn has started to reflect in the improved performance of the share price. |
| **In progress/follow up** |
| Engagement successful, continue to monitor the company's progress. |

# Section 2: Investment Approach

*Example Four*

| | |
|---|---|
| **Company: Methanex** (Methanol producer and supplier) | |
| **Mandate:** Global equity (ACCESS sub fund managed by M&G) | |
| **Objective:** Corporate governance | |
| The manager's engagement with Methanex spans many years covering a variety of issues. In 2018/2019 M&G engaged the company over concerns that the balance sheet was not strong enough to purchase a new sizeable production plant without external investment. The manager was unsuccessful with this initial engagement as they did not gather sufficient support from other shareholders. However, the manager persisted and engaged again during the pandemic with a more successful outcome where they were able to get sufficient support to improve the balance sheet position, resulting in Methanex reducing leverage targets. | |
| **Outcome achieved** | |
| The manager now thinks the company is in a more robust place - therefore able to reward shareholders in all market environments rather than just when the market is good. | |
| **In progress/follow up** | |
| M&G stated this was their first instance of a controversial engagement and, in hindsight, felt they were too polite. Following their review, they agreed that when they have such a strong view, they will now be more forceful in their discussions. | |

Clacton-on-Sea Pier, Clacton

# Section 2: Investment Approach

## *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 passive 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 development of ACCESS specific RI guidelines, following 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.

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

The Fund is a member of the LAPFF, which currently represents the interests of 85 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 2021 related to environmental risk and climate change, board composition and corporate governance, human rights, employment standards and social risk, which was aligned with the Fund's RI priorities.

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.

The Fund's passive manager UBS has collaborated widely with other managers in engagements including with Equinor in collaboration with HSBC Asset Management and Storebrand Asset Management as part of the CA 100+ initiative. This has resulted in a strengthening of the company's commitments to climate change and specific actions relating to the assessment of portfolio investments relative to a well below 2 degree scenario, a review of climate-related targets up to 2030 with new ambitions beyond that date, strengthening the link between climate related targets and remuneration policy and reporting in line with TCFD.

Some other examples of recent engagements involving collaboration include:

*Example One*

| |
|---|
| **Company: ArcelorMittal** (steel and mining company) |
| **Mandate / collaboration:** Global equity (LAPFF/ Marathon) |
| **Objective:** Environmental - climate change |
| Following the release of the company's second Group Climate Action report, a meeting was held with company representatives and other CA100+ investors to discuss company progress. |
| **Outcome achieved** |
| ArcelorMittal now has a groupwide emission intensity reduction target for 2030 of 25%, and 35% for Europe. The strengthening of targets and announcements of zero carbon steel plants in Spain and Canada was a welcomed progression. On request, the report also included a mapping of the company progress against the CA100+ benchmark. Also raised were Paris-aligned accounts, climate considerations in remuneration, consulting shareholders on a transition plan vote at the 2022 AGM and requesting that the company run the 2022 AGM as openly as it did the 2021 AGM when the meeting was run on a virtual platform. |
| **In progress/follow up** |
| Given the strengthened decarbonisation targets and 'real world' impact of the new zero carbon steel plants, this engagement has shown substantial progress. |

*Example Two*

| |
|---|
| **Company: Volkswagen (VW)** (motor vehicle manufacturer) |
| **Mandate / collaboration:** Active bond mandate (M&G / CA 100+) |
| **Objective:** Environmental – climate change net zero |
| To encourage motor vehicle manufacturer VW to improve on the weakest areas highlighted by the Climate Action 100+ benchmarking exercise, including capex alignment with decarbonisation. |

*Example Two (cont.)*

| Outcome achieved |
|---|
| The Manager supported the CA100+ leads on their engagement with VW following publication of the benchmark results. Overall, VW was pleased with its benchmark position in comparison to those of its peers. The company highlighted that, at present, there was not a scientifically accepted 1.5°C pathway for the auto sector, although it is working on this with the Science Based Target Initiative. M&G asked the company for more clarity on short and medium-term GHG reduction targets and pushed for greater disclosure on the proportion of revenues coming from electric vehicles, and any commitments to targets around this. In addition, it was made clear that increased disclosure from the company around the processes and commitments to align lobbying activities with the Paris Agreement would give investors more confidence in how the company acted with regard to emerging regulation. It was suggested VW might consider a vote on its transition plan at its next AGM to highlight its leadership position and give shareholders a voice. |
| **In progress/follow up** |
| The manager will continue to engage with the company over the coming year. |

*Example Three*

| |
|---|
| **Company:** **BHP Group** (multinational mining, metals and petroleum company) |
| **Mandate / collaboration:** Passive equity (UBS / UK Investor Forum) |
| **Objective:** Environmental – climate change |
| The manager had concerns with the Company's Climate Transition Action Plan, especially ambition level and inclusion of Scope 3 targets and goals. UBS participated in a collective engagement call with the Company organised by the UK Investor Forum where they stressed the need for clarity on climate-related goals and targets. |
| **Outcome achieved** |
| The Company provided details for supporting its Climate Transition Action Plan, based on its views of Paris alignment. The Company stated that they have all their emissions covered by their net zero ambitions. They set "targets" where they can see pathways to achieve an outcome, where this does not exist, they set "goals". They also confirmed that incentive plans cascade into the organisation and their roadmap and targets have assigned responsibilities and reporting. This is being overseen by the Company's Sustainability Committee. Finally, they stated that all of their assets have individual decarbonisation plans and local remuneration is linked to this. |
| **In progress/follow up** |
| The manager will continue to monitor the company along with the UK Investor Forum. |

# Section 2: Investment Approach

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

## Activity

The Fund expects its investment managers to take the appropriate action when operating on its behalf in stewardship activities, this includes documenting engagements, recording activities arising from engagement, reporting on outcomes and escalating issues when and if required.

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.  If all avenues of engagement are exhausted, then the ISC following professional advice may decide to divest wholly or partly its assets under management from the investment manager.

## 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:** **Tullow Oil** (oil and gas company) |
| **Mandate:** Emerging market equity (Stewart Investors) |
| **Objective:** Governance – management board |
| One of the largest independent oil and gas exploration and production companies, focused on Africa (primarily Ghana) and South America.  It was founded by Aidan Heavey in 1985, who led it as CEO until 2017 and as Chair until 2018.  The manager was attracted to the investment due to the owner-manager culture whose long-termism and values enabled it to manage successfully the complex balancing act between local, central government and shareholder needs, to promote local development and avoid recreating the terrible conditions and dependencies seen in the Nigerian Delta.<br><br>Given the importance of the founder's long-termism in driving this kind of culture, as well as in managing risk in such a cyclical industry, the manager engaged with the company extensively on succession, board composition and leverage. |

*Example One (cont.)*

| Outcome achieved |
|---|
| Succession and culture became even more crucial topics to discuss when the founder retired from both management and board. The manager engaged with the newly appointed CEO on how to maintain the culture including meeting with the new Chair in 2018. Understanding the value systems and motivations of the new stewards was of particular importance because there were community and environmental issues relating to potential oil production in Turkana, Kenya, one of the most water-stressed areas in the world. After meeting the new Chair in the summer of 2018, the manager wrote to her about these concerns continuing to engage in meetings with the company throughout 2019. Ultimately, with the lack of traction with the engagement, it was felt that the investment risks were too high in the absence of a long-term owner and the previously embedded culture. |
| **Escalation** |
| The engagement was exhausted, and decision was made that this investment exceeded the risk tolerance the investment manager was willing to accept, therefore the shareholding was sold in 2020. |

*Example Two*

| **Company:** **Lixil Group** (building material and housing equipment) |
|---|
| **Mandate:** Global equity (Marathon) |
| **Objective:** Corporate governance |
| Lixil Group is a Japanese building materials and housing equipment business that Marathon had invested in for over 16 years. In November 2018, the company abruptly removed their CEO. The manager was unclear about the reason for this, and despite attempts to discuss the issue with management and the nominations committee, little clarity was offered and the manager were left with considerable concerns about corporate governance and disclosure. |
| **Outcome achieved** |
| Marathon, in collaboration with other local and foreign shareholders, called an EGM. The new CEO and COO resigned and on 25th June 2019 a slate of new directors was elected, including the previous CEO Kinya Seto, who was reinstated. |
| **Escalation** |
| Escalation in this case was successful and the engagement was closed. |

*Example Three*

| |
|---|
| **Company:** **ExxonMobil** (oil and gas company) |
| **Mandate:** Passive equity (Pool aligned asset provider - UBS) |
| **Objective:** Climate change |
| 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. The company was assessed 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 and set engagement objectives aimed at encouraging the company to develop a stronger sense of direction in terms of 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. The manager note 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 from climate change. |
| **Escalation** |
| UBS-AM decided to exclude this company from certain sustainable investing strategies (including its Climate and Active Sustainability-focused investment strategies). So, escalation in this case involved exclusion from some strategies, but continued engagement as the outcome has not been achieved in full. |

# 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 voting guidance 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. 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

# Section 3: Exercise Rights and Responsibilities

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 2021:

| **Manager** [1] | **Number of Meetings** | **Votes Cast (no)** | | | | | **With/Against Management** | |
|---|---|---|---|---|---|---|---|---|
| | | **For** | **Against** | **Abstain** | **Other** | **Total** | **With** | **Against** |
| UBS | 2,918 | 32,597 | 4,681 | 149 | 909 | **38,336** | 68% | 32% |
| Marathon | 507 | 6,898 | 359 | 52 | 14 | **7,323** | 96% | 4% |
| Stewart Investors | 76 | 699 | 49 | 7 | 0 | **755** | 97% | 3% |
| Baillie Gifford | 41 | 382 | 21 | 4 | 4 | **411** | 96% | 4% |
| Longview | 31 | 249 | 186 | 16 | 24 | **475** | 52% | 48% |
| M&G | 16 | 208 | 20 | 2 | 2 | **232** | 89% | 11% |

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

# Section 3: Exercise Rights and Responsibilities

Examples of engagement held include:

***Example one***

| |
|---|
| **Company: Palo Alto Networks Inc** (cyber security) |
| **Mandate:** Regional index tracking mandate (UBS) |
| **Objective:** Governance - executive remuneration |
| High pay quantum and lack of a clear link between executive pay and company performance. |
| **Outcome achieved** |
| Engaging with the Company extensively since 2019 asking the Board to keep pay quantum under control and increase the weight of performance-based equity within total compensation. UBS also sought a refreshment of the Board and its committees to ensure adequate responsiveness to shareholder concerns on remuneration and governance. Whilst some moderate progress was made in 2019/2020, a meeting was held with members of the Board in Q4 2021 ahead of 2021 AGM. UBS have seen some significant progress including increased stock holding requirement, strengthening link to performance by making equity awards 100% performance based and an overall reduction of target total pay quantum. |
| **In progress/follow up** |
| UBS believe the company is willing to listen to investor concerns so UBS supported the ‘say on pay’ vote and the re-election of the Chair of the Remuneration Committee which were both approved by a majority of votes at the 2021 AGM. |

***Example Two***

| |
|---|
| **Company: Amazon** (online retailer) |
| **Mandate:** Global equity mandate (ACCESS sub fund – Baillie Gifford) |
| **Objective:** Remuneration |
| Engagement around reporting gender and racial pay gap information across the business. The manager believe the reporting of this information will be useful in understanding Amazon’s efforts in promoting equality and inclusion. |
| **Outcome Achieved** |
| Supported a shareholder resolution at the 2021 AGM for Amazon to report on the median gender and racial pay gap across the business. |
| **In Progress/Follow up** |
| Whilst the vote failed, 35% for to 65% against, the manager continues to engage with Amazon as they believe the proposal requests data which will be useful in understanding Amazon’s efforts to promote equality and inclusion in the business. |

# Section 3: Exercise Rights and Responsibilities

***Example Three***

| | |
|---|---|
| **Company:** **Netflix** (streaming service) | |
| **Mandate:** Global equity mandate (ACCESS sub fund – Baillie Gifford) | |
| **Objective:** Governance | |
| Engagement around the company reporting on its political contributions as its believed that enhanced disclosure on company's policies and procedures are in shareholders' best interests. | |
| **Outcome achieved** | |
| Supported a shareholder resolution at the 2021 AGM Netflix to disclosure political contributions. | |
| **In progress/follow up** | |
| 80% of votes cast were in favour as so the motion was passed. | |

## Further action

The Fund recognises that this is an area that requires further development.  A key deliverable in the 2022/23 Business Plan is 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.  It is also anticipated that the ACCESS RI guidelines will be finalised in 2022/23.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