**East Sussex Pension Fund Statement on Israel and the Occupied Territories**

The East Sussex Pension Fund (the Fund) recognises that Environmental, Social and Corporate Governance (‘ESG’) issues can have a material impact on the long term performance of its investments. ESG issues can impact the Fund’s returns and reputation. Given this, the Fund is committed to an ongoing development of its ESG policy to ensure it reflects latest industry developments and regulations.

Investors have a role in shaping and influencing company actions relating to human rights bringing the S of ESG into focus. Social performance of companies considers the operational impact on labour and other human rights issues of people and communities in which it engages. Currently metrics and transparency on social factors are less evident than factors such as environmental issues and can make traversing within social factors of ESG more difficult and less consistent.

The East Sussex Pension Fund has a long-standing commitment to stewardship and active ownership of the Fund. Reflecting this, the Fund’s Investment Strategy Statement (ISS) confirms that the Fund has formally agreed to adhere to the Stewardship Code as published by the Financial Reporting Council and expects its investment managers to be signatories to, or to comply with, the Code.  The Fund has previously reported on the original 2012 Stewardship Code and will be reporting based on the more onerous 2020 Stewardship Code later in 2021. Responsibility for day-to-day interaction with companies is delegated to the Fund’s investment managers, including the escalation of engagement when necessary.

The Fund has a policy of Engagement and not Divestment, favouring company engagement as a tool for asset owners; with divestment being a last resort in an escalation process where required and possible. It is worth noting that divestment is not always possible for investors in pooled funds or index funds but the use of voting rights is powerful in this absence, whereas divestment may only be possible with significant strategy changes and material transaction costs, which would be outside the fiduciary duties of the Fund. The Fund recognises that voting and engagement can impact and drive change and enables the Fund, as a responsible investor, to keep a voice rather than signalling through divestment, which could move ownership of stocks to investors without any thought to being a responsible investor. An active owner can drive change by voting at AGMs, for example, by voting against reappointment of board members, or audit committees, against reappointment of auditor, co-filing shareholder proposals and through engagement by meeting with the board of directors and in some cases even having a seat around the table in decision making.

The Fund seeks to work collaboratively with like-minded institutional shareholders in order to maximise the influence that it can have on individual companies. This is achieved in a variety of ways, including through the membership of the LAPFF (Local Authority Pension Fund Forum) and other engagement groups. Collective engagement gives the Fund greater leverage over the company due to the pooling of holdings increasing the individual power and influence of investors in order to push for change.

Following a number of questions on the Fund’s holdings by members of the Fund or other stakeholders, the Fund has assessed its exposure to companies flagged by United Nations Human Rights Office of the High Commissioner’s (“OHCHR”) A/HRC/37/39 Report, as facilitating human rights abuses in the Occupied Territories throughout 2020 and early 2021. To support the review the Fund has kept close links with LAPFF, who have been carrying out engagement on behalf of the member funds. LAPFF have been liaising with Palestinian and Jewish interest groups in respect of 16 companies (including 5 named companies in which the Fund had exposure in March 2021) operating in the occupied region where member funds have some investment. We are supportive of the LAPFF position on the occupied territories, which seeks to encourage companies operating in that jurisdiction to review and have regard for the human rights of all individuals with whom they interact in the conduct of their operations. In addition, the Fund has liaised with both of its passive managers who have exposure to a small number of companies on the OHCHR list. As exposure for the Fund is in passive mandates, the exposure is not an active decision, they exist as they are within the MSCI World Benchmark and these products are index based strategies.

The wider investment decisions in late 2020 and early 2021 to remove unconscious exposure to many companies through traditional passive index’s, moving to investments that have exclusion polices and have indexes aligned to opportunities around the climate challenge, resource efficiency and/or excluding UN Compact Violators have led to many of the companies on the OHCHR list to falling out of the Fund’s portfolio and we may see further reduction as these changes are fully implemented.

The Fund will continue to assess its exposure to companies on the OHCHR list and ensure managers that do hold these are actively assessing the place in the portfolio through exclusion and engagement screens where possible.