ACCESS
Effective • Collective • Investment

ACCESS

Summary of RI Guidelines

Contents

ACCESS:
A Collaboration of Central, Eastern and Southern Shires

Front Cover: Needles, Isle of Wight.

Introduction

ACCESS was created in response to UK Central Government's requirement for Local Government Pension Scheme (LGPS) Funds in England and Wales to work more closely together, pooling assets to reduce investment costs and to benefit from increased efficiencies that come with size.

The ACCESS pool is an agreement between eleven Councils Cambridgeshire County Council (CC), East Sussex CC, Essex CC, Hampshire CC, Hertfordshire CC, Isle of Wight Council, Kent CC, Norfolk CC, Suffolk CC, West Northamptonshire Council and West Sussex CC and is operated via an Inter-Authority Agreement (IAA).

This document summarises the ACCESS Responsible Investment (RI) Guidelines and compliments the existing Investment Strategy Statements and/or individual RI policies of each Council.

Each Council retains the responsibility – now and in the future – for complying with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

This includes the implementation of locally decided investment strategies (including appointing one or more investment managers to manage and invest fund money) and the review/revision of their investment strategies from time to time and in terms of references to Environmental, Social and Governance (ESG) and RI matters.

Agreement of these RI Guidelines has therefore been reached in accordance with the constitutional powers of each Council. Figure 1 illustrates how in practice local beliefs and preferences are incorporated into the investment arrangements of the Pool.

The Joint Committee's Terms of Reference are set out in the IAA, and as such the Joint Committee will recommend the adoption of the agreed ACCESS RI Guidelines to the Councils.

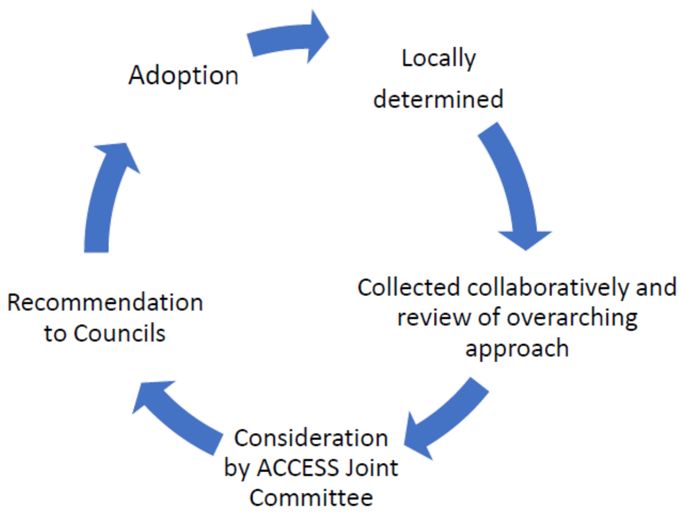

Figure 1

Published April 2023

ESG Factors

Individually and collectively the Councils that make up ACCESS believe that investments made on behalf of scheme members should be sustainable in the short, medium and long-term through the fundamental identification and integration of Environmental, Social and Governance ('ESG') factors into the investment selection, monitoring and deselection process.

To help define ESG issues, the Pensions and Lifetime Savings Association ('PLSA') has provided a breakdown of some individual E, S and G factors, as illustrated:

Environmental

- Climate risk
- Carbon emissions
- Energy usage
- Raw material sourcing
- Supply chain management
- Waste & recycling
- Water management

Social

- Community relations
- Employee relations
- Health & Safety
- Human rights
- Product responsibility
- Workforce diversity

Governance

- Board structure
- Executive remuneration
- Bribery and corruption
- CEO/Chair duality
- Shareholder rights
- Vision & business strategy
- Voting procedures

Whilst the Councils have an overriding fiduciary and public law duty to act in the best long-term interests of their LGPS stakeholders to achieve the best possible financial returns with an appropriate level of risk, they also recognise that RI considerations increasingly reflect real financial risks, and so these factors should also be embedded in the investment decision-making process. There are four levels where RI issues can be addressed by ACCESS and the Councils:

Investment level	**Integration:** Incorporating ESG & RI issues into the everyday individual investment selection, monitoring and engagement processes.
Manager level	**Expectations:** Setting explicit expectations at the investment manager mandate level.
Council level	**Policy:** Setting an overarching policy, generated from core investment beliefs, which shapes the direction of travel.
Pool level	**Guidelines:** Incorporating the common policies and beliefs of the Councils to create a set of Guidelines summarising the Pool's approach.

RI Beliefs

At Pool level the following RI beliefs are common to all Councils and therefore core to the collective RI beliefs:

- **RI considerations are important across all time horizons**, but especially in the medium and long-term. This is true not just in terms of protecting and enhancing long-term investment return, but also increasingly in terms of the interests expressed by our stakeholders;
- RI considerations are important **irrespective of asset class**;
- **Responsible management of RI Issues** by ACCESS and the Councils is a reputationally important issue;
- **Consideration of ESG factors should be incorporated into the portfolio construction process** of all investments made by our active investment managers;
- Going further, ACCESS believes that ESG factors are relevant in **the context of benchmarking, risk analysis and investment opportunity identification**;
- ACCESS believes that **climate risk** – and the issues which contribute to it – **is of significant concern to all stakeholders**, and as a result it is a prominent area of focus;
- ACCESS and the Councils advocate the use of **engagement over divestment** as the means to promote our RI beliefs – however, selling an asset remains an option when it comes to unaddressed ESG concerns in the investments made by our managers;
- We also recognise the value in **engaging collaboratively** to leverage greater influence together with other investors who share our priorities through joint initiatives and organisations;
- The **exercise of Councils' collective ownership rights through voting** is an important part of implementing our RI beliefs.

The Councils also support the objectives of the Paris Agreement and believe that keeping a global temperature rise this century to well below +2^{oC} relative to pre-industrial levels is entirely consistent with securing strong financial returns. Asset managers are expected to provide reporting in line with the Task Force on Climate-Related Financial Disclosures (TCFD).

Stewardship

ACCESS believes in making long-term sustainable investments, whilst integrating ESG risk considerations into the investment process and promoting good governance and stewardship for themselves and their investments.

Individually and collectively the Councils that make up ACCESS support the aims and objectives of the UK Stewardship Code which set high standards for those investing money on behalf of UK savers and pension scheme members.

It is expected that UK-based investment managers will be signatories to, and comply with, the Code and expects non-UK-based investment managers to provide a formal statement on their approach to stewardship of client assets.

ACCESS believes that good stewardship practices can have a material impact, in terms of:

- **Avoiding value destructions**
- **Identifying significant risks**
- **Locating investment opportunities**

Voting

The eleven Councils have agreed a set of Voting Guidelines that set out the stewardship expectations for listed companies in relation to reports, accounts and audit, directors and renumeration, shareholder rights and environmental issues. The latest version of the Voting Guidelines can be found on the ACCESS website.

The Voting Guidelines seek to protect and enhance the value of shareholdings by promoting good practice in the corporate governance and management of listed companies.

These have been adopted by the ACS Operator, Link, (on a 'Comply or Explain' basis for active investment managers) in the ACS Prospectus and Investment Manager Agreements. Investment managers are required to report on their voting activity quarterly.

The Joint Committee receive a report on any votes which have not been cast, and explanations where votes have not been cast in line with the Voting Guidelines, on a regular basis.Assets that are out on loan through any securities lending arrangement are expected to be recalled with sufficient time to permit votes to be cast.

Engagement

Individually and collectively the Councils that make up ACCESS believe that the best way to influence companies on RI matters is through an ongoing process, as illustrated below.

Investment managers are expected to engage in constructive dialogue with companies, and to use their influence to encourage the adoption of best practice:

All investment managers in the Link ACS are required to describe how, and the extent to which, they incorporate ESG/RI issues into their investment processes.

Investment managers are expected to participate in a continuing dialogue on the impact of their stewardship activity to provide evidence of any active ownership activities on investments held and monitor progress towards any ESG objectives.

Monitoring

Assessment of all material issues and risk factors associated with a given investment (including ESG and RI factors)

Engagement

Sharing significant findings of the monitoring process to the investee company

Feedback

Considering the responses to engagement to decide if identified issues have been addressed

Divestment

ACCESS believes in a 'just transition' to a low carbon economy that ensures fair treatment for employees and communities that would otherwise bear the brunt of industrial change.

Individually and collectively the Councils that make up ACCESS also believe in constructively engaging with companies on any identified ESG & RI issues, rather than immediate divestment from these assets.

However, selling individual stocks remains an option for asset managers should any identified ESG or RI issues not be addressed satisfactorily.

Monitoring & Reporting

ACCESS believe that the monitoring of RI activities and outputs is vital to ensuring alignment of RI performance with the Guidelines.

Third-party agents such as Link, the master custodian, asset managers, and other stakeholders are actively encouraged to provide relevant, transparent, and accessible ESG-related information through reporting.

Reporting expectations may also be driven by other factors, such as reporting that is aligned with The Taskforce for Climate-related Financial Disclosures (TCFD).

Any reporting arrangements put in place need to be able to meet the many and varied reporting requirements of the Councils, now and in the future.

Future Developments

The Annual Strategic Business Plan for the ACCESS Pool has been agreed by the Councils following recommendation from the Joint Committee.

This included: a priority in relation to the implementation of the ESG/RI guidelines which will include working with Link and the investment managers to ensure understanding and adoption of the Guidelines.

A priority in relation to the completion of a procurement for RI reporting support which will follow the identification of specific RI reporting requirements of the Councils.

In addition, the following may be developed during the year, subject to agreement by the Joint Committee and the Councils:

- Review the Voting Guidelines;
- Explore the range of third-party collaborations/ bodies to identify if there is benefit in working with other like-minded investors;
- Explore prioritising ESG and RI themes for development, action and reporting;
- Develop the Risk Register to ensure it covers a wide range of known ESG and RI risks that might affect the investments of the Councils.

Any changes to the RI Guidelines will be recommended by the Joint Committee to the Councils before being adopted.

Further ahead, the following are highlighted as potential business plan priorities:

Stage 1
Short term

1-3 years

Consideration by Councils of setting targets (such as engagement, climate related metrics or voting measures) and development of any reporting frameworks to meet Council requirements aligned to regulatory and market initiatives (such as the UK Stewardship Code 2020, Task Force on Climate-Related Financial Disclosures (TCFD) and the Principles for Responsible Investment (PRI)).

Stage 2
Medium term

3-5 years

Consideration by Councils of setting output or impact-related metrics (such as climate risk, progress towards Paris Agreement alignment and climate scenario analysis).

Stage 3
Long term

over 5 years

Consideration by Councils of fixed long-term strategic targets (such as a commitment to ‘Net Zero’, or achievement of Paris Agreement/ COP26 alignment).

West Wittering Beach
West Sussex

For any enquiries, please contact the Access Support Unit (ASU) on **ASU@accesspool.co.uk**

accesspool.org