



# Investment Strategy Statement

Including  
Appendix A – Rebalancing Policy  
Appendix B – Statement of Responsible Investment  
Principles

September 2023

## Introduction and background

This is the Investment Strategy Statement (ISS) of the East Sussex Pension Fund (the Fund), which is administered by East Sussex County Council, (the Administering Authority). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Regulations).

The ISS has been prepared by the Pension Committee (“the Pension Committee”) having taken advice from the Fund’s investment adviser, Isio. The Pension Committee acts on the delegated authority of the Administering Authority. The ISS, which was approved by the Pension Committee on 28 September 2021, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Pension Committee has consulted on the contents of the Fund’s investment strategy with such persons it considers appropriate.

The Pension Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Funding Strategy Statement.

## Investment Principles

The Fund has set the following Investment Principles

**Long-term investors** We are long-term investors with a focus on ensuring we can pay pensions to our beneficiaries now and into the future. We will invest in a wide range of assets to ensure strong diversification and can be defensive to market changes.

**Responsible investors** We are responsible investors and believe we can reduce risk and generate enhanced returns by investing in companies and assets that are sustainable and well governed. We strive to be active stewards of our investments and hold our investment managers and underlying companies to account.

**Evidence based approach** We ensure all investment decisions are based on evidence and expert advice to ensure we can protect the interest of the Funds beneficiaries and comply with our fiduciary duties.

**Collaborative** We are keen collaborators with our peers and industry partners to drive forward best practice and improve efficiencies.

**Robust Governance** The Fund has a robust governance framework and ensures that all decisions within the Fund are made with appropriate oversight and we are transparent and accountable.

**Risk and return** The Fund recognises that it needs to balance risk with return and ensures Environment Social and Governance (ESG) factors are considered in determining risk.

## The suitability of particular investments and types of investments

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Pension Committee aims to manage the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions are agreed by the Fund employers to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases in line with the relevant LGPS scheme rules.

The Pension Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Pension Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities. The Pension Committee discuss the appropriateness of the Fund's strategic asset allocation at least once a year.

The Fund carries out an asset liability modelling exercise in conjunction with each actuarial valuation. A number of different contribution and investment strategies are modelled, and the future evolution of the Fund considered under a wide range of different scenarios. The Pension Committee considers the chances of achieving their long term funding target and also considers the level of downside risk in the various strategies by identifying the low funding levels which might emerge in the event of poor outcomes.

This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding basis used).

In addition, the Pension Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns
- Environmental Social and Governance factors

## Investment of money in a wide variety of investments

### Asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index linked bonds, cash, property, credit and infrastructure, either directly or through the ACCESS LGPS pool. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Pension Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Pension Committee seeks and considers written advice from a suitably qualified person in undertaking such a review, in line with the LGPS

(Management and Investment of Funds) Regulations 2016. If, at any time, investment in a security or product not previously known to the Pension Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification and training is provided, if relevant.

The Fund's target investment strategy is set out below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the 2016 Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of Fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

The maximum invested figures can be seen in the rebalancing ranges agreed by the Pension Committee within its rebalancing policy. Whilst strategy allocation changes are to be implemented or commitments made and yet to be called, some positions may be out of the anticipated ranges.

**Table 1: Fund allocation**

Asset Type	Asset Class	Active/Passive	Liquid/Illiquid	Previous SAA %	Asset Allocation %	Change %	Role within the strategy
Global Equities	Quality	Active	Liquid	10	10	-	Growth
Global Equities	Growth Paris Aligned	Active	Liquid	5	5	-	Growth
Global Equities	Sustainable Growth	Active	Liquid	10	10	-	Growth
Global Equities	Climate Aware Smart Beta	Passive	Liquid	10	7.5	-2.5	Growth
Global Equities	Resource Efficient	Passive	Liquid	5	7.5	2.5	Growth
Private Equity	Global	Active	Liquid	5.5	5.5	-	Growth
Diversified Growth	Absolute Return	Active	Liquid	10	10	-	Defensive Growth
Diversified Growth	Real Return	Active	Liquid	7	7	-	Defensive Growth
Fixed Income	Diversified Credit	Active	Liquid	10.5	7	-3.5	Defensive Growth
Fixed Income	Corporate Bonds	Active	Liquid	0	3.5	3.5	Defensive Growth
Fixed Income	Index Linked Gilts	Passive	Liquid	0	4	4	Inflation protection
Fixed Income	Private Credit	Active	Illiquid	5	5	-	Defensive Growth
Infrastructure	Global Listed	Active	Liquid	1	1	-	Defensive Growth / Inflation Protection
Infrastructure	Global Private	Active	Illiquid	10	10	-	Defensive Growth / Inflation Protection
Real Estate	Balanced Property	Active	Illiquid	7	7	-	Defensive Growth / Income / Inflation protection
Real Estate	Long Inflation Linked Property	Active	Illiquid	4	-	-4	Income / Inflation protection

## Flexibility and Evolution

To enable to the Fund to implement the investment strategy and move flexibility in response to risk and opportunities, the Fund has a range of acceptable positions in each asset class which is laid out in the rebalancing policy in Appendix I. By monitoring the actual allocation on a regular basis the Fund can ensure it does not notably deviate from the target allocation. Where appropriate the Fund will set trigger limits in which investment should be made to benefit from market opportunities. The S151 officer has the delegated authority to make investment decisions outside of the approved strategy of up to 5% to respond quickly to market opportunities and risks.

## Managers

The Pension Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

Each investment manager has an agreed benchmarks to compare returns against, so that in aggregate, they are consistent with the overall asset allocation for the Fund. As the Fund does not invest in any segregated mandate these benchmarks are considered when assessing the appropriateness of a sub fund within the LGPS pool or on selection of a new pooled fund. The Fund's investment managers will hold a mix of underlying holdings which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles.

When the Pension Committee approves a change to the investment strategy, the Pension Committee instruct officers and the Investment consultants to implement the strategic asset allocation investment decision. This can be by accessing a suitable sub fund from the ACCESS LGPS pool, where manager selection sits at pool level; or where there is no solution to implement the strategy through the LGPS pool, officers will carry out a manager selection process led by the Investment Consultant to short list the options available and assess these against the best strategic fit for the Fund. A recommendation is then laid out to the Pension Committee as to the most suitable implementation solution to meet the approved investment strategy.

## The approach to risk, including the ways in which risks are to be measured and managed

The Fund has a detailed Risk Management process in place which is documented in the Fund's Risk Management Policy. A Risk Register is reported to Pension Committee and Pension Board quarterly for review and consideration, identifying the risk and the mitigations in place.

The principal risks affecting the Fund are set out below.

### Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics – The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

The Fund measures and manages financial mismatch in two ways. As indicated above, the Pension Committee has set a strategic asset allocation benchmark for the Fund, which is reviewed on at least an annual basis. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk.

The results from the 2023 valuation highlighted that the Fund is fully funded and has a good chance of retaining this fully funded position in future without adopting an over prudent approach towards its investment strategy. The Pension Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns quarterly. The Pension Committee also assesses risk relative to liabilities by monitoring the funding position regularly.

The Pension Committee reviews the demographic assumptions of the Fund every three years as part of its triennial valuation, to mitigate the risk that changes to longevity and other factors would have on the Fund. In addition, Fund officers meet regularly with the Fund Actuary to ensure any major swings in longevity assumptions due to environmental or medical changes can be identified early.

The Pension Committee seeks to mitigate systemic risk through a diversified portfolio; across asset classes, sectors, geographical region, investment manager styles and considers correlation of risk and return across different asset classes in construction of the investment strategy. It is not possible to make specific provision for all possible eventualities that may arise under this heading.

### Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Environmental, social and governance (“ESG”) – The risk that ESG related factors reduce the Fund's ability to generate the long-term returns. The Fund believes that climate change poses material risks to the Fund but that it also presents positive investment opportunities.
- Climate Risk – The risk to asset values and liabilities in response to climate change from physical or transition risk including regulatory changes.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.
- Pooling risk – The risk that the LGPS investment pool is unable to offer suitable investment opportunities or the risk around the ability to liquidate assets to meet liabilities.

The Fund measures and manages these assets risks through the Fund's investment performance monitoring processes including through the strategic asset allocation benchmark which invests in a diversified range of asset classes. The Pension Committee has put in place rebalancing arrangements to ensure the Fund's “actual allocation” does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as property, the Pension Committee has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Pension Committee also assesses the Fund's currency risk during their risk analysis.

Details of the Fund's approach to managing ESG risks are set out later in this document.

The Pension Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager for various asset classes. In addition, the Fund has an allocation to passive mandates which have a lower tracking error to the market; the Fund accesses these through products that have an ESG tilt. The Pension Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers if underperformance persists or there are other concerns with the investment management or philosophy.

## Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Pension Committee seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.
- Stock Lending- The Fund will participate in any stock-lending arrangements in the future as part of the LGPS ACCESS pool. The Fund will ensure that robust controls are in place to protect the security of assets before entering into any stock lending arrangements. The manager(s) of pooled funds may undertake a certain amount of stock lending on behalf of unit-holders. Where a pooled fund engages in this activity the extent is fully disclosed by the manager (unless the assets are invested in LGPS pooled arrangements in which case this will be delegated to the Pool Operator).

The Fund monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts, or has delegated such monitoring and management of risk to the appointed investment managers or ACCESS LGPS pool as appropriate (e.g. custody risk in relation to pooled funds). The Pension Committee has the power to replace a provider should serious concerns exist.

## The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund is a participating scheme in the ACCESS Pool. The ACCESS pool was set up following the 2015 Investment reform criteria and pooling guidance published in 2015.

### Assets to be invested in the Pool

The Fund's intention is to invest its assets through the ACCESS Pool as and when suitable Pool investment solutions become available. The ACCESS Pool has launched numerous sub-funds in which the East Sussex Pension Fund now participates and there are further launches in the pipeline, which the Fund plan to be involved with. As the ACCESS pool is managed through a procured operator service there will be a pause in new asset sub fund launches while the operator re-procurement activities take place.

The Fund holds investments with Longview, Ruffer, Newton, Baillie Gifford and M&G through the ACCESS Authorised Contractual Scheme (ACS). In addition, the Fund has passive exposure to UBS who administer the Osmosis index for the Fund which was procured and is governed through the ACCESS pool.

An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government. The key criteria for assessment of Pool solutions will be as follows:



1. That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund
2. That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

At the time of preparing this statement the Fund has elected not to invest the following assets via the ACCESS Pool for the following reasons:

**Table 2 – Assets held outside the Pool**

<b>Asset class</b>	<b>Manager</b>	<b>Target % of Fund assets</b>	<b>Benchmark</b>	<b>Reason for not investing via the ACCESS Pool</b>
<b>ESG tilted passive equity</b>	Storebrand	7.50%	MSCI All Countries World	This strategy is not currently available through the ACCESS funds platform. This should be a temporary position outside the pool. The ACCESS Joint Committee agreed in September 2023 that a sub fund meeting these criteria should be added to the ACS. This has now been passed to the pool operator to consider how this will be implemented.
<b>Active Sustainable Equity</b>	WHEB /Wellington	10.00%	MSCI All Countries World	Currently, there are no impact funds available through the ACCESS funds platform that satisfy the Funds Responsible Investment requirements for active sustainable equity. These will be held outside the pool temporarily until the pool is able to launch RI investment options that meets the Fund impact criteria. The pool is continually amending sub funds and providing new opportunities which may provide an option for these to be moved to the pool in the near future The Fund will work with the Pool to try and add products of this nature to the offerings through the Pool
<b>Private Equity</b>	Harbourvest Partners / Adam Street Partners	5.50%	MSCI All Countries World	Existing illiquid asset programmes will run off at normal lifecycle to avoid crystallising exit costs and loss of illiquidity premium earned. The Fund will work with the Pool to offer this asset class for new investments.

<b>Infrastructure</b>	M & G Infracapital / UBS Infrastructure / Pantheon	4.00%	GBP 3 Month LIBOR	Existing illiquid asset programmes will run off at normal lifecycle to avoid crystallising exit costs and loss of illiquidity premium earned. The Fund will work with the Pool to offer this asset class for new investments.
<b>Private Debt</b>	M & G	3.00%	GBP 3 Month LIBOR	Existing illiquid asset programmes will run off at normal lifecycle to avoid crystallising exit costs and loss of illiquidity premium earned. The Fund will work with the Pool to offer this asset class for new investments.
<b>Operational cash</b>	East Sussex County Council	0.00%	N/A	East Sussex Pension Fund needs to manage its cash flow to meet statutory liabilities, including monthly pension payroll payments, therefore, a reasonable level of operational cash will be required to maintain efficient administration of schemes and would be held outside the Pool.

Any assets not currently invested in the Pool will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money. The next such review will take place no later than 2026.

## Structure and governance of the ACCESS Pool

East Sussex is a member of the ACCESS pool along with the following 10 other pension funds:

Cambridgeshire

Kent

Essex

Norfolk

Hampshire

West Northamptonshire

Hertfordshire

Suffolk

Isle of Wight

West Sussex

All eleven funds are committed to collaboratively working together to meet the criteria for pooling and have signed an Inter Authority Agreement to underpin their partnership. ACCESS is working to a business plan in order to create the appropriate means to pool investments.

The ACCESS Funds have set out how they meet the pooling criteria, the pool's structure, governance arrangements and services to be shared in the submission made to the Government in July 2016, which is available on ACCESS's website <http://www.accesspool.org/>. The pool make further representations to the Government annually to report savings achieved by the LGPS pool.

The "ACCESS Pool" is not a legal entity. However, a Joint Committee (JC), comprising elected Pension Committee representative from each Administering Authority and supported by the Officer Working Group has been established via an Inter Authority Agreement. Papers from previous and future ACCESS JC meetings papers can be found using the following link: <https://democracy.kent.gov.uk/mgOutsideBodyDetails.aspx?!D=898>

ACCESS has taken advice on its sub-fund design and development of investment opportunities available. The pool appointed Link Fund Solutions to establish and operate the ACS carrying out all the FCA regulated aspects of the pool on liquid assets. Link are responsible for the overall management of the ACS including the creation of investment sub funds and the appointment of Investment managers on this platform. A thorough due diligence process is undertaken before the Investment Managers are appointed and robust monitoring and governance is applied to the managers on an ongoing basis including an annual assessment of value. The ACS manages a significant portion of participating Authorities' liquid assets.

Passive assets are pool aligned Investments managed under the Pool Governance processes. The value of assets held within the Pool includes passively managed assets which are held in Life Policies. The Life Policies themselves will necessarily remain an agreement between the participating Authority and the appointed external investment manager. This was acknowledged as an acceptable outcome by Government. All passive assets will therefore be held outside the ACS and will not be managed or administered by the Pool Operator.

## How social, environmental or corporate governance (ESG) considerations are taken into account in the selection, non-selection, retention and realisation of investments

To clearly define the approach adopted by the Pension Committee to these issues, the Pension Committee approved a Statement of Responsible Investment Principle (SRIP) which is available in Appendix B. Within this statement it is recognised that environmental, social, and corporate governance factors can influence long term investment performance and the ability to achieve long term sustainable returns.

The Fund's responsible investment (RI) principles are:

- a. We will apply **long-term thinking** to deliver **long-term sustainable returns**.
- b. We will seek **sustainable returns** from **well-governed assets**.
- c. We will use an **evidence-based** long term investment appraisal to inform **decision-making** in the implementation of RI principles and consider the costs of RI decisions consistent with our fiduciary duties.
- d. We will evaluate and manage **carbon exposure in order to mitigate risks to the Fund from climate change**.
- e. We will be **active stewards** of our assets to ensure **value to our beneficiaries**
- f. We will achieve ESG improvements through **collaborate engagement**
- g. We will be **transparent** in our RI reporting

The Committee takes RI matters very seriously with a designated policy which is reviewed annually. In addition the Fund conducts a review its investment managers' approach to RI and discusses a range of ESG issues at each manager review meeting.

ESG policies are reviewed before investments are made with a detailed set of ESG criteria for manager selection, to ensure the longevity of the investment portfolio. Managers are then assessed annually through carbon foot printing and an annual impact assessment where each manager is allocated an ESG score and a climate score with an action plan set out.

The Committee have made a number of sustainable investments as part of the Investment strategy which address environmental and societal challenges while generating competitive financial returns. These investments seek to generate return through climate opportunities. These include for example, energy efficiency companies, renewable energy projects, companies or products that improve access to basic life essentials, companies that reduce inequality and companies or products that mitigate the effects of climate change.

At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments.

## The exercise of rights (including voting rights) attaching to investments

### Voting rights

The Pension Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard, which is considered as part of the appointment of an investment manager process. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Fund's investment managers are also expected to file or co-file shareholder resolutions on important issues at the investee companies in the interests of agitating for better governance. For investments held through the ACCESS pool in a segregated sub-fund, investment managers are required to vote in line with the ACCESS pool voting guidelines, whereas where investments are in a pooled vehicle the Pension Fund accepts the investment manager will vote in line with its own policy. There is a requirement for the investment manager to explain the rationale for its decisions and ultimately the Pension Committee has the option to disinvest from the investment fund if it is dissatisfied with the manager's decisions and actions.

The Fund believes that Collaboration with other asset owners and Investment Managers is an effective way to help improve the effectiveness when exercising their rights and responsibilities on engagement with the invested companies; to this end the Fund are members of the LAPFF, IIGCC and the PRI. The Fund encourages all of its Investment Managers to be signed up to the PRI and IIGCC collaborations and to demonstrate effective stewardship through submissions of the UK Stewardship Code 2020.

As a member of the Local Authority Pension Fund Forum (LAPFF) the Fund send Investment managers voting alerts from LAPFF to take into consideration on their voting for the Fund and to either vote in line with the recommendations or explain why they have voted differently based on their specific research considerations. The Fund recognise that the research teams of the investment managers may have a different insight to the research team at LAPFF and they may not always agree on the best approach, so an explanation is expected in these cases.

The Fund produce and publish a voting and engagement report, quarterly, to demonstrate implementation of the Funds exercise of rights and engagement activities. The ACCESS pool collate and report the voting of all the managers within the pool and advise of any votes against the ACCESS voting guidelines. This information is then discussed as part of the investment performance report at each Joint Committee meeting.

### Stewardship

The Fund understands that stewardship aims to promote the long term success of companies in such a way that the ultimate providers of capital also prosper. The Pension Committee has formally agreed to adhere to the Stewardship Code as published by the Financial Reporting Council, and was approved as a signatory under 2020 Stewardship code requirements in February 2023. The Stewardship Code sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. A copy of the Funds Stewardship Report can be found on the Funds website <https://www.eastsussexpensionfund.org/forms-and-publications/> The Fund seeks to retain status every year.

In addition to its own commitment to the Stewardship code the Fund expects its investment managers to also be signatories or comply with the Stewardship Code.

In addition to the Fund's views on the Stewardship Code, the Fund believes in collective engagement and is a member of the LAPFF, the UN Principles of Responsible Investment (PRI) and the Institutional Investors Group on Climate Change (IIGCC), to collectively exercise a voice across a number of ESG principles including climate change benefiting from the scale of investment compared to engaging alone. The Fund expects as a minimum, all its liquid investment managers to also be signatories of IIGCC and PRI.

The Fund expect Investment Managers to engage with investee companies on material ESG issues and discusses engagement issues with Investment Managers at each review meeting. Investment Manager engagement is reported in the Funds quarterly report alongside activities that the Fund has achieved through its collaborative groups or own action.

#### Investment Management Stewardship Code and collaborative engagement membership

Manager	PRI Signatory date	Stewardship Code 2020	IIGCC
Longview Global Equity	08/04/2010	Yes - 2021	Yes
Baillie Gifford - Paris Aligned Fund	26/06/2007	Yes - 2021	Yes
Wellington – Global Impact Fund	26/04/2012	Yes - 2021	Yes
WHEB - Sustainability Fund	31/05/2012	Yes - 2021	Yes
Storebrand – Global ESG Plus Fund	27/04/2006	Yes - 2022	Yes
UBS - Osmosis	22/04/2009	Yes - 2021 (both UBS and Osmosis)	Yes
M&G Absolute Return	11/01/2013	Yes - 2021	Yes
M&G Corporate Bonds	11/01/2013	Yes - 2021	Yes
Newton Absolute Return	13/02/2007	Yes - 2021	Yes
Ruffer Absolute Return	15/01/2016	Yes - 2021	Yes
Pantheon Infrastructure	05/10/2007	No	No
ATLAS Global Infrastructure Equity Fund	18/03/2019	No	Yes
Harbourvest – Private Equity	25/11/2013	No	No
Adams Street – Private Equity	29/10/2010	No	No
Schroders – Property	29/10/2007	Yes - 2021	Yes
M&G Infrastructure	11/01/2013	Yes - 2021	Yes

#### Appendices

Appendix A – Rebalancing Policy

Appendix B – Statement of Responsible Investment Principle.



# Rebalancing Policy

September 2023



## Introduction

This is the policy outlining the parameters and process for Rebalancing of the East Sussex Pension Fund (the Fund) investment portfolio in line with the Funds Investment Strategy Statement (ISS).

## Regulatory Basis

The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Regulations”) and prepared by the Pension Committee (“the Committee”) having taken advice from the Fund’s investment adviser.

The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. This Re-Balancing policy will be used to ensure excess Fund money is invested in line with the ISS and that the investment portfolio continues to follow the Committee’s strategic asset allocation.

## Rebalancing

The Committee has set a strategic benchmark for the Fund that identifies three main classes of investment strategy, which the Committee considers has the appropriate risk and reward characteristics for the employers in the Fund. These high level strategic benchmarks are Growth, Income and Protection. These are then underpinned by a strategic asset allocation, for the asset classes the Fund invests in to gain diversification and manage the risk appropriately. The asset class targets are subsequently met by the appointments of individual managers who are set a portfolio to provide exposure to the asset classes in the strategic benchmark. The managers are expected to provide the market return (beta) for the asset classes in their mandates plus (for the actively managed mandates) additional returns from their active management (alpha) of the investments.

Over time the differential of relative performance between the asset classes and managers results in actual asset allocations (both at a strategic and portfolio level) which deviates from the agreed targets. Deviations from the targets result in tracking error, and a shift in the risk/return profile of the Fund which can have an impact on the Funding level as calculated by the Fund Actuary. Therefore, rebalancing is required to ensure that the appropriate risk is being taken by the Fund.

Rebalancing of asset weightings, entails portfolio transactions, so the benefit has to be weighed against the costs incurred, both in trading and indirectly in the market. Costs of rebalancing are broadly linear (selling twice as much of an asset will cost roughly twice as much). The net benefit of rebalancing is therefore the impact of tracking error less the costs of rebalancing. The exception to this is certain pooled funds where a dilution levy may be triggered if a seller is liquidating a significant holding in the Fund.

The trigger point for a rebalance should be when the benefits of the switch outweigh the costs involved.

The trigger determines when to rebalance, but not by how much. To rebalance all the way to the target allocation is not considered to be cost effective, as the costs of rebalancing all the way tend to outweigh the benefits. The Fund’s policy is therefore to rebalance to midpoint from the target allocation and the trigger point in graduated steps were possible.

## In normal market conditions

The key risk being run within a pension fund is the proportion invested between the growth, protection and income generating assets. Then to a lesser extent the mix of asset classes that makes up these strategic positions. The Fund’s rebalancing procedures will work on the basis that if a trigger

point is passed on the strategic positions, this will result in a rebalancing event to take place, following the rules set out below.

If a trigger point is reached by an asset class this will then trigger a rebalance, which may or may not be within the same strategic level looking to bring the most underweight position back in line. The rebalancing will take into consideration if this needs to be done on multiple asset classes to offer the best cost effective rebalancing is actioned.

This policy does not go into the lower level of detail in terms of which investment manager money will be moved from or provide triggers for these as this may cause too much unwanted movements that are not beneficial to the Fund.

### In periods of heightened market volatility

The rebalancing policy will be temporarily suspended or slowed if market conditions enter a period of heightened market volatility or other uncertainty as this could force the Fund to sell positions that it does not want to at a price that is not of benefit to the Funds members. That is to say that the cost benefit calculation that this policy is set on may not be valid in these situations and no rebalancing will take place until more certainty on the cost benefit can be derived.

In the situation where the market moves into an advantageous position which enables the Fund to invest outside the Investment Strategy Statement or this rebalancing policy. This would be where the Fund is able to lower the risk in the portfolio whilst maintaining the appropriate the return profile, the Chief Finance Officer will have the ability to invest 5% of the Fund outside the ISS and rebalancing policy.

### Liquidity

Rebalancing decisions will be made with due consideration of the liquidity of the underlying assets. In the case of illiquid assets, the total commitment will be considered as part of the rebalancing calculation as these can take several years to manifest into actual investments. The uncalled commitments will often be held in a low volatility liquid asset classes in the interim and these funding arrangements will not be subject to rebalancing. Details of liquidity arrangements of the Funds' investments are held in a separate operational document.

## Rebalancing Ranges

The following ranges have been agreed by the Committee to set as points at which rebalancing should take place.

Strategic Area	Strategic target (%)	Range (%)
Growth	62.5	51.5 – 73.5
Income	27.0	18.0 – 36.0
Protection	10.5	8.5 – 14.5
<b>Total</b>	<b>100.0</b>	

Asset class	Liquid/Illiquid	Strategic target (%)	Range (%)
Listed Equities	Liquid	40.0	35.0 – 45.0
Private Equity	Illiquid	5.5	2.5 – 8.5
Absolute Return	Liquid	17	14.0 – 20.0
<b>Total Growth</b>		<b>62.5</b>	<b>52.5 – 72.5</b>

Asset class	Liquid/Illiquid	Strategic target (%)	Range (%)
Balanced Property	Illiquid	7.0	5.0 – 9.0
Index Linked Gilts	Liquid	4.0	2.0 – 6.0
Infrastructure	Illiquid	11.0	8.0 – 14.0
Private Credit	Illiquid	5.0	3.0 – 7.0
<b>Total Income</b>		<b>27.0</b>	<b>18.0 – 36.0</b>

Asset class	Liquid/Illiquid	Strategic target (%)	Range (%)
Diversified Credit	Liquid	10.5	7.0 - 12.0
Cash	Liquid	0.0	0.0 – 2.0
<b>Total Protection</b>		<b>10.5</b>	<b>7.0 – 14.0</b>

## Principles of Rebalancing

The following principles will determine how the rebalancing process for the Fund will operate.

- **Rebalancing would be monitored on a quarterly basis via the investment monitoring report** - Authority to rebalance will be delegated to, and implemented by, Head of Pensions in liaison with the Investment Implementation Working Group. The Officers and advisers will consider transaction costs and current market conditions ahead of implementation.
- **Quarterly rebalancing will apply only to liquid assets** - Due to the transaction costs and illiquidity associated with the other investments such as property, infrastructure, private debt and private equity rebalancing for those asset classes will be considered on an annual/ad hoc basis.
- **Each benchmark allocation would have a weighted tolerance range** – A tolerance range will be defined for growth and matching assets and each underlying mandate; these tolerance ranges will be used in determining when rebalancing will be considered;
- **Cash holdings to be used for rebalancing** - Where possible any net investments or disinvestments should be used to manage allocations, for example, by investing any surplus cash into the most underweight asset class.
- **Rebalancing will occur at two levels; at the growth, income and protection level, and at the mandate level** – The rebalancing process will determine if rebalancing is required between growth, income and protection assets, and separately if rebalancing is required between asset classes. However, it is more important to be willing to incur transaction costs if necessary to rebalance between bonds and equities, for example, than switching between managers with similar mandates (e.g. active and passive global equities).
- **Rebalancing transactions will aim to rebalance allocations out with their tolerance ranges to the midpoint (at least) of the tolerance range** – The mid-point of the tolerance range is the mid-point between a benchmark allocation and its upper or lower tolerance limit. Assuming an asset class with a 40% allocation and a 35%-45% tolerance range, the upper mid-point would be the halfway point between 40-45% (i.e. 42.5%). The lower mid-point would be the halfway point between 35% and 40% (i.e. 37.5%). Historical analysis suggests that this is the best way of balancing the impact of transaction costs against returns.
- **Illiquid asset rebalancing** - The allocations to illiquid assets such as private equity and infrastructure will vary with general market movements and are not easily altered, due to the illiquid nature of the asset classes. Therefore, we will also consider commitments made and cashflows to drive any rebalancing being carried out in relation to the Fund's illiquid investments. Due to the nature of illiquid assets with timeliness of access to the market and long commitment call down periods, the illiquid assets will often be adrift of the strategic asset allocation while money is awaiting to be called by the investment managers, so these allocations will often be held in a low volatility liquid asset classes in the interim.
- **The long-term strategic target allocation implementation** – where a long-term strategic target allocation has been agreed but not yet fully implemented we will not look to rebalance any current asset class allocation that is in breach of the defined tolerance ranges if the breach is in the desired direction of travel of the Fund's long-term target allocation. This will avoid unnecessary transaction costs.
- **5% allowance to the Chief Finance Officer** – With advice provided by the Investment Implementation Working Group the Chief Finance Officer has the delegation to invest 5% of the Fund outside of the ISS, implementation plan and rebalancing policy. Any investment made through this delegation will be reported to the Committee at the next available opportunity. This will also trigger a review of the investment strategy of the Fund.
- Beyond this rebalancing policy and in line with the Council Constitution the Chief Finance officer has the delegated authority to take action or decide any other Pension Fund related matter

on behalf of the Administering Authority in special or emergency situations, in consultation with the Chair of the Pension Committee, including but not limited to where delay in the purchase or sale of investments might be detrimental to the interests of the East Sussex Pension Fund.



# Statement of Responsible Investment Principles

September 2023

## Introduction

At East Sussex Pension Fund (**ESPF, the Fund**), we believe that Responsible Investment (**RI**) supports the purpose of the Local Government Pension Scheme (**LGPS**) to provide retirement income for individuals. We believe that RI can reduce the risk associated with the invested assets that the Fund owns to allow it to pay pensions when they are due. Responsible investment is therefore a significant factor driving returns alongside other investment considerations.

This Statement of Responsible Investment Principles (**SRIP**) complements ESPF's Investment Strategy Statement (**ISS**). The SRIP explains the Funds approach to the oversight and monitoring of the Fund's investment activities from an RI and Stewardship perspective.

## What is Responsible Investment?

RI is an approach to investing that aims to incorporate environmental, social and governance (**ESG**) factors into investment decisions, to better manage risk and to generate sustainable, long-term returns (according to Principles for Responsible Investment). Stewardship is the responsible allocation and management of capital across the institutional investment community to create sustainable value for beneficiaries, the economy and society.

While acknowledging the potential benefits of incorporating ESG factors into the investment process, the Fund recognises that there are many different approaches, there is no universally agreed standard of ESG measurement or assessment, and some methodologies may enhance returns while others may not. There may also be inherent conflicts between the Environmental, Social and Governance factors forming the ESG framework.

As a consequence, while acknowledging the opportunities for ESG factors to reduce risk and provide opportunity, careful attention is required in manager or index selection to methodologies which incorporate both qualitative, quantitative and forward-looking approaches.

RI is not the same as Ethical Investment. Ethical Investment is an approach determined by an investor's specific views, usually based on a set of personal values. These values can take precedence over financial considerations of an individual. The power to invest the assets of the Fund must be made for the investment purpose of ensuring that benefits can be paid to members and their contingent beneficiaries when due, as a result the Fund will identify and mitigate material financial risk when making decisions and not based on personal or political values. Instead of being considered as either an "Ethical" or an "Unethical" investor, the Fund will be a responsible steward of capital. At ESPF, we are guided in our roles as quasi-trustees, executive officers and investment managers by the legal principle of fiduciary duty.

The Pension Committee (**the Committee**), comprising five East Sussex County Council councillors, is the decision-making body of the Fund and is responsible for Fund oversight and policy setting. In carrying out its obligations, this group of quasi-trustees must take into consideration the views of its main stakeholders, members and employers.

As a global long-term investor, ESPF recognises that climate change presents significant long-term risks to the value and security of pension scheme investments and capital markets more broadly. As a result, the Fund recognises climate risk to be a significant financial risk and addresses climate risk separately to wider ESG factors.

## About this document

East Sussex Pension Fund's Statement of Responsible Investment Principle was approved by the Fund's Pension Committee in September 2023. It will be reviewed and updated at least every three years.

The objectives of this Statement of Responsible Investment Principles are to:

- reduce the likelihood that ESG factors, including climate risk, will negatively impact asset values and returns;
- set out a framework to inform stakeholders on the action ESPF is taking to address and manage ESG and climate risks.

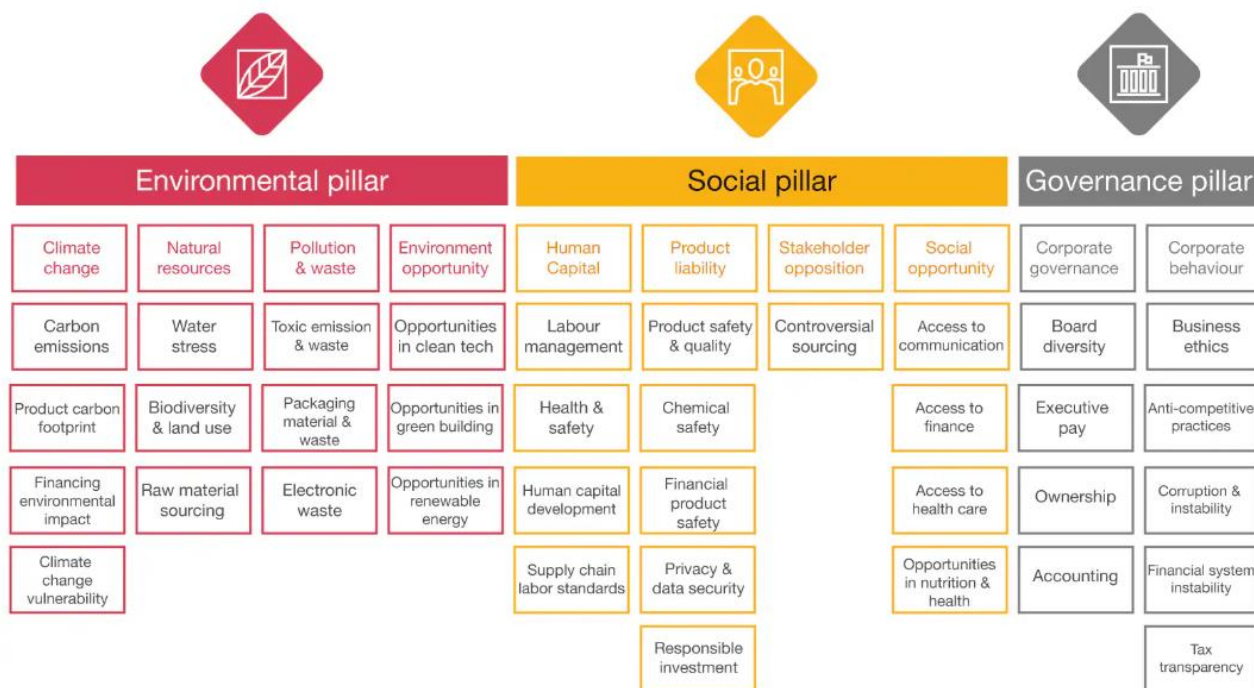
The Fund will report on its progress against the principles in our Annual Report against the Taskforce on Climate Related Financial Disclosures framework.





## Pillars of ESG

Sustainability is about creating long-term value by implementing strategies that incorporate environmental, social and governance (ESG) factors as well as financial factors. ESG is wider than just environmental issues which are often a key focus, sustainability requires the social and governance factors to also be considered. ESG reporting requires disclosure of information, data and metrics to represent the long term added value across the three pillars.



Source: [www.pwc.com/mt/en/publications/sustainability/esg-what-is-it-all-about.html](http://www.pwc.com/mt/en/publications/sustainability/esg-what-is-it-all-about.html)

## Responsible Investment Beliefs

The following beliefs underpin the Fund's Responsible Investment principles and policies:

- ESG factors, including climate risk, can present material financial risks to asset values and returns.
- Implementation of effective RI policies can reduce risk and has potential to enhance returns.
- Engagement with investment managers (“IMs”) and investee companies can be effective in protecting and enhancing the long-term value of investments.
- Collaboration with other asset owners and IMs will help improve the effectiveness of engagement.
- Effective oversight of RI requires monitoring of ESG and CR metrics and the actions of IMs and investee companies.
- RI is aligned with ESPF's fiduciary responsibilities in the management and oversight of ESPF's investments.

- ESG opportunities may be found in Impact Funds investing in companies whose profits are derived from providing solutions to some of the World's more serious environmental, sustainability and social challenges e.g. cleaner products and processes, renewable energy, health, nutrition, sustainable agriculture, shelter, clean water and sanitation etc.
- Resource efficient companies can drive increased returns for the benefit of the scheme members and stability of contribution rates for Scheme Employers, as resource efficiency reduces dependency on natural resources resulting in reduced input costs and less dependence on volatile commodity prices.

## ESG Themes

### Climate Change

As an LGPS Fund we are long-term investors with liabilities reaching beyond the year 2100. The objective of the Fund is to meet the current and future pension benefits of our members now and when they fall due. The Committee believe that, over the expected lifetime of the Fund, climate change presents both risks and opportunities with the potential to be financially material to the performance of the investment portfolio; recent trends in climate indicate an increasing physical risk to some assets and geographical regions. As such, we consider climate change issues across the Fund and specifically in areas such as Strategic Asset Allocation, Investment Strategy, Investment Manager Selection and Risk Management with the aim of minimising adverse financial impacts and maximising the opportunities for long-term economic returns on our assets.

Climate change risks and opportunities are a primary focus of the Fund's investment strategy with strategic asset allocations to sustainable impact funds and funds with alignment to the Paris Agreement. The Fund engages with Investment Managers on holdings where there are high emissions or climate physical or transition risks to ensure there is a robust rationale for investment and an understanding of transition plans of the investee company and where relevant a clear engagement plan. The Fund expects investment managers to have clear escalation strategies in place for stewardship of the Fund's assets.

### Human Rights

As a responsible institutional investor, the Fund uses its influence to encourage the promotion and protection of human rights around the world. This is achieved through regular direct engagement with a variety of stakeholders including policy makers, investment managers, and investee companies to ensure that corporate practices are in line with the Fund's human rights commitments.

The Fund remains diligent in its responsibility to ensure effective oversight and governance surrounding human rights in all companies in which it invests. With a view towards ending practices such as forced labour and human trafficking, ESPF pushes for supply chain transparency across its investment portfolio. By directly engaging with companies and investment managers, the Fund aims to drive the improvement of corporate human rights practices around the world.

As detailed in the Fund's Stewardship Report, human rights stewardship is directly integrated into our investment strategies. To this end, ESPF continually assesses and reports on its underlying exposure to companies with human rights concerns. An example of this can be found in the Fund's Statement on Israel and the Occupied Territories, which annually reviews the human rights situation in the Occupied Palestinian Territories in relation to our investment strategies.

## Biodiversity

Amid the ongoing climate crisis, the Fund recognises the strong interlinkages between climate change and biodiversity. As such, ESPF considers it a priority to enhance biodiversity and contribute towards the regeneration of wildlife habitats. With nearly a third of all monitored species currently under threat of extinction due to human pressures, the importance of biodiversity regeneration is unmistakable.

Engagement on the topic of biodiversity is a vital tool in the Fund's broader strategy to combat environmental risks. Through direct engagement with investment managers, the Fund has started to see increasing focus of biodiversity strategies within the investment managers approaches and in its investee companies. Additionally, the Fund carefully considers sustainability practices (including strategies for biodiversity regeneration) in its manager selection processes.

The Fund remains steadfast in its commitment to tackle the loss of biodiversity and considers this to be a priority in the focus of environmental issues. As a member of IIGCC, the Fund will utilise the work of nature action 100 and will adopt the framework from the Taskforce for Nature related Financial Disclosures (TNFD) when it is able.

## Corporate Governance

As one of the key pillars of ESG, the Fund is committed to the promotion of good corporate governance practices across its portfolio. These practices include (but are not limited to) board diversity, fair pay, tax transparency, corruption, money laundering and business ethics.

ESPF views good corporate governance as the root of responsible investment. The Fund incorporates these beliefs into its broader investment approach, making use of voting, shareholder resolutions, corporate engagement, and manager monitoring to ensure good governance practices are being implemented across its portfolio.

Through its investment managers, the Fund encourages and facilitates investee companies to meet targets in areas such as gender representation, diverse recruitment, and financial transparency. Additionally, the Fund encourages its investee companies to improve their reporting standards on governance strategies.

ESPF continually reviews the corporate governance practices of its investee companies to ensure compliance with our core values of good governance.

## Sustainable Production and Consumption

With climate concerns being at the forefront of the Fund's responsible investment strategy, ESPF is devoted to encouraging practices of sustainable production and consumption across its portfolio. At its core, this entails the prevention of pollution, reduction of waste, and the promotion of a circular economy.

To provide a comprehensive approach to the various sustainability challenges that the earth faces, the Fund heavily invests in climate impact funds which aim to encourage sustainable methods of production and consumption. In line with these priorities, the Fund is invested in critical infrastructure to support the shift to sustainable production and consumption such as water recycling centres and renewable energy solutions.

Through direct and collective engagement through the Local Authority Pension Fund Forum (LAPFF), the Fund encourages investee companies to implement sustainable business practices in their operations. ESPF remains committed to tackling climate risk in all forms, which includes the promotion of sustainable production and consumption practices.

## Obligations of the Pension Committee and duty to our members

The Committee is subject to fiduciary duties with respect to investment matters. As a result, the Fund must only use its power to invest the assets for investment purposes, to generate the best realistic return over the long-term, given the need to control for risks, to enable benefits to be paid to members when due. Investment decisions must be taken prudently, with a reasonable level of skill and care, and on the basis of proper advice, acting in the members' best (financial) interests.

To ensure the Pension Committee can do this, the Fund recognises that ESG issues can positively and negatively impact on financial performance. In addition, the Fund recognise that climate risk is a financial risk and support the view that limiting global warming to 1.5 degree could help curb the catastrophic impacts to the financial standing of the Fund and our members wellbeing of climate change. The Fund want its members to be proud that it has a focus on climate change and the actions it has, and will continue to take, to work towards a better future.

The Fund will aim to understand the evidence in light of research and policy developments to inform the investment approach applying long-term thinking to integrate ESG, including climate risk and opportunities, into investment decision making.

## ESPF and the ACCESS pool

The Fund is a participating scheme Fund in the ACCESS LGPS Pool alongside 10 other partner Funds. Individually and collectively the Councils that make up the ACCESS pool 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 ESG factors into the investment selection, monitoring and deselection process. The ACCESS pool has published a set of RI guidelines for the pool to follow and implement reporting at the pool level.



While ESPF and the other ACCESS 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, the 11 Funds collectively 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 the ACCESS pool will consider how RI issues can be addressed both through the pool and individually -

- 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.

ESPF remains responsible for deciding which asset classes it wants to invest in and the size of the allocation. This is set out in the Investment Strategy Statement (ISS). The ACCESS pool, invest our money in line with our strategy by selecting Investment Managers to implement the risk and return criteria of the Fund's investment strategies. Where investment options to implement the ISS, are not on the ACCESS pool platform, ESPF will work with the pool to provide investable products that meet the Funds ISS requirements.

ESPF will work with the pool to drive improvements in the stewardship activities of the pool, aim for a best in class voting policy and ensure the pool can support the underlying Funds in their reporting requirements, through participation in the ESG working group, decision making through the ACCESS Joint Committee representation and other opportunities within the pool that arise.

## Integrating RI into Strategy Implementation

At ESPF we are committed to acting as responsible investors and fully integrating our approach to ESG, including climate risk, into investment processes.

The Fund's approach is to invest in companies that have a high and sustainable return on investment. The Fund does not exclude sectors from its investible universe based on their participation in certain industries, instead the emphasis is on assessing the sustainability and financial risk of a holding.

Fully integrating ESG into the Fund's investment process means that the Pension Committee, is in possession of all the facts to determine how ESG impacts the investment case, including valuation and is in a position to engage with the investment managers.

ESPF will review annually all strategy mandates and managers against climate metrics (e.g. impact on portfolio, manager compliance, exposure to certain sectors). For all new mandates we will consider climate-related risks and objectives explicitly as part of the selection criteria.

The Fund is committed to carrying out engagement with Investment Managers on specific issues and risks identified by the climate related data and engagement priorities.

The Fund will consider options for scenario analysis and how this will provide an enhanced understanding of portfolio risk to integrate into investment decision making. All decision making, and investment monitoring, considers climate related risk and opportunities. We will develop regular reporting of ESG and CR metrics to inform decision making and help assess and monitor progress towards our RI objectives.

## Principles for Responsible Investment Approach

The Fund is a signatory to the United Nations Principles for Responsible Investment (**PRI**), an organisation which supports and enables asset owners and asset managers to work collaboratively towards RI best practice.

As a signatory, ESPF has committed to implement the six principles with the aspiration of contributing to the development of a more sustainable global financial system. We outline the ESPF approach to the six principles.

### Principle 1 - We will incorporate ESG issues into investment analysis and decision-making processes.

The implementation of ESPF's investment strategy is delegated by the Pension Committee to officers and external investment managers (IMs) to invest the Fund's assets. How ESG factors are incorporated into investment analysis and decision-making processes varies according to the asset category and manager. All investments are externally managed through pooled vehicles, either directly with the Investment Manager or through the LGPS ACCESS pool. Investment Managers are expected to report to the Taskforce for Climate related Financial Disclosures (TCFD) framework and support the Funds production of its climate reporting.

As part of the governance arrangements with the IM's, where the manager carries out scenario analysis, the Fund will ask for details of the scenarios as well as the output of the analysis in relation to the Fund's portfolio. Where portfolio-level analysis is not available, the Fund will ask for the results of any other analysis that the asset manager is using to identify and assess climate-related risks in relation to the portfolio, such as carbon footprint data. The Fund will ask what the asset managers are doing differently as a result of the analysis, to mitigate the risks. Where no scenario analysis is taking place, the Fund will ask about asset managers' plans for adopting scenario analysis and encourage faster action if this is not ambitious enough.

The Fund gains its exposure to equity markets by recourse to a combination of Active managers and Passive index funds. The holdings of Active Managers are by their nature transitory and subject to continual change through the manager's stock selection process. Managers of passive index funds replicate an index and so have a longer run exposure to companies and sectors over which limited due diligence is performed. The choice of passive index is therefore an important deliberation. Where possible, the Fund seeks to acquire exposure to indices that are tilted in favour of companies that benefit from greener revenues, are less carbon intensive, and are better positioned than their peers to adapt to the Energy Transition. In some markets this option is not possible.

The ESPF have the following categories of asset managers:

**Active Equity managers (pooled funds):** As a part of the appointment process, we ensure that Managers demonstrate that they incorporate ESG filters into their investment analysis and asset acquisition processes. We monitor the managers' performance on a quarterly basis alongside all other investment matters, and review the PRI transparency reports of



external managers, where available. Managers are encouraged to join PRI, IIGCC and Climate Action 100+ as signatories, where they are not already members.

**Passive Index Funds with ESG tilts:** Passive indices offer a low-cost complement to Active Managers. We select Passive indices based on the index's ability to reduce exposure to climate risks and to capture opportunities for investment in companies that are forward looking, generating green revenues, and better aligned to navigating the Energy Transition.

**Corporate Credit managers:** during the appointment process, we assess the approach of managers to incorporating ESG issues into their investment analysis and decision-making processes. We monitor the managers' implementation of the approach on a quarterly basis alongside all other investment matters, and review the PRI transparency reports of external managers, where available. It is our ambition to appoint managers who devote greater focus in providing finance to companies or projects that are more compatible with the aims of the Paris Agreement.

**Property managers:** The capacity for Managers to incorporate ESG factors into the investment process alongside other key investment criteria will be required, monitored, and regularly reviewed. Managers will be encouraged to adopt PRI Transparency and GRESB reporting and take an active approach in assessing physical climate risks to the portfolio assets, retrofitting costs and biodiversity challenges of the sector.

**Real Asset management (infrastructure) managers:** during the appointment process, we assess the approach of managers to incorporating ESG issues into their investment analysis and decision-making processes. We monitor the managers' implementation of the approach on a quarterly basis alongside all other investment matters, and review PRI transparency and GRESB reports of external managers, where available. The Fund expects its infrastructure managers to ensure all investment assets are future proofed from a climate change perspective with assessment of physical climate risk and decarbonisation of existing infrastructure assets.

Principle 2 - We will be active owners and incorporate ESG issues into our ownership policies and practices.

The Fund implements this principle through a range of activities –

**Voting:** The Fund's asset managers vote on resolutions at the Annual General Meetings (AGM) and Extraordinary General Meetings (EGM) of the Fund's equity holdings.

**Shareholder resolutions:** The Fund's asset managers also file or co-file shareholder resolutions on important issues at the Fund's investee companies in the interests of agitating for better governance.

**Stock lending:** ESPF does not participate in direct stock lending but may invest in investment funds which use stock-lending.

**Corporate engagement:** The Fund's managers engage with our investee companies on material ESG issues. The Fund are members of the LAPFF, IIGCC and PRI.



**Government engagement:** we engage with government through responding to government consultations and aim to influence policy makers through the Funds collaborative engagement groups initiatives.

**Manager monitoring:** we actively and regularly monitor the approach of our investment managers to ESG issues including escalation strategies, and what portfolio activity has occurred as a result of managing ESG risks. In addition, the Fund considers its ESG impact assessment report annually and propose initiatives or actions for managers to consider as enhancements to their ESG practices.

**Principle 3 - We will seek appropriate disclosure on ESG issues by the entities in which we invest.**

As an indirect investor, investing into pooled investment vehicles through the ACCESS pool or directly with Investment managers it will approach this principle through its relationship with the Investment managers. The approach we take on disclosure at the company and manager level is -

**Investee companies:** through our investment managers we encourage the companies, whose shares the Fund owns, to report on relevant ESG metrics. These include the reporting of greenhouse gas emissions in line with the recommendations of TCFD. Company weighting in the Resource Efficient passive index will be skewed to those companies who do report ESG information.

**Investment Managers:** we encourage the Fund's investment managers to provide transparency by reporting relevant and accessible ESG-related information. This includes their commitments to and alignment with the UK Stewardship Code, TCFD, PRI and GRESB, where appropriate.

**Principle 4 - We will promote acceptance and implementation of the Principles within the investment industry.**

The Fund aims to be transparent about being a signatory to the PRI and about how we implement the Principles. The Pension Committee monitors its carbon footprint and energy transition at portfolio level and asset manager level. ESPF also review asset manager voting and engagement on a quarterly basis. The quarterly reports on voting and engagement activity are published on the Fund's website to demonstrate implementation of the Principles and to promote them.

**Investment Managers:** we endorse the PRI Principles to our managers and encourage them to become full signatories to PRI. Where this is not possible, we encourage our managers to use the six principles to guide their RI approach.

**Partnership with PRI:** we partner with PRI to promote the universal use of the principles, and work with PRI during any consultations to improve the effectiveness of the principles and further improve RI adherence across the industry.

## Principle 5 - We will work together to enhance our effectiveness in implementing the Principles.

The Fund are committed to working collaboratively to increase the reach, efficiency and effectiveness of RI. We work with a host of like-minded partner funds, service providers and related organisations striving to attain best practice in the industry and to improve industry standards. A list of the collaborative groups we work with are included later in this document.

## Principle 6 - We will each report on our activities and progress towards implementing the Principles.

The Fund have committed to reporting through several routes including –

**PRI Assessment:** we will provide extensive details of our investment activities annually to the PRI for its independent assessment of our approach to RI.

**PRI Reports:** we will publish our PRI transparency report annually on our website and publish our PRI assessment results on our website and in our annual report.

**TCFD:** we are committed to report annually in accordance with Taskforce for Climate-related Financial Disclosures (TCFD) recommendations.

**Stewardship Code:** we are a signatory to the FRC Stewardship Code, and we are committed to reporting and retaining this status annually.

## Engagement

The Fund scrutinises governance at every stage of the investment process and aims to influence governance through voting and engagement. This is an integral part of what makes a business sustainable, successful and a suitable investment target.

The Fund carry out engagement through its investment managers where Fund officers provide challenge to manager decisions, engagement actions and policy. The Investment Manager carries out the direct engagement investee companies. Where material risks remain following engagement activity, managers retain the ability to divest, since the failure to engage destroys value in the longer term. The issue of engagement is a vital aspect of ownership. In addition, the Fund engages through its collaborative partnerships including LAPFF who carry out direct engagement with the underlying companies across the LGPS investment portfolios.

The Fund entrusts its assets to investment managers whose duty it is to represent the Fund's interest. Representing the Fund's interests, as owners, through engagement increases knowledge and understanding of the company and leads to more accurate assessment of the firm's risks and opportunities and therefore the valuation assumption. Engagement through voting can effect corporate change and improve businesses to derive a broader social benefit.

The Fund are committed to review the weakest mandates based on the carbon data, metrics and analysis and determine what action will be taken in engagement with investment managers.

The engagement priorities for the Fund are -

#### Environmental

1. Climate change –emission reporting and reduction, sector transition pathways and investment in renewable energy and technical solutions
2. Enhancing biodiversity, regeneration and protection of forests and conservation of oceans and marine resources
3. Sustainable consumption and production. Preventing pollution and waste including plastic waste and promoting circular economy
4. Agriculture, food security and Food Waste

#### Social

1. Human rights including forced labour, companies operating in conflict zones and destruction to communities
2. Promoting gender equality and social inclusion
3. Inclusive and equitable education
4. Water security and access to sanitation
5. Eradicate poverty and hunger

#### Governance

1. Executive pay or dividend linked to sustainable and growth performance
2. Business / Company leadership with experts on boards
3. Company board focus on providing products, goods or a service through effective and sustainable corporate governance
4. Diversity of boards, workforce and policies
5. Anti-bribery and corruption

## Escalation

The Fund expects Investment Managers to disclose their policies and procedures for escalation in their own Stewardship Code reporting. We expect Investment Managers to conduct robust and continual research on underlying holdings; engage with the company's management team; collaborate with other institutional shareholders; vote at AGM's; file shareholder resolutions; or partially/entirely disinvest from holdings where there is financial risk. The Investment Manager will seek to add value to their clients through improved company share performance following such escalation. Engagement and divestment can work together as part of escalation. Engagement is a long process however the Fund expects managers to have time limits on when engagement is not working or the ability to acknowledge when Boards of companies are not interested in engaging with investors.

Escalation activities in the Fund are also approached through voting alerts from LAPFF to Investment Managers on how to vote for shareholder resolutions, and managers removing companies as they no longer meet the expected standard for investment. These activities ensure the Fund is not holding assets where there is a material financial risk of future failure, reputational damage or other penalties a company may incur.

Where the Fund believes an Investment Manager to be holding assets bearing financial risk to the Fund and outside of the Fund's long term Investment Beliefs and Investment Strategy, the Fund will take the following escalating actions:

- Communicate with the Manager and ask them to explain the position of the holding in the portfolio.
- Request information on any engagement or escalation activity undertaken, engagement outcomes, transition plan analysis and an assessment of financial risk.
- Pension Committee will write to the Manager to outline its concerns. This may be followed up with a meeting with the Manager and Pension Committee.
- Engage with its Investment Consultant and Independent adviser to understand financial risks for continuing investment with a view on risk and return of the Investment methodology and approach.
- Managers' activities will be considered in light of the Investment Management Agreement (IMA) where relevant, Subscription documents and due diligence or Prospectus if invested by the ACCESS Pool, and manager section paperwork.
- Engage with other invested pool members and pool operator if investment is via the ACCESS pool to understand wider concerns and risk.

## View on Voting rights

Investment Managers are expected to report on performance, engagement and voting activity quarterly to the Fund and its advisers. The Fund then consider:

- How managers have integrated ESG in their investment activities
- How managers have exercised the Funds voting rights and to explain where there is deviation from voting guidelines or voting alerts from the LAPFF.
- What engagement activities have been completed in the quarter.

The Fund carry out meetings with investment managers in addition to the ongoing review and engagement that the investment consultant carries out for the Fund to ensure the Investment Managers are complying with the requirements on them set by the Fund and ability of the manager to invest in the best interest of the Fund beneficiaries. During direct manager meetings with the Fund discussions take place on voting and engagement, rational of, specific holdings to understand physical and transition risk as well as transparency of the Fund's exposure to carbon emissions and other ESG data sets.

For investments held through the ACCESS pool in a segregated sub-fund the expectation is that investment managers will vote in line with the pool's RI policy, whereas, where investments are in a pooled vehicle the Pension Fund accepts the investment manager will vote in line with its own policy. Under both approaches the Fund requires for the investment manager to explain the rationale for its decisions.

As a member of LAPFF the Fund share voting alerts from the research team of LAPFF to ask Investment Manager to consider the view and recommendations in their voting on behalf of the Fund. Where IM's vote differently to the LAPFF recommendations the Fund ask for explanations and basis of the voting decision.

## Collaboration

We work individually, and with our collaborative partners, to drive for openness and transparency on climate related issues affecting our investments.

There are limits to the influence that we achieve as a single investor and the resources we can reasonably commit. We recognise that progress can be best achieved on ESG issues through collaboration with other investors and organisations. We are an active member and supporter of several Global and Industry ESG Initiatives including



<https://www.unpri.org/>

Principles for Responsible Investment (PRI). We have been a signatory to the PRI since 2020 and are working on our first submission on how we implement the six Principles of Responsible Investment into our everyday work to be good stewards of capital, which is due to be submitted in 2023. PRI is an important partner, providing excellent guidance on responsible investment and we work closely with them on the future direction of the organisation.



<https://www.iigcc.org>

Institutional Investors Group on Climate Change (IIGCC) has the collective weight of over €51 trillion from over 350 members and is leading the way on a global stage for investors to help realise a low carbon future. IIGCC helps shape sustainable finance policy and regulation for key sectors of the economy and supports members in adopting active ownership and better integrated climate risks and opportunities into investment processes. The Fund's Pension Committee Chair is currently a representative on the IIGCC Corporate Programme Advisory Group. The corporate programme focuses on supporting investors to engage with companies to align portfolios with the goal of net zero by 2050. In addition to the Fund's own membership of IIGCC, the Fund asks its managers to also be members providing a double lock on engagement.



[LAPFF | The leading voice for local authority pension funds across the UK \(lapffforum.org\)](https://lapffforum.org)

As a member of LAPFF the Fund works together with the majority of LGPS funds and pools across the UK, through the forum, to promote high corporate governance standards to protect the long-term value of local authority pensions. With member fund assets exceeding £350bn, the forum engages with companies and regulators to deliver reforms advancing corporate responsibility and responsible investment. In October 2021 the Funds Head of Pensions was appointed to the executive committee as an LAPFF Officer Member.



[Home | Pensions For Purpose](#)

Pensions For Purpose is a bridge between asset managers, pension funds and advisers, to encourage the flow of capital towards impact investment. Pensions For Purpose provide high quality expertise and training to Funds on ESG issues. The Fund joined as an affiliate member in September 2021.



The Financial reporting council sets UK Accounting, Audit and Actuarial standards. The Fund is a signatory to the FRC's Stewardship code, pledging to manage capital in a way that creates long term value and leads to sustainable benefits for the economy, the environment and society.



[Home | Task Force on Climate-Related Financial](#)

#### [Disclosures](#)

The TCFD was set up to develop recommendations on the types of information that companies should disclose to support its stakeholders in appropriately assessing and pricing risks related to climate change. The fund has committed to report under the TCFD initiative.



We are a member of the UK Sustainable Investment and Finance Association (UKSIF) - the leading membership organisation for sustainable and responsible finance in the UK.

## Climate Change Commitments and Reporting

ESPF recognises the importance of the Paris Agreement of the United Nations Framework Convention on Climate Change. The central aim of the agreement is to strengthen the response to the global threat of climate change by:

- keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius;
- strengthening the ability of countries to deal with the impacts of climate change through appropriate financial flows, a new technology framework and an enhanced capacity building framework;
- enhancing transparency of action and support through a more robust transparency framework.

ESPF understands that the Paris Agreement is creating change that represents both significant risks to, and opportunities for, the Fund.

As such we make the following commitments to climate monitoring and action:

- To continue to measure and report on carbon-equivalent emissions throughout the listed portfolios and illiquid asset classes where possible.
- To continue our work with IIGCC and Climate Action 100+ indirectly via our IIGCC membership and Investment Managers.
- To continue to research and support the deployment of new impact capital into projects set to benefit from the transition to a low carbon economy.
- To assess the carbon intensity of all assets (using estimates if necessary) supported by external managers and GPs.
- Using data from the Transition Pathway Initiative (TPI) to help assess company transition plans to engage with our Investment Managers and alongside our collaborative partners to encourage companies to adopt business models and strategies that are in line with the aims of the Paris agreements.
- Climate reporting in line with Taskforce for Climate Related Financial Disclosures (TCFD) recommendations on mandatory reporting and governance requirements related to climate risk as they are expected to apply to the LGPS.
- The Fund is a signatory to the FRC Stewardship Code and commits to annually publishing its Stewardship Report to maintain its signatory status. The Stewardship Report monitors the stewardship activities and outcomes of the Fund's management of its investment portfolio and active ownership of the Fund assets. This includes reporting on RI issues and specific climate-related risks and opportunities.

The Pension Committee:

- affirms the Fund's commitment to integrate ESG factors, such as carbon efficiency trends into its decision-making.
- delegates scrutiny and engagement with investment managers to Fund officers, with advice from the Investment Working Group, to ensure that they take ESG issues, including climate change and carbon risk, into account;
- affirms the Fund's policy of not divesting solely on the grounds of non-financial factors;
- notes that the Fund will monitor research on the link between climate risk and financial performance to inform future investment strategy, such as stock selection criteria for quantitative strategies;
- agrees that the Fund will use its shareholdings in companies that perform poorly on carbon efficiency measures to influence engagement activity.

## Data Metrics and Targets

The Fund subscribe to data services and analytical tools, including company and industry specific data, to help understand and manage the climate risk within the Fund. The Fund commit to an assessment of all existing mandates against quantitative risk metrics based on carbon footprinting reports annually.

The Fund have committed to select at least one absolute Green House Gas (GHG) emission metric and as far as able, report Scope 1, 2 and 3 GHG emissions, one emissions intensity metric, if able, this will be the carbon footprint, a Data Quality metric, reporting the proportion the value of its assets for which its total reported emissions were Verified, Reported, Estimated or Unavailable and one non-emissions metric, if able, this will Paris Alignment Metric, reporting the percentage of the value of their assets for which there is a public net zero commitment by 2050 or sooner against which to assess Fund assets on climate related risks and opportunities. At least annually, we will set one target to manage climate related risk with respect to the chosen metrics and measure performance against this target.

We note that carbon-equivalent foot printing produces simple metrics that can be misinterpreted. It encourages selective divestment of the shares of high emission companies as some investors 'greenwash' their portfolios. Rather than divesting, we encourage our managers to incorporate an analysis of carbon output into their risk assessment of individual companies and their stocks. In addition, we actively engage with companies to align their business strategies with the targets of the Paris Agreement. Where analysis of carbon risk (or any other risk) points to poor financial outcomes, divestment is, of course, an option.

## Energy Transition

The Fund recognises that an Energy Transition is under way. It seeks to balance the reality that the transformation of the global energy sector from fossil fuel-based systems to a system of energy from renewable sources is underway, with the understanding this will take time and that the world's energy demand will continue to grow. Where viable opportunities arise, the Fund will seek to increase its exposure to renewable infrastructure assets. Where the Fund's investment managers hold exposures to fossil fuel assets, it expects its managers through escalating engagement to elicit transition plans from those companies such that their engineering expertise, cashflows, and capital convening powers are increasingly deployed in support of the energy transition.

The Fund is aware that there are a range of possible transition scenarios, evolving physical climate related risks and potential opportunities. There are also many uncertainties. This makes portfolio construction around such scenarios very challenging. Instead, the Fund seeks to broadly align its investment approach with the objectives of IIGCC and Climate Action 100+ initiatives.

## Training and Resources

The work on Responsible Investment and climate change is led at Pension Committee level as decision makers in setting ambitious aims and targets. Addressing the financial risks from



climate change is a constant in our approach and in all Pension Committee meetings and is included in the Funds risk register that is considered at each committee meeting. Responsible Investment implementation and reporting responsibilities sit within the Investments Team with full oversight by the Head of Pensions.

Pension Committee and Pension Board are committed to undertake a comprehensive CPD programme on RI issues and climate change-related risks and opportunities to ensure decision makers and those implementing decisions are knowledgeable in ESG matters including climate change. A training plan is in place for the Fund and reported on annually. Once a year a specific climate change training session will be provided; Committee Members and Officers will be provided with access to a range of training, webinars and conferences throughout the year, as set out in monthly training communications from the training coordinator.

The Pension Committee consistently challenge advisers and officers on issues of climate change to ensure that due process and attention is given to this issue by the Fund. Officers ensure that ESG methodology and implementation is challenged at all Investment manager meetings.

Budget is allocated for RI consultancy and data services annually. Where possible these will be procured through the LGPS Stewardship framework.

## Conflicts of Interest

The Fund has a Conflicts of Interest Policy that sets out how we manage conflicts of interest in our day-to-day business. The Policy is applicable to Committee Members, Board Members, Fund Officers and suppliers and advisers to the Fund, setting out the necessary principles to manage and mitigate key risks and safeguard the Fund. A copy of the Conflicts of Interest policy is available on the Fund website. All Fund officers undertake regular training, conflicts of interest forms a core part of the annual corporate training requirements. The Fund recognises the importance of managing potential conflicts of interest. Declaration of conflict of interests is a standing agenda item at the start of all Pension Committee meetings. A public register of Pension Committee members' declaration of interests is also maintained and audited annually. We also record any outside business interests that officers may have, and where these may cause of conflict with business decision making these are monitored closely.

With respect to Stewardship, it is possible that actual or perceived conflicts of interest may arise through the normal course of business in relation to the execution of our Stewardship activity. The more we engage with managers and investee companies, vote at AGMs, vote on shareholder resolutions and engage or communicate with policy makers and governments in jurisdictions within which we invest, the greater the potential for conflicts of interest or the perception of them to arise. These conflicts relate to potential tensions between our fiduciary duties as asset owners on behalf of our members, our role as a public sector pensions service provider, the responsibility of East Sussex County Council as Administering authority and individual political or personal views of the Pension Committee members or officer team.

As laid out in the obligations of the Pension Committee section above, the Fund's primary responsibility is to act in the interests of its beneficiaries, who are the members of the scheme on whose behalf we invest their pension contributions. As a Stewardship Code signatory, the Fund are aligned and report against the 12 stewardship principles with the aim to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders.

The day-to-day delivery of the voting and engagement activity is delegated to the Investment Managers. Where the investment is made through the ACCESS pool the Investment Managers will follow the ACCESS voting guidelines.

From time to time the Fund responds to consultations from the UK government and UK regulators in relation to corporate governance and stewardship activity. This is part of the Fund's active stewardship priorities in supporting the efficient functioning of markets and promoting higher standards of corporate governance, reporting and transparency. Engagements and representations will be in line with Fund policies and major consultation responses will be approved at the Committee level.

The Fund will only partake in open letters to governments where these are researched and lead by the Fund's collaborative partners where there is no political bias or conflict from the wider political pressure on the County Council as Administering Authority.

There will be instances where the interests of the Fund's scheme employers, scheme members and wider County Council beliefs will diverge, in these instances when exercising our stewardship responsibilities only the interests the Fund's beneficiaries will be taken into account in line with the Fund's fiduciary duties and under advice from its consultants or advisers.