East Sussex Pension Fund

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Stewardship Report

Reporting date 31 December 2022

Building a Brighter Future

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How East Sussex Pension Fund addresses the Stewardship Code

The Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. The Fund defines the concept of stewardship in the same way as the Financial Reporting Council (FRC).

"Stewardship aims to promote the long-term success of companies in such a way that the ultimate providers of capital also prosper. For investors, stewardship is more than just voting. Activities may include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration.

Engagement is purposeful dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings"- Financial Reporting Council 2020.

Introduction

The East Sussex Pension Fund (the Fund or ESPF) is part of the Local Government Pension Scheme (LGPS), a statutory scheme, established by an Act of Parliament, the Superannuation Act 1972 and since April 2014 the Public Service Pensions Act 2013. The Local Government Pension Scheme Regulations 2013 came into force on 1 April 2014. Membership of the LGPS is open to all employees of local authorities except teachers, fire fighters and police, who have their own separate schemes. It is also open to employees of other employers specified within the legislation.

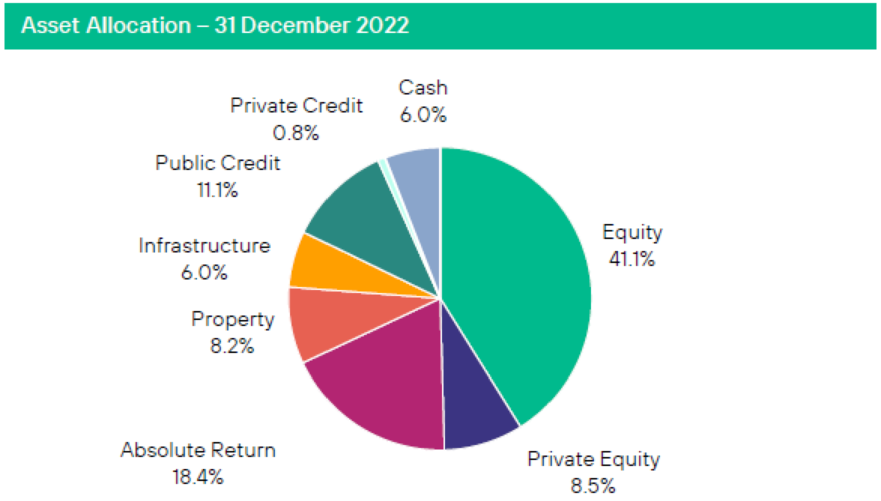
The Fund is administered by East Sussex County Council and provides retirement benefits for East Sussex County Council employees, employees of Brighton & Hove City Council, the five borough and district councils, academies, universities, colleges, public authorities, and staff transferred to admitted bodies. The Fund has 140 employers and over 84,000 scheme members.

The scheme is designed to provide financial security for the Fund's members and dependants, both while they are working and during their retirement.

The Fund's asset value at the reporting date was £4,496m.

The Fund recognises that Environmental, Social and Corporate Governance (ESG) issues can have a material impact on the long-term performance of its investments. ESG issues can impact the Fund's returns and reputation. Given this, the Fund is committed to an ongoing development of its Statement of Responsible Investment Principles (SRIP) to ensure it reflects the latest industry developments and regulations.

The Fund's Investment Strategy Statement (ISS) states that the investment objective of the Fund is to achieve a return on Fund assets which is sufficient, over the long-term, to meet the funding strategy objectives on an ongoing basis. One of the Fund's investment beliefs is that Responsible Investment (RI) can enhance long-term investment performance.



The Fund recognises that through active shareholder engagement it can influence those companies it is invested in to improve their corporate behaviour. Improvements made by these engagements can lead to an increase in the long-term value of the Fund's investments. The Fund believes that these can be maximised by collaborating with other like-minded investors to increase the pressure for change and encourage improvements to be made.

The Fund's approach to stewardship is explained in detail in this document. The sections that follow show how our stewardship approach relates to the twelve principles of the UK stewardship code set out by the FRC.

Principle 1

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long term value for clients and beneficiaries leading to sustainable benefits for the economy the environment, and society.

Overview

The East Sussex Pension Fund is part of the Local Government Pension Scheme The purpose of the Fund is to provide pension and lump sum benefits for members or their beneficiaries on a defined benefits basis - in accordance with the requirements of the LGPS legislation.

The Fund has considered its legal and fiduciary requirements in its investment strategy and considers the pursuit of a financial return to be the predominant concern. This return should be the best realistic return taking into account the need to control for risks over a long-term time horizon as an open scheme. As a steward of our beneficiaries' capital and in line with the LGPS regulations the Fund takes proper advice in its investment decision making and in administration where appropriate. We invest in a wide range of assets, properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings and to avoid accumulations of risk in the portfolio as a whole. Primary fiduciary duty is owed to the beneficiaries and not scheme employers, residents or other interested parties. The Fund will only use its power of investment for investment purposes in the best interests of beneficiaries and not for any wider collateral purpose or for any political view.

The Fund has a long-standing commitment to responsible asset ownership and believes that Responsible Investment supports the purpose of the Fund. Stewardship is an integral part of asset ownership and therefore of the investment strategy and requires the same commitment from investment managers. The Fund's stewardship objectives and commitments are set out in the Fund's Investment Strategy Statement.

ESPF Stewardship Objectives

The Fund Aims To:

Generate sustainable long-term investment with its asset allocation decisions made in consultation with its advisers.

1. Apply long-term thinking to deliver long-term sustainable returns.

2. Seek sustainable returns from well-governed assets.

3. 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.

4. We will evaluate and manage carbon exposure to mitigate risks to the Fund from climate change.

5. The Fund prefers a philosophy of engagement, which it believes to be a more effective approach in addressing ESG concerns and driving long lasting change. To be effective, it is best done in conjunction with other parties.

Activity

East Sussex Pension Fund beliefs underpinning the Stewardship Approach

The Fund believes that investors with long-term time horizons are more exposed to certain risks and requires that its investment managers be aware of and consider these when making investments. However, long-term investors are also less susceptible to short-term volatility which means it can take on investments that require longer duration positions or where engagement activities can help influence a company to support a just transition.

The Fund laid out its beliefs underpinning stewardship and RI in its Statement of Responsible Investment Principles (SRIP) which is set out within the Investment Strategy Statement. This document is reviewed annually. Within the SRIP the Fund details its stewardship approach through the lens of the Principles of Responsible Investment (PRI) six guiding principles.

Approach to implementing and monitoring stewardship at External Management level

The practical application of the Fund's policy is achieved through a combination of activities including, but not limited to, 1) dialogue and liaison with investment managers on key issues directly and through collaborative engagement groups, 2) engagement activity direct with underlying companies as carried out through the Fund's membership of the Local Authority Pension Fund Forum (LAPFF). LAPFF meet with the Board of Directors of many companies where LGPS Fund's are invested to discuss and challenge activity.

The Fund is a signatory to the Principles of Responsible Investment (PRI) and Institutional Investors Group on Climate Change (IIGCC) and expects its investment managers to also be members of these organisations.

As a PRI signatory the Fund has agreed to the PRI signatories' commitment.

"As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time)."

We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

- **Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.**
- **Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.**
- **Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.**
- **Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.**
- **Principle 5: We will work together to enhance our effectiveness in implementing the Principles.**
- **Principle 6: We will each report on our activities and progress towards implementing the Principles.**

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social, and corporate governance issues to investment practices. The United Nations Secretary-General convened the process.

In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society. We encourage other investors to adopt the Principles."

The Pension Committee meets with investment managers for engagement and training activities while Officers of the Fund meet managers regularly to challenge investment approach, methodology and performance as well as whether the managers' activities compliment the Fund's investment beliefs. Officers and advisers can discuss relevant developments in detail with Investment managers to cover all stewardship and RI activity. All investment managers are required to report on a quarterly basis to the Fund, including details of votes cast on corporate resolutions and company engagement for holdings in their relevant portfolios. These activities are then published quarterly on the Fund's website for transparency for our beneficiaries and stakeholders. The Fund challenges managers to ensure voting activity is aligned with the Fund's priorities and that all relevant risks have been considered.

The Fund has appointed investment consultants to provide specialist expert advice to the decision makers. In addition, the Fund has an Independent Adviser who supports the Pension Committee to deliver the investment strategy in the interest of pension beneficiaries. This combination delivers effective returns with a social and environmental consciousness.

The Fund believes that professionally managed companies with awareness and focus on governance, resource efficiency and robust people systems, provide long-term value creation and that the Fund's stakeholders will benefit from these investments as strong investment returns improve the Fund's overall funding position. This keeps the pension scheme affordable in terms of employer contribution rates.

The Fund appointed an external consultant to conduct an ESG assessment of the Fund resulting in a number of recommendations which were set out in 2020, many of which were implemented to improve stewardship. Outstanding recommendations continue to be reviewed and implemented where deemed suitable.

Monitoring and Reporting

Performance of all investments are monitored and reported quarterly. Investment Managers are expected to report on performance, engagement and voting activity quarterly to the Fund and its advisers.

ESPF Stewardship Beliefs

1. The Fund believes that: ESG and Climate Risk (CR) can present material financial risks to asset values and returns.

2. Implementation of effective RI policies can reduce risk and has potential to enhance returns.

3. Engagement with Investment Managers (IMs) and investee companies can be effective in protecting and enhancing the long-term value of investments.

4. Collaboration with other asset owners and IMs will help improve the effectiveness of engagement on ESG and CR issues.

5. Effective oversight of RI requires monitoring of ESG and CR metrics and the actions of IMs and investee companies.

6. RI is aligned with ESPF's fiduciary responsibilities in the management and oversight of ESPF's investments.

The Fund then considers:

- How managers have integrated ESG in their investment activities
- How managers have exercised the Fund's voting rights and to explain where there is deviation from voting guidelines or voting alerts
- What engagement activities have been completed in the quarter
- What RI policies are in place.

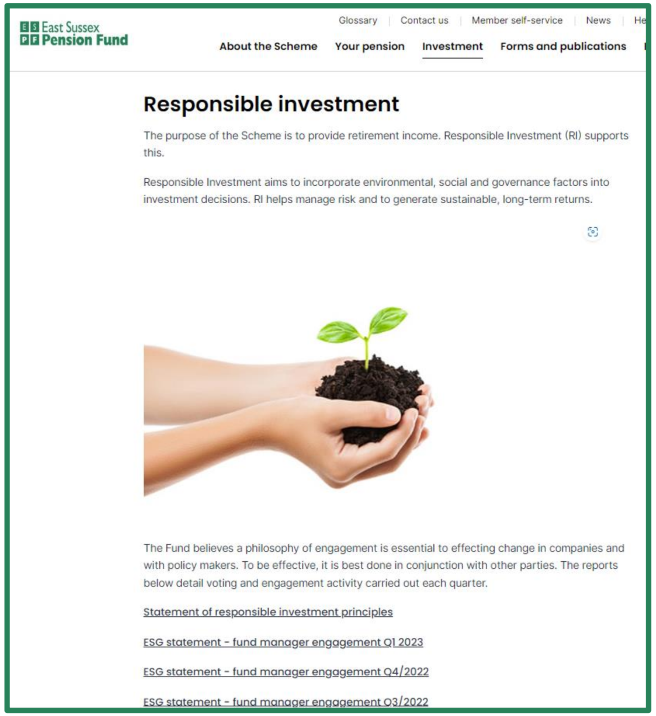
The Fund meets with investment managers in addition to the ongoing review and engagement that the investment consultant conducts on behalf of the Fund. This is to ensure the managers are complying with the requirements set by the Fund and the ability of the manager to invest in the best interests of beneficiaries. During direct manager meetings with Officers, the agenda always includes ESG for discussions on holdings, activities, polices, and developments.

In addition to the Fund's quarterly ESG report, we also publish an implementation statement within the annual report to show how RI beliefs have been embedded within the Fund's investment activities during the year.

The Fund's investment consultant carries out an annual impact assessment on all the investment managers. This annual assessment scores each of the managers across a range of ESG criteria and sets out an action plan for each manager (updated annually as part of the review).

The Fund invests through investment managers who conduct detailed research on the prospects for individual companies and industries. Due to the scale of investment under management, the managers have access to underlying company management teams including their executive boards. Dependant on asset class the investment manager has a seat on the advisory board of the underlying company. On selection of an investment manager the Fund ensures the manager is aligned with our stewardship beliefs through a detailed set of evaluation criteria for ESG and Stewardship.

Culture and Values



The Fund's investment beliefs underpin the Fund's culture and values driving our approach to stewardship.

Our primary values and how we have incorporated our values into sustainable ownership are:

Long term – the Fund's focus is to ensure all investment and stewardship activities are aligned to being a long-term investor to pay our beneficiaries when required. From a stewardship approach this means that we ensure our managers are holding investments that reduce the financial risk to the Funding position.

Responsible – 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 through voting and engagement and an active governance process for our external investment managers.

Evidence based – We ensure investment and stewardship decisions are based on evidence, whether that is research, data and metrics or expert advice. This ensures there is robust understanding of decisions and their impacts to the real world, our investee holdings and our beneficiaries' pensions.

Collaborative – We collaborate with our peers across the LGPS and through a number of specialist investment and engagement groups to allow us to engage with policy makers to drive sustainability forward globally and in the investment sector. We utilise a shared understanding and research on stewardship, ESG integration, and shareholder actions.

Governed - Each year we review and agree on the investment strategy including ESG principles for the next year and setting the longer term direction of travel. The Fund ensures all decisions are in line with its fiduciary responsibilities to generate a robust pension provision for our beneficiaries.

Embedding beliefs

Training opportunities are provided to Committee Members and Officers to ensure decision makers and those that implement and monitor investment activity understand their stewardship responsibilities and risk. Training is laid out in the Fund's training strategy which is reviewed every two years supported by a training coordinator.

The Fund has a training and strategy day embedded into the annual meeting plan in addition to standard Committee meetings.

New Committee members are given an induction programme to help develop knowledge and understanding of all their responsibilities. Training links and details are provided at least monthly by the Fund's designated training coordinator. Training is picked up at all Pension Committee and Pension Board meetings through the work plan and a report on training is covered twice a year.

In 2022 the Pension Committee members attended the following training sessions and conferences where training impacted on stewardship activity or stewardship was a theme.

Date	Topic
27-Jan-22	**Valuation** - Barnett Waddingham • Purpose and objectives of the valuation • Valuing the assets and liabilities - methodology and approach • Data - requirements and the importance of data quality • Assumptions - how these are determined and their impact on results • A look back at the 2019 funding position and what we might expect at 2022 • Hot topics impacting the valuation
28-Mar-22	**Impact Investment** - Pensions for Purpose • Introduction to Pensions for Purpose; • What is impact investing? Introducing the spectrum of capital; • Overview of the Impact Investing Principles for Pensions - (impactinvest.org.uk) - and why pension Fund's should consider impact when they invest, including setting net zero targets; • What impact investments look like across public and private markets; • Tools to help support impact investment implementation.

Date	Topic
11-May-22	**Climate Change and TCFD** - Uni of Sussex & Investment Team • Fundamental science of the earth's climate system • Observe the changing patterns in earth's climate (e.g. temperature, rainfall) • Why the earth's climate is changing and the evidence • How future climate is projected using global models under different scenarios • Predicted changes and impacts globally and for the UK under different scenarios TCFD • Introduction, objectives and Agenda • Climate change and financial stability • An introduction to the TCFD • Key Themes and topics • The TCFD Recommendations and examples of application • TNFD reporting • Practical next steps • Reflection and Summary
13-15 June	**PLSA Local Authority Conference** • Responsible Investment, including DLUHC's consultation on new reporting regulations. • Asset pooling in the LGPS – what should the pools be doing for the Fund's? • Results of the PLSA's own Local Authority research project. • How pensions dashboards will work in the LGPS, and how Funds can get ready for them.
20-Jun	**LGPS Pooling**
22-Jun	**Affordable Housing** • Investment Characteristics Affordable Housing • Investment Fundamentals - Supply/Demand Drivers • Risk/Return characteristics across housing sub sectors • Investment fundamentals for Build to Rent • Investment fundamentals for Shared Ownership • Case Studies for Shared Ownership • Conclusion
6-7 Oct	**Trustee Senate Autumn 2022, Keeping Clarity in Challenging Times** To be covered: single code, the pensions dashboard and TCFD reporting and more.
16-Nov	SPS Local Authority Pension Investment & Current Issues - LGPS pools, Fund's, and industry organisations

Outcome

As a result of a strong stewardship policy, the Fund has been able to implement a number of additional activities in the year including continual improvements to the quarterly ESG reporting; more robust challenge to Investment managers on a wider range of topics such as biodiversity risk of investments; finalising the implementation of a resource efficient index mandate and Paris aligned active mandate; and the strategic decision to invest in a sustainable multi asset credit mandate.

The Fund has been able to progress on work it has carried out building its knowledge, monitoring, and reporting in this area, with Officers, Pension Committee members and Pension Board members all taking time to increase knowledge and skills on this complex and ever-changing topic.

The Fund reported against the framework set out by the Taskforce for Climate related Financial Disclosures (TCFD) for a second year making improvements in the breadth of mandates covered in the reporting and reflecting the underlying beliefs of the Fund. The Fund conducted its third year of carbon foot printing which also assessed energy transition alignment of the underlying investee companies. By integrating stewardship and RI into investment decisions, data is essential in helping to inform which investment managers to challenge more regularly and which holdings require robust reasoning within the portfolio to protect the beneficiaries' pension pots while ensuring managers are considering the investment case and embedding ESG factors to ensure the full risk of the investment is considered.

The Fund reported against the implementation of its RI beliefs in the annual report and accounts 2021/22 which included the identification of further action to build on in future years. Progress will continue to be made and tracked. All the Fund's investment managers have aligned with the Fund's stewardship expectations as to their membership of collaborative and industry leading stewardship groups with all managers being PRI signatories and most managers being signatories of IIGCC and the Stewardship Code.

The Fund's development of its Statement of Responsible Investment Principles (SIRP) was assessed against the Fund's LGPS pool colleagues, with the ESPF statement scoring highest in its peer group. Following this review, the Fund has identified a number of areas in which improvement can be made to its Statement to make the Fund's vision clearer as to strategy and beliefs along with more transparency on how the Fund will approach its stewardship activities. Areas for improvement that will be looked at for implementation in 2023 are:

- RI resourcing and training
- Conflicts of Interest
- Process to determine RI priorities and processes completed to date
- How the Fund monitors and responds to market wide and systemic risk
- Parties used by the Fund to implement the RI policy
- Comment on how RI expectations will be codified in contracts and monitored
- Fund views on voting, with a link to a voting policy with reporting and monitoring process
- Commentary on disclosure of voting and engagement activity – in context of the RI policy
- Views on engagement across all asset classes
- Impact of securities lending programme on voting
- Details on the LGPS pool reporting and how this is embedded within the Fund's RI reporting.

The Fund has been recognised as a leader within the ACCESS pool on ESG issues, with the chair of the Pension Committee appointed as the ESG spokesperson for the pool and retaining this position through 2022. The Fund's Head of Pensions joined the RI working group in 2022 where the group have provided support to the pool's Joint Committee resulting in the pool making the decision to join its first collaborative group for engagement activities; the decision to aim for a Stewardship Report in a future year following the implementation of its RI guidelines; and the initiation of a procurement for a Stewardship adviser to support the pool on a range of RI activities.

2022 saw significant volatility in the global economy which has led to significant impacts to returns, following the Russian invasion in Ukraine; some high-profile bank failures; and globally rising inflation rates and interest rate rises. This has all created a challenging year. Despite this, the Fund is diverse, very well-funded and has defensive elements to its investment strategy. The Fund's strategy and risk management processes help us ensure we can keep paying our members' pensions now and into the future. The Fund carried out its triennial valuation during the year to assess the solvency level of the Fund and reset employer contributions with the aim to provide a sustainable and affordable scheme. As at 31 March 2022 the Fund was assessed as having a funding position of 123% to meet the accrued benefits, comparing assets to liabilities, putting it in a very strong position. When interest rates rose dramatically in September, we built in flexibility to the investment strategy to react to opportunities in UK index linked gilts. The Fund has achieved positive returns in the medium to long term with 3 and 5 year performance, also outperforming the benchmark in these periods. Returns generated to protect the interest of the Fund's beneficiaries and pay pensions has been 11.0% for 3 year performance which outperformed the benchmark by 1.1% and 8.1% for 5 year performance outperforming the benchmark by 1.0%. Throughout the Fund's activities there has been an underlying and essential objective to ensure return on investments for the best interest of beneficiaries.

Snapshot from the RI implementation statement published in the Annual Report and Accounts 2021/22

Commitment	Progress	Further Action
To continue to measure and report on carbon-equivalent emissions throughout the equity portfolios	The Fund has undertaken an analysis of the Equity and Fixed Income investments with a third-party provider Moody's for the third year.	Develop understanding of the different metrics. Continue using a third-party provider to evaluate carbon emissions of equities and develop other asset classes.
To continue our work with IIGCC and Climate Action 100+	The Fund has been an active participant in the IIGCC corporate program.	The Fund is looking for more options within the IIGCC to support further development and implementation of IIGCC research into the Fund's strategy.
To assess the carbon intensity of all assets (using estimates if necessary) by the end of the 2022 reporting cycle, supported by external managers and GPs	The Fund has considered the carbon intensity of the liquid holdings, around 70% of the Fund assets and is working with managers and other advisers on how to calculate this for the alternative space	The Fund is liaising with its external managers on the harder to measure assets, and has requested that all managers report in line with TCFD reporting requirements.

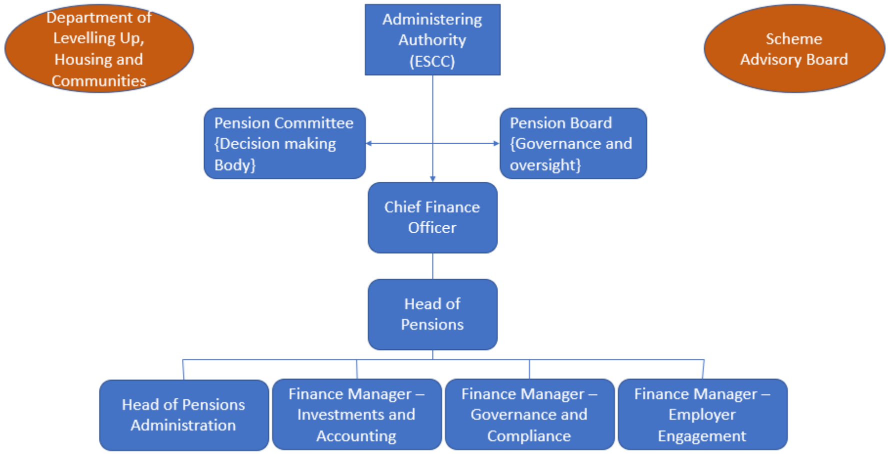
Principle 2

Signatories Governance, Resources, and Incentive's support Stewardship.

Overview

East Sussex County Council is the Administering Authority for the East Sussex Pension Fund and has delegated the responsibilities of administering the Pension Fund to the Pension Committee. This is set out within the Councils constitution. The Pension Committee is supported by the Pension Board and Fund Officers in fulfilling its duties. The Pension Board role is to assist the committee in complying with the LGPS rules, overriding pensions legislation and guidance from the Pensions Regulator. The Pension Board is made up of equal numbers of employer and member representatives with an independent chairman.

The governance structure of the ESPF is shown below:



Activity

Decision making

The Pension Fund is managed by the Administrating Authority on behalf of all the 140 employer bodies in the Fund. The Pension Committee is the main decision-making body for the Fund. The Pension Committee has the delegated authority to exercise the powers of the County Council in respect of all powers and duties in relation to its functions as the Scheme Manager. The Pension Committee is responsible for agreeing and overseeing an appropriate investment strategy or strategies, selection of investment managers, setting of performance benchmarks and regular monitoring of investment and administration performance. The Pension Committee agree the Investment Strategy Statement and the responsible investment of the Fund, reporting on these activities.

The Pension Committee receive assistance in performing these functions via:

- Pension Board – help with effective governance and ensuring compliance with the regulatory requirements.
- Chief Finance Officer – Scheme administration, including governance and investment implementation.
- Head of Pensions – ensuring committee decisions and regulatory requirements are implemented and management of the team.
- Investment Consultants – provide expert investment advice in line with regulatory requirement for proper advice. This is an FCA regulated firm.
- Independent Advisor – provides challenge to the investment recommendations and supports the Committee in understanding of Investment activities.
- Fund Actuary – provides advice and support on all funding matters including setting of employer contribution rates.

Responsibilities of the Pension Committee

- The Pension Committee is established as the Fund's scheme manager and is responsible for arrangements for the investment, administration, funding, communication, risk management and the overall governance process surrounding the Fund.
- The Pension Committee is responsible for setting all Fund policies including the setting of the appropriate funding target for the East Sussex Pension Fund.
- The Pensions Committee will exercise its functions in accordance with fiduciary duties, safeguarding the interests of the beneficiaries of the Fund.
- Committee Members must take decisions in accordance with their public law obligations, including the obligations of reasonableness, rationality, and impartiality.
- Committee Members are required to be rigorous about conflicts of interest and potential conflicts of interest, actual or perceived, as laid out in the Conflict-of-Interest Policy.
- The Committee is subject to the statutory obligation of political balance in the membership of the Committee.
- Whilst all Committee Members bring with them their own knowledge and experience, political views should form no part of the consideration of issues or of the decision-making process.

Governance Structure

The Fund is structured in line with the Local Government Pensions Scheme 2013 Regulations and the Public Services Pensions Act 2013 which introduced a new framework for the governance and administration of public service pension schemes. As a result of the Public Services Pensions Act, the Pensions Regulator introduced codes of practice covering specific areas relating to public sector pension schemes which the Fund are required to comply with. The Fund conducted an independent Governance review in 2019 and 2020 where changes were implemented to enhance the governance of the Fund including the development of a Conflicts of Interest Policy to ensure beneficiaries pensions are managed appropriately. Conflict of interest policy - East Sussex Pension Fund.

The terms of reference for both Pension Committee and Pension Board were amended to ensure the Fund structure and responsibilities aligned with best practice as advised by the Scheme Advisory Board (SAB) who had initiated a Good Governance project. In addition, delegations and the team structure were also changed to provide more comprehensive governance arrangements for all aspects of the Fund. As a result of the work the Fund has done to implement the recommendations since 2020 (including making key appointments to the Officer team in 2021), the Fund has had substantial assurance for regulatory compliance with no recommendations from the internal audit team.

Qualifications and Resources

Officers

Fund Officers managing the investment strategy and oversight of the Fund from a stewardship perspective hold either Chartered Accounting qualifications or CFA qualifications. Fund Officers maintain a training log to ensure we can evidence the relevant knowledge and skills for a professional investor. Other Fund Officers have been recruited to roles evidencing knowledge and skills suitable to their role and grade within the team.

The Officer team has a designated Investment Officer, a Pensions Manager for Accounting and Investments and the Head of Pensions, who oversees all strategic implementation. The Chief Finance Officer attends training to stay up to date with Pension issues. Following best practice from the Scheme Advisory Board Good Governance Review, as part of the governance work implemented in 2020 and continued in 2021, the Head of Pensions role was created as a 100% Pensions position and the responsible LGPS Pensions Officer.

Designated Investment posts are graded at managerial level with the Head of Pensions having responsibility for the management of the Fund as a Service Head. The Chief Finance Officer is the statutory officer for Finance and has delegations in respect of the Fund and has emergency powers.

Training and qualifications are available to all staff across the Fund, to support development and career progression, with short courses, webinars and conferences also provided regularly to staff.

Committee Members

The Pension Committee is structured in line with the Local Government Act 1972; in that the Committee must be solely appointed from elected members of the Administering Authority (as defined in the Local Government Pension Scheme Regulations 2013 as East Sussex County Council). In addition, the Pension Committee is politically balanced to represent the Administering Authority in line with rules under s15 of Local Government and Housing Act 1989, the Local Government (Committees and Political Groups) Regulations 1990.

There is no current requirement for specific qualifications or knowledge and skills within the legislation and the legal requirements placed on the Fund, and there is no assumed knowledge of LGPS pensions or Investments of the Pension Committee members on appointment to the Committee. Instead, the ESCC constitution sets out a requirement for Committee members to comply with the Fund's training strategy which sets out mandatory requirements of Committee members, Board members and Officers. Committee members are provided training on the job through various external training courses, conferences, and internal training. Committee members are required to annually assess their training level on a wide range of pension specific areas including investments which then forms the basis of the annual training plan provided. The training needs analysis includes sections on Investments, asset classes, and funding levels, as well as three questions to assess knowledge on Responsible Investment.

RI questions on the knowledge and skills assessment are:

Responsible Investment

An awareness of the latest developments and requirements in the area of responsible investment.

An awareness of the UK Stewardship Code and the United Nations Principles of Responsible Investment (UNPRI) and whether the fund is a signatory of these.

A general understanding of the Fund's approach to responsible investment, including how views on environmental, social and governance issues are incorporated into the Fund's investment strategy.

Investment Managers

As part of the manager selection process and due diligence, Officers and the consultants look at the qualification and track records of the key personnel managing portfolios. Where possible a side letter is included in the subscription documentation to ensure the Fund can exit a position if key personnel were to leave (which could place the Fund in a position of risk due to insufficient expertise of an investment manager). Investment managers are FCA regulated firms and have numerous training and qualification requirements.

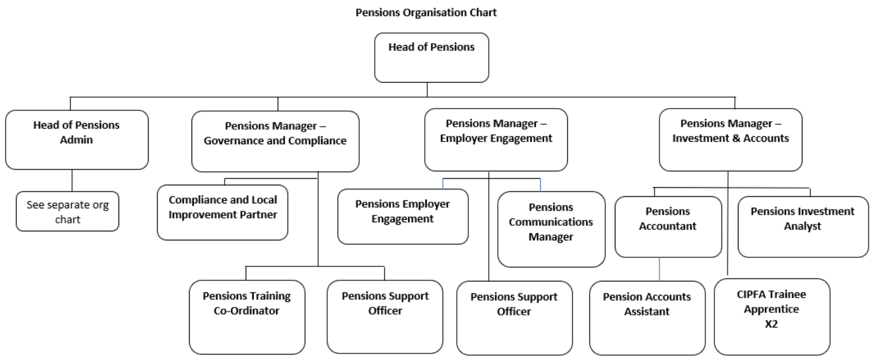
Investment Consultants

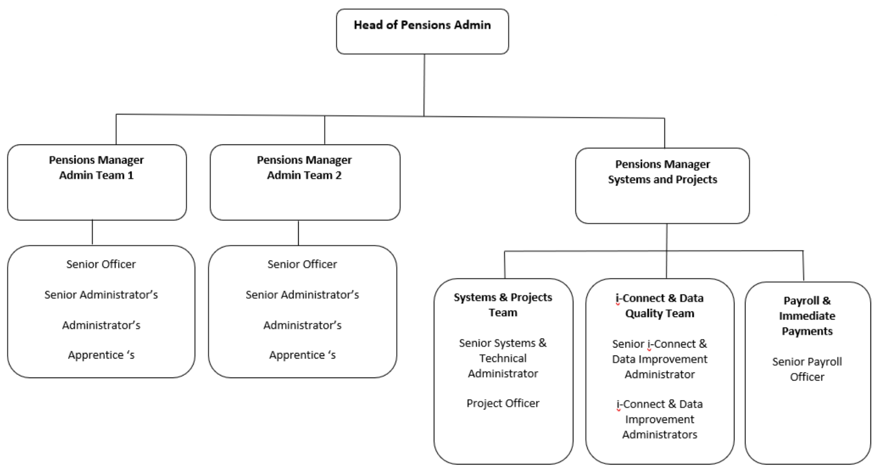
The investment consultants, Isio, have breadth and depth of available resources to support and advise the Fund. They are an FCA regulated firm. Their technical knowledge allows research and analysis for investment management and provides guidance to decision makers who may not have the necessary knowledge and skills to act without this advice. All investment decisions within the Fund are based on advice by these experts.

Independent Adviser

The Fund conduct a procurement process for appointment of the Independent Adviser who must evidence knowledge and skills across the LGPS and investments. This position is in place to support the Pension Committee in understanding and challenging the advice of the Investment Consultants to ensure a balanced and considered view is taken with all investment decisions.

Team Structure





Diversity and Inclusion

The Fund has a policy of inclusion and is working towards increasing the diversity of its workforce, to represent the communities we serve more closely. Staff provide equality data, and we are working to reduce 'unknowns'. We will make comparisons with the Census 2021 data, when it is available. Due to the small number of staff working for the Fund and the risk of identifying individuals, details cannot be provided here. However, but ongoing analysis will inform interventions based on ESCC's positive equality and inclusion practice.

Stewardship Activities

Officers involved with investments are all involved in stewardship activities from the Head of Pensions ranging down to the Trainee apprentices. These Officers attend Investment management meetings, challenge voting activity and look at manager engagements.

In addition, all Officers involved in the investment team participate in Fund reporting to ensure it is complete and comprehensive on stewardship activities. This includes production of the ESG quarterly reports, TCFD report, Stewardship code preparation and other collaborative project work.

Investment in Systems

As investments are managed by investment managers rather than internally, spending in systems is limited. However, the Fund does investigate and challenge data received and has invested in carbon foot printing services as well as look though systems and analysis. This enables the Fund to see the underlying investment holdings of external investment managers.

When investing in real assets the Fund also challenge prospective managers over their quality assurance processes and systems to ensure investments are being governed to a high standard with full oversight of the investment boards. The Fund invest in performance management and specialist investment accounting systems from the Fund's custodian.

In addition, the Investment consultant provides numerous investment analytical services such as ESG and Climate impact reporting which the Fund uses.

Team Cohesion

In 2020 the Fund carried out an independent governance review where it identified a need for a review of the staffing structure for the Fund's management team with a suggested structure put forward. The Scheme Advisory Boards Good Governance project highlighted the importance of recruitment and retention practices for pension functions to enable the delivery of an effective pension service. The Pension Committee agreed to the appointment of a Head of Pensions who would be a person accountable for the day to day delivery of the Fund in accordance with agreed strategies, polices and the business plan. In addition to the internal structure for the Fund, it was agreed to dissolve the outsourcing arrangement for Pensions Administration, bringing this pensions function into a single East Sussex Pension Fund staffing structure. Following the decisions to create a new single staffing structure the Fund carried out an organisational restructure into four teams: Investments and Accounting; Employer Engagement; Pensions Administration; and Governance and Compliance. These teams allowed the Fund to better align business units and set appropriate reporting lines to deliver on our purpose. As part of the project the Fund created new job descriptions for all posts, restructured the existing team, carried out recruitment processes to fill new roles and transferred staff to ESCC from the outsourced administration team moving all staff onto ESCC contracts in 2022. We recognised that this had led to a significant amount of change for staff members and the Fund focused on team cohesion to ensure staff were focused on providing services as a single Pensions team. As part of the cohesion approach, the Fund set up regular all staff team meetings to get all employees of the Pension Fund together; arranged social events during the year; and collaboratively set a team agreement as to how we would work within Hybrid arrangements, to create connectedness among employees to help achieve the right strategic outcomes to support the Fund in delivering pension services. As part of the team meetings the Fund is able to promote elements of its stewardship activities to allow all staff to have sight of activities in different areas outside of their own job roles.

This has included an interactive training item on climate change and actions individuals can do, and a session on Sustainable Development Goals (SDG's) and prioritisation of those SDG's to help drive Fund stewardship values. Team members are invited to suggest areas of training or information sharing at all future team meetings.

Performance Management and Incentivisation

As a local authority Pension Fund, the ability to use performance management and incentives are limited. However, the Fund is aware that resources are important and works hard to recruit and retain staff and offer opportunities for development through qualifications, training, and attendance at conferences. The Fund has offered a flexible approach to locality and working hours to ensure the correct people are in place and the interests of beneficiaries are considered with stewardship activities prioritised.

The Fund assesses the performance of staff though the ESCC Finance Maximising Performance framework. The Finance Management Team, which is the overarching service department for the Fund, sets Finance Service objectives annually and outlines areas of focus for each year for service improvement. These areas of focus and service objectives follow the Golden Thread from the Council's priorities and cascade down to team and personal development objectives for all staff. Team and Personal objectives should develop on the agreed Finance Competencies and the Finance Business Partnering behaviours as laid out in the Business partnering review specific for the Fund. All staff are expected to contribute to the setting of their objectives in line with the strategic objectives set by the Finance Management team and meet monthly with their line manager to discuss progress against objectives and personal development. Staff are invited to request to work on projects outside of their normal work scope where they have a personal or development interest to recognise team cohesion and support staff retention.

The Fund is restricted to alignment with the ESCC local government pay grading to ensure equality of roles across the Council. Passion for the work of the Fund and the ability to put team members own mark on stewardship tasks such as production of new reporting requirements, mean staff feel empowered to carry out their work.

Investment team members are regularly invited to attend ESG and RI events to network with their peers and industry experts and improve their knowledge and skills. While other team members are offered regular training courses.

The Fund puts forward staff members and teams for awards where appropriate, and in 2022 one of the Fund's pension managers won Team Leader of the Year at the Women in Pensions Awards. This aids the furthering of Officers' careers.

Resources and External Contracts / Collaboration

In addition to the internal resources of the Fund, the Fund use external experts such as the Investment Consultant; Carbon foot printing provider; independent adviser; and Investment managers to ensure the breadth of resources and range of tools to administer the Fund are available and ensure effective stewardship without having to have a large team of specialists directly employed.

This helps the Fund to benefit from major research teams in all asset classes and industries across different sectors. This would not be possible to do directly.

In addition, with collaborative partners such as LAPFF, IIGCC and PRI the Fund has the power of those engagement partners and weight of resources to help direct policy makers or influence companies in which the Fund may be invested.

Outcome

The Governance structure in place is dictated by the legal frameworks in which the Fund must comply, however the Fund has made many steps to ensure it is effective in managing beneficiaries' money and being an active steward of its investments.

The team structure has been designed to deal with the increased requirements of a pension fund, in particular the increasing regulatory reporting requirements for climate risk and stewardship. The Fund is well resourced and had a supportive decision-making framework through the Pension Committee and Pension Board who are conscious of the resources required to administer the Fund and consider adaptations of the team structure as required where there is a business need.

This use of collaboration and use of expert advisers means that the Fund has better resources available to assist its beneficiaries. External support from Isio, ACCESS and Investment managers mean greater capabilities to manage risk in the Fund's investment portfolio and allows for large research teams to feed into decisions and analysis that could not be achieved within the inhouse team structure. This has resulted in higher levels of scrutiny of the Fund's investment managers stewardship activities on the Fund's behalf.

Routine reporting from managers on engagement activity are expected by the Fund on a quarterly basis. Isio expect reports on investment managers activities before Investment Implementation Working Group Meetings and for each quarter's performance reporting; these resources all help the Fund with effective stewardship.

Training is key to the governance structure of the Fund and the Fund has established a decision-making matrix to ensure all parties within the Governance structure are clear on their responsibilities and where accountability for activities sit.

As the team structure is relatively new, the Fund will continue to evaluate its effectiveness and make improvements where relevant, having a designated ESG or RI officer is a possible adaptation for the future. Having a team member win the Team Leader of the Year at the Women in Pensions Awards was a testament to the hard work and skills that go into managing the Fund on a daily basis.

Principle 3

Signatories manage conflicts of interest to put the best interest of clients and beneficiaries first.

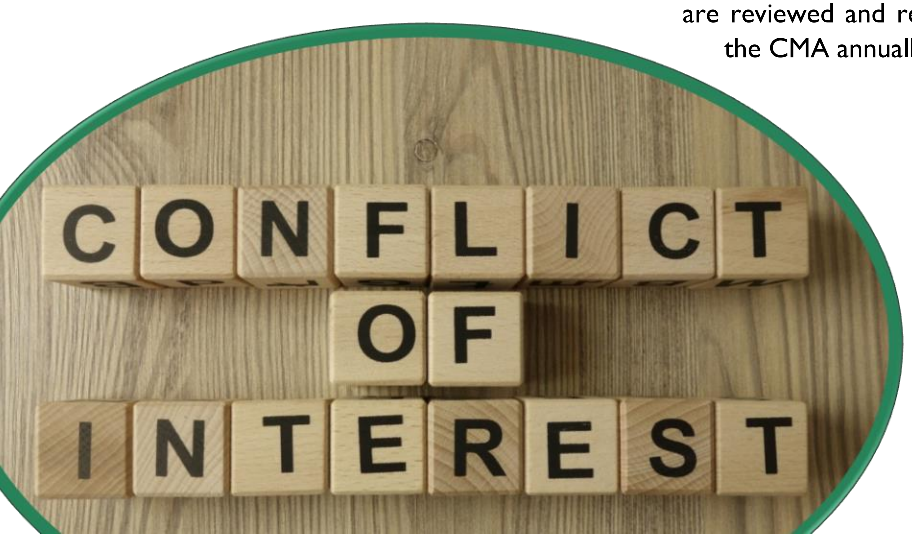
Overview

It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interest of both the scheme beneficiaries and participating employers. This, however, does not preclude those involved in the management of the Fund from having other roles or responsibilities which may result in an actual or potential conflict of interest.

Therefore, it is good practice to document within a policy how any such conflicts or potential conflicts are to be managed. The Fund implemented a Fund specific 'Conflicts of Interest' policy as part of its good governance review in 2020.

Activity

The Fund have a team who monitor for governance and compliance. Senior management also oversee the compliance team who are in turn overseen by the Pension Committee. The Investment Consultants make investment recommendations, while decision making sits with the Pension Committee; this structure is responsible for ensuring effective stewardship. As part of the CMA requirements the investment consultants are set annual objectives which are reviewed and reported on to the CMA annually.



The FCA Handbook SYSC 10.1.3R states that a firm must take all reasonable steps to identify conflicts of interest between:

a) the firm, including its managers, employees, and appointed representatives (or where) applicable, tied agents), or any person directly or indirectly linked to them by control, and a client of the firm; **or**
b) one client of the firm and another client; that arise or may arise during the firm providing any regulated activity or ancillary service.

This guidance is considered by our external investment managers.

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 here.

All Fund officers undertake regular training on information governance and conflicts of interest which form part of the annual corporate training requirements. The Fund recognises the importance of managing potential conflicts of interest, with declaration of interests as 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.

The Pension 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, and 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 recognises 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 from 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.

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 with be approved at the Committee level.

The Fund will only partake in open letters to governments where these are researched and led 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.

There were no identified conflicts of interest in the 2022 year.

Training

As part of the induction programme for new Committee or Board members a session is provided on the legislation surrounding pensions and the legal position of the Committee and Board. The training includes fiduciary duties, the role to serve beneficiaries and employers of the Fund and public law duties.

The Fund makes it clear and regularly reinforces the importance of disregarding political and other beliefs when making decisions. Committee is required under the LGPS 2016 Investment regulations to follow proper advice, and expert advisers are in place to support all aspects of decision making when specialism is required.

In addition, new elected Councillors are provided training and support on conflicts of interest, while new staff members are required to complete a learning and development module and declare any conflicts. This is documented within the officer's induction programme. Councillors are also asked at the beginning of every quarterly committee meeting whether there are any conflicts of interest to report. In 2022 there were none.

Outcome

The Fund requires investment managers to have effective policies addressing potential conflicts of interest.

External managers are assessed on potential conflicts of interests and their written policies at the evaluation and appointment stage. Subsequent monitoring takes place by the Fund's Investment Consultant and Independent Advisor to protect the Fund's interests.

Within the Fund, Pension Committee members are required to make declarations of interest prior to each quarterly meeting and in a formal statement which is published once a year.

Pension Board, Pension Committee and Officers were all invited to attend induction training in May 2021, providing legal update and notice of their management of conflicts of interest.

Conflicts of interest are defined in detail in the Fund's Conflicts of Interest policy. The policy will be formally reviewed and updated at least every three years or sooner if arrangements merit reconsideration.

The conflicts policy addresses the fiduciary and public law duties to act in the best interest of the scheme beneficiaries and participating employers as well as the seven principles of public life as servants of the public and stewards of resources.

Local investment decisions are recognised as a specific LGPS potential conflict. The Fund has no strategic commitment to investment within the County and local investment must first evidence strong and competitive financial return within acceptable risk parameters.

There were no identified conflicts of interest in the 2022 year that effected investment or stewardship activity within the Fund.

Principle 4

Signatories identify and respond to market wide and systematic risks to promote a well-functioning financial system

Overview

The Fund has a Risk Management Policy in place which was approved in June 2021 and will be reviewed in June 2024.

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e., promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk, taking into account price risk, currency risk, interest rate risk, while keeping credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient funds available to meet the forecast cash flows and that capital calls can be met without any forced selling of assets. The Fund manages these investment risks as part of its overall risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Committee. Risk management policies are established to identify and analyse the risks faced by the Fund's operations. Policies are reviewed regularly to reflect changes in activity and in the market conditions.

The Fund Risk Management policy recognises our key objectives and is intended to allow for identification and effective mitigation of all risks that may undermine the Fund's ability to meet its objectives. The Fund's ability to manage risk effectively and proportionately, and maximise opportunity, plays a crucial role in its ability to achieve the key objective.

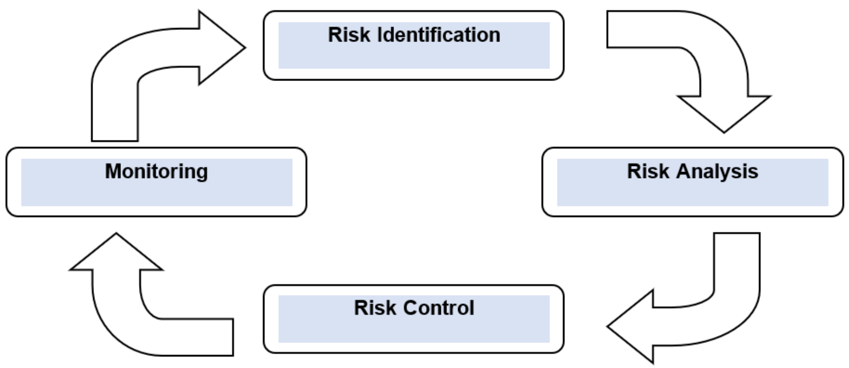
Risk management is not simply a compliance issue but is a decision-making tool, used at both strategic and operational levels, and is an essential element of effective governance.

Activity

Risks are identified under four risk categories of Administration, Employer, Governance, and Investment and Funding. The Fund tracks and reports its risks through a risk register that is updated and considered at each quarterly Pension Board and Pension Committee meeting.

Risks are controlled to ensure a proportionate and cost-effective approach is taken having regard to level of actual risk exposure and benefits to be obtained. Strategies to respond to risks are Terminate, Treat, Tolerate and Transfer.

The Risk Management Process



In addition to quarterly reporting of the risk register, an annual risk assessment is reported and published in the Annual report and Accounts, where sensitivity analysis is conducted on all market risk annually.

Key Market and Systemic Risks

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest rates, foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. Excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis looking for diversification and assessing correlation of different strategies.

The Fund's investment managers mitigate other price risk which is the value of a financial instrument fluctuating because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), through diversification. And the selection of securities and other financial instruments is monitored by the Fund to ensure it is within limits specified in the Fund's investment strategy.

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest rate risk is routinely monitored by the Fund and its investment advisors in accordance with the risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. Sensitivity analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect the interest income received on those balances.

Currency risk represents the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on any cash balances and investment assets not denominated in pound sterling. Following analysis of historical data in consultation with the Fund's Investment Consultants, the Fund considers the likely volatility associated with foreign exchange rate movements to be less than 10%.

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a monetary loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The Fund's entire investment portfolio is exposed to some form of credit risk, except for the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high-quality counterparties, brokers and financial institutions minimise credit risk that may occur through the failure to settle a transaction in a timely manner.

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that the Fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and cash to meet investment commitments.

Refinancing risk is the risk that the Fund will be bound to replenish a significant proportion of its pension Fund financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

Climate change risk is identified as a risk to assets and liabilities through both physical and transition risk. As risk mitigation the Fund have a clear set of principles on beliefs and objectives that are considered for all decision making and monitoring of managers. Equity portfolios have been restructured to remove fossil fuel companies in a decision to avoid risk from high emitting companies but to also exploit opportunities in modern technologies and industries that are looking to find solutions to climate risk. As part of the triennial valuation the Fund actuary provided a climate analysis report as at 31 March 2022 to consider climate risk in the context of the actuarial valuation. The paper set out climate scenario analysis on the assets and liabilities based on the 2022 valuation data. The report focused on climate risk both physical and transition, other risks manifested from climate change such as investment, risk and covenant risk. The report was based on the agreed principles from the four actuarial firms, Government Actuary's Department (GAD) and the Department of Levelling Up Housing and Communities (DLUHC). The analysis looked at four scenarios: early action, late action, no action and too little too late. Based on the scenario testing, the Fund Actuaries were comfortable that the level of prudence built into the valuation were sufficient.

Managing Systematic Risk

Day-to-day responsibility for managing our investments is delegated to our appointed investment managers. The Fund expects managers to monitor companies, intervene where necessary, and report back regularly on activity undertaken. This includes monitoring of global macro-economic trends, and key themes in equity, private debt, and infrastructure markets. Major market risks are discussed during quarterly Committee meetings, as well as with the Investment Consultants.

The Fund has regular meetings with Investment Managers and assesses their effectiveness in their monitoring of investee companies as part of formal portfolio reviews either amongst Officers or the Pension Committee and, as part of the manager analysis that is carried out by the Investment Consultants research team.

The Fund receives quarterly reports from Investment Managers detailing their voting and engagement with companies, which will affect the sustainability of investments. This information is published quarterly and provides a basis for the officer team to challenge Investment Managers on what risks they are focusing on through engagement activity and where their priorities lie.

Key market and systemic risks form the basis for the training plan for Pension Committee Members and officers with focus on items such as climate change and inflation being crucial areas for decision makers to understand.

Collaboration

The Fund participates in collective action, including use of resources and knowledge share through a number of collaborative routes which lead to ESG and policy improvements to promote better functioning markets. The Fund's collaborative groups include, but are not limited to:

- **Institutional Investors Group on Climate Change (IIGCC)**
  The IIGCC collaborates with policymakers and stakeholders to strengthen policy that supports a low carbon, climate stable world. Their mission promotes progress to 2030 net zero goals and a resilient future responding to systematic risk by defining public policy, investment practise and corporate behaviour.

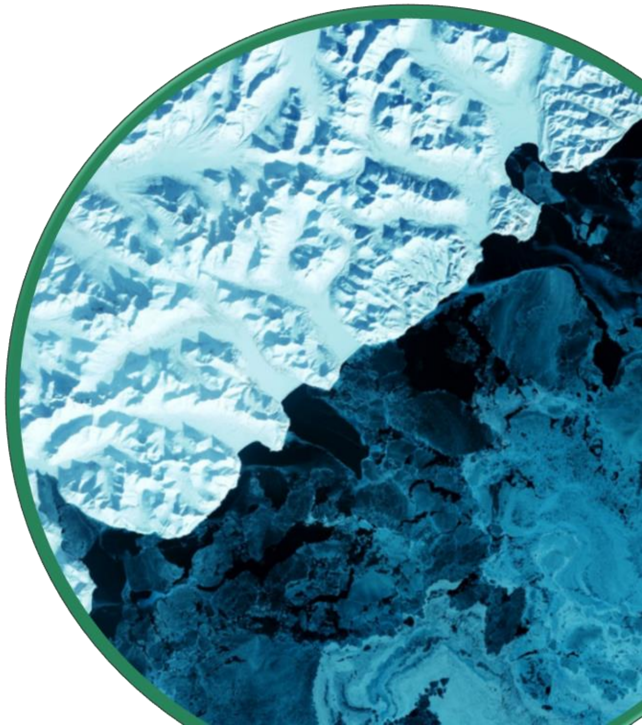
- **Pensions and Lifetime Saving Association (PLSA)**
  The PLSA discusses long term investment horizons with the acknowledgement that long term risk adjusted returns comes from responsible investment approaches. As a member, the ESPF uses their resources and practical advice to support stewardship.

- **Local Authority Pension Fund Forum (LAPFF)**
  LAPFF promotes high standards of corporate governance, enhancing the Fund's ability to transition to net zero targets. LAPFF has identified the FRC as vital to a well-functioning market. LAPFF work to ensure members can align investment and stewardship goals. LAPFF promotes well-functioning financial systems through collaborative experiences and knowledge sharing engagement.

- **Principles for Responsible Investment (PRI)**
  PRI is a UN led initiative that supports a duty to act in the best interest of beneficiaries and supports well-functioning financial systems through using their fiduciary role to promote how ESG issues can affect performance of investment portfolios. By aligning with the PRI principles, the ESPF identifies systematic risk by incorporating ESG into investment analysis and decision making, as well as disclosure on issues, and implementation of the principles in investment activities.

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

The Fund utilises various research materials from these collaborate groups to help manage its activity and systems and draws upon the expertise within these groups to help address its processes and controls to reduce risk and improve systems.



Principle risk outcomes include:

Risk	Process	Outcome
Systemic risk: A diversified portfolio means exposure to a range of asset classes, of both passive and active management.	Detailed quarterly reporting mitigates this risk and areas of concern are discussed and reported to Committee. The ACCESS Contracts Manager supports the officers through pooled resources, knowledge, and support. The Operator of the ACCESS ACS undertakes due diligence reviews of the managers each year. There are breaches of the ACS prospectus are reported to the ACCESS Contracts Manager.	The ACCESS pool offers a range of investments that provide exposure to a diversified set of asset classes and active and passive options. Limiting systemic risk through pooled resources and a strong governance framework, providing the delivery of a more efficient approach to investing in asset classes and providing value for stakeholders and beneficiaries.
Funding risk: Risk that investment strategy fails to result in performance required to meet the needs of the Funding strategy discount rate.	Independent investment consultants and advisors are utilised to provide advice on the performance of the Fund and highlight areas of concern. A triennial valuation exercise is undertaken to ensure the funding level and investment requirements are updated. Annual strategy reviews take place to ensure the Fund is targeting an appropriate risk and return level. Quarterly performance monitoring is undertaken and the Operator for ACCESS sub-funds monitors performance of the managers, The Fund ensures it is complying with Investment Strategy Statement and strategic asset allocation.	This allows for better transparency and a balanced advisory to The Fund, ensuring performance is reviewed on a regular basis. This has led to successful audits and better reporting of funding risks, such as missed contribution payments and support offered to employers. We provide revision of the asset liability model to support a viable strategic asset allocation for the new valuation.
Regulatory risk: Failure to comply with regulations, legislation and guidance from an accounting and investment perspective.	This is managed through ongoing training and internal communication, management conducted in accordance with CIPFA code of practises, IFRS and ESCC financial regulations, internal and external audit and mapped and reported breaches policy.	Outcomes here include better communications with employers on changing legislation, as well as increased internal resources to help manage employers through regulatory changes. Clear records of breaches and action taken.
Investment pooling risk: Failure to comply	This is managed through the ACCESS support unit, KPI's	This is demonstrated in risk adjusted returns being

Risk	Process	Outcome
with the government guidelines on pooling.	introduced with revised operator agreements, consultants analysing sub funds and transitioning using scenario analysis, opportunities to transfer securities in specie, due diligence completed by legal advisors and regular meetings between officers and ACCESS.	competitive, for example portfolio standard deviation is currently 10.39% which is a competitive risk tolerance level.
ESG Risks: within Investment strategy and implementations on investment decisions.	This is managed through our statement of responsible investment principles, the investment working group covering ESG items, trimming of unconscious exposure to companies with poor ESG ratings through removal of traditional index funds ensuring active managers have a strong conviction in the underlying companies including on ESG matters and less traditional passive indexes / smart beta funds have robust screening processes in place to ensure. Challenging managers	Consistent engagement with managers has improve our awareness of investments they are making and rationale for investing. A steady improvement by most managers with more stringent targets for the ESG assessment, consistently raising the bar including improvement actions for each manager on ESG methodology, reporting or collaboration. Engaging via managers and investor groups including LAPFF with companies and driving them forward to comply with key ESG concerns using the

Risk	Process	Outcome
	on their holdings with regard ESG issues Introduction of an ESG assessment for all managers. Collaborative working with other investors such as LAPFF.	greater voice by combined investment power.
Climate change: risk on assets and liabilities associated with Climate Change	Statement of Responsible Investment Principles outline investment beliefs within ESG, implementation of decisions and monitoring of ESG factors and has a strong focus on climate change, restructuring of the equity portfolio to avoid high risk companies and exploit opportunities, including decision to invest in impact funds, carrying out annual carbon foot printing to better understand the carbon exposure and energy transition plans within the portfolio.	The Fund continue to have some occasional exposure to high carbon emitting or fossil fuel sector companies from a tactical perspective to use its vote to help drive the sector forward through engagement and voting using the power of a collective voice. The Fund ensures that its managers are engaged on this topic and urge them all to join collaborative engagements with a number being UK Stewardship signatories, Climate 100+ engagement partners leading on this work with top emitting companies, while all managers are IIGCC members for collaborate weighting of AUM to influence action.

Outcome

The Fund's strong Risk management policy and approach is demonstrated through the performance with risk adjusted returns being competitive, for example at the end of 2022 the portfolio's standard deviation was 10.39% which is a competitive risk tolerance level.

The Fund has a designated annual strategy day for Pension Committee on top of the regular quarterly meetings. This allows a focus onto market and system risk without all the other Fund management and decision-making activity. As part of the strategy day, Committee members are also able to receive training on the key topics, they are making decisions on to ensure they understand the full repercussions of their decision making.

The Fund has made fundamental changes to its investment strategy because of its concern on climate change risk with 10% of the portfolio invested in climate solutions and 20% in resource efficient or Paris aligned funds.

The Fund has also increased its exposure to infrastructure and have taken ESG credentials as a key differentiator in the manager selection process. All manager selections include a detailed set of ESG criteria to ensure the longevity of the investment portfolio.

LAPFF Engagement example with the Fund's Head of Pensions June 2022

London Stock Exchange
Objective: A meeting with the Head of Sustainability sought to gain a better perspective of how the company can shape and promote the adoption of best practice Climate Transition Plans and to provide challenge on targets for 'real zero' for the group and for companies in its influence. This was a follow-up to the 'Say on Climate' collaborative letter sent to all listed UK companies last year asking them to put their transition plan to the vote.

Achieved: The importance of the quality of data supplied through company disclosure was identified. As an active member of the UN Sustainable Stock Exchange, the group has created its own disclosure guidance for London-listed firms, as well as providing educational resources around climate; sharing 'scorings' privately with companies and providing guidance on reporting to encourage and engage companies. The challenge for 'real zero' has in part been recognised through the group moving its own net zero targets from 2050 to 2040.

In Progress: It was considered it would be useful to progress a meeting with the senior independent director.

Principle 5

Signatories review their policies, assure their processes, and assess the effectiveness of their activities

Overview

The Fund has policies that are regularly reviewed and tracked through a tracking document to ensure all documents are assessed within the agreed timeframes. All documentation can be found on the website

https://www.eastsussexpensionfund.org/.

Activity

Policies and Review

As a minimum, all policies are reviewed every 3 years. Where there is a change in law or major event, policies are reviewed earlier. In 2022 the Fund reviewed. the Governance and Compliance Statement, Funding Strategy Statement, Investment Strategy Statement, Communications Strategy, Exit Credit Policy, Training Strategy and Statement of Responsible Investment Principles in line with the review policy for these documents. All documentation is reviewed in line with the governance review processes, in line with accessibility criteria and the Fund log all policy reviews by the review date.

By ensuring the Fund has a robust suite of policy and strategy documents that are regularly reviewed and refreshed, enables the Fund to promote greater transparency and accountability of its actions with clear expectations of ourselves and others in all activity the Fund does. This also ensures consistency in application of decision making and service provision the scheme members and scheme employers.

Fund Policies

Investment Strategy Statement – reviewed annually and updated at least every three years or immediately after significant changes

Statement of Responsible Investment Principles – reviewed annually

Conflicts of Interest - reviewed every 3 years

Breaches Policy - reviewed every 3 years

Funding Strategy Statement – reviewed every 3 years. Review process includes consultation with scheme employers

Administration Strategy – reviewed every 3 years. Review process includes consultation with scheme employers

Risk Management Policy - reviewed every 3 years

Training Strategy – reviewed every 2 years

Governance and Compliance Statement – updated annually

Communications Strategy – reviewed annually and updated at least every three years

Audit and Assurance

Management of LGPS investments is conducted in accordance with relevant governing legislation and regulations.

Internal Audit assess the governance of the Fund and provides assurance that best practise is followed. The Fund commission 100 days of internal audit work per year and the audit strategy is agreed annually by the Pension Committee. Internal audits carried out in 2022 included Investments; Administration of benefits; Governance; Compliance with Regulatory Requirements; an audit covering the implementation of the new benefits software system following the transition of the service from an outsourced service provision to being managed in house.

Each internal audit report including actions agreed by the Fund's management is presented and discussed at both the Local Pension Board and Pension Committee.

The allocation of a substantial number of Internal Audit days helps support the Fund's management and decision makers with assurance of the controls in place to represent the stewardship of capital and high-quality service to Fund strive to achieve for its beneficiaries.

External audit, provided by Grant Thornton, provides the Fund with scrutiny on governance, decision making and transparency of reporting. External Audit issue an annual audit plan that is reported to Pension Board and Pension Committee and an Audit Findings report including the audit opinion.

In addition to the audits, the Fund completes an annual scheme return to the Pensions Regulator.

Governance

The Fund has a strong focus on governance which was instilled following the approval of a governance review by the Pension Committee in 2019. The review focused on recommendations made by the Scheme Advisory Board on best practice to see where improvements can be made within the Fund.

The results of this review were presented to Pension Committee in June 2020 leading to some substantial changes to purpose and governance. Many of the changes were implemented throughout 2020 and 2021 with ongoing developments through 2022.

Through the year the Fund embedded and added to its designated Governance and Compliance team. The Fund established a decision-making matrix detailing roles and responsibilities, as well as decision making for the Committee, Board, S151 Officer, Head of Pensions, Head of Pensions Administration, Governance and Compliance Manager and the Investment and Accounting Manager. This matrix was set up to ensure all decisions were made at the correct business level, decisions were aligned with the constitution, and to allow all relevant parties to be recognised as needing to be consulted, advised or responsible for all key activities of Fund management and decision making. This ensures all relevant parties are sighted on decisions and activities providing a clear and transparent control structure.

In recognition of the work and resources involved in stewardship activities to preserve capital and implement the RI strategy, while ensuring robust governance, the Fund put in place a new team structure to ensure a larger team to enable greater capacity to carry out the increasing requirements on asset owners. The Fund continually review the team structure and work allocation, to ensure there are sufficient and competent resources in place allowing for further developments in activities of the future in future years.

ESG Quarterly Reporting

The Fund publishes a quarterly report on its voting and engagement activities with companies and policy makers. This allows the Fund to be transparent with Fund beneficiaries and improve understanding of members, while considering how effective the Fund and its managers have been during the quarter in protecting the value of assets through a robust stewardship process of underlying holdings and wider engagement. The reporting is continually reviewed to establish whether there are improvements that can be made to enable Scheme members a better insight into the responsible investment activities the Fund and its Investment Managers and collaborative partners enter into.

Voting is shown for all mandates and clarity is provided whether votes are at manager or Fund level as this can differ in certain circumstances. In addition, as the Fund invests in pooled vehicles each manager is noted to say which voting guidelines they follow.

Where a manager publishes a full report on their activities in the quarter the Fund links to the published report to ensure that all engagement is clear, while recording some examples within the report to provide easy access to examples of engagement to stakeholders.

Officers from different teams within the Fund feed into reporting for the Stewardship code, ensuring a diversity of opinion and examples. Ensuring a balanced report that fairly represents the Fund's activity for the reporting year.

Outcome

Policies are reviewed regularly with comments of the Pension Board being communicated to the Pension Committee prior to approval, to feed in views of employers and scheme members into the use and content of those policies. All policies are approved by the Pension Committee. Significant policies such as the Funding Strategy Statement and Administration Strategy Statement among others, go through a consultation process with scheme employers to ensure the views of all the Fund's 140 employers are taken into account in primary policy decisions that have direct impact on those bodies. The review structure and input from Pensions Board and other interested parties, enables the Fund to ensure policies continue to reflect best practice and meet the expectations of the Pension Committee and other regulatory bodies.

During 2022 the Fund's risk register underwent a refresh, in order to allow easier identification and discussion of key information and rating changes. The Pension Board and Pension Committee expressed the benefits in which these changes delivered.

The Statement of Responsible Investment Principles (SIRP) was established to replace the Investment Beliefs, out of an intensive consideration of how the Fund should be implementing ESG and stewardship within decision making. This was originally approved and published in September 2020, with minor tweaks in 2022 to ensure the principles were still appropriate and any aspirational aspects were in progress. A full review is planned for the Statement in 2023 to take into account learnings of its stewardship signatory status and first submission for PRI, as well as areas of focus, and direction of travel the Pension Committee would like to achieve from a Stewardship perspective.

In the Annual report and accounts in 2022 the Fund reported how it had implemented the RI strategy and where further work was expected in the future.

In June 2021, the ACCESS pools ESG consultant conducted a review of each ACCESS authorities RI policy including a gap analysis to identify the commonality and expectations of each Fund to build a set of RI guidelines for the ACCESS pool. As part of this analysis the Fund scored highest overall in the robustness of the statement based on a best practice model with highest scores of the 11 Fund's in Governance and Implementation areas of the analysis.

Stewardship policies stem from the Pension Committee and are regularly discussed and debated. As a result of the pool ESG advisers' comments on the SRIP, the Fund changed the quarterly engagement reporting it produced from Q4 of 2021, making sure voting and engagement activities are more clearly defined including which voting policy is used by each manager. In addition, within this report the Fund increased the reporting to include its own activities, those of its advisers and policy engagement through collaborative partners.

Internal audit provided substantial assurance for Governance, Compliance with Regulatory Requirements, Investments. Administration of benefits obtained Reasonable assurance and there were no control findings in relation to the benefits software implementation audit.

The Fund has significantly increased the reporting and communications of its engagement and other activity because of changes in policy, increasing transparency and understanding between clients and beneficiaries as well as pressure groups. Following the activity for improvements in ESG quarterly reporting the Fund were able to report new information on investment manager successes for example in winning awards. One of the Fund's managers WHEB, were awarded Best ESG Global Equity Fund by MainStreet Partners, an ESG advisory and portfolio analytics firm. In addition WHEB provide information to the Fund on how its investment has contributed to an increase in renewable energy production, CO_2 emission avoidance and water use avoidance. In Q4 2022 the Fund were able to report 81,521 MWh of renewable energy generated (equivalent to 5,762 European households), 57,406 tons of CO_2 emissions avoided (equivalent to the energy use of an average house for 13,445 years) 108.8m litres of water use avoided (equivalent to the water used by 1.7m showers) over the 12 months of investment.

In July 2022 following the Pension Committee strategy meeting the Committee agreed commissioned a report to be presented in September 2023 that would investigate the implications risks and costs associated with a divestment action of the Fund.

The Committee requested that the report cover four areas to include:

- assess the fiduciary and legal consequences of fossil fuel divestment for the Fund;
- examine how such a move aligns with relevant guidance and advice;
- explore how practical an act it would be within the context of the ACCESS pool; and
- review evidence on the efficacy of such an approach in promoting the energy transition

This work will be used as a reference guide for the Committee for future decision making and as a research project to understand the efficacies of engagement and/or divestment. This will also be used to provide transparency to scheme members who are keen to know where their pension is invested.

Principle 6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them

Overview

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Fund is effectively responsible for managing the Pensions for all eligible employers and beneficiaries of the LGPS within the East Sussex area including Brighton and Hove, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration cost.

The Fund is responsible for the pensions of over 84,000 scheme members across 140 scheme employer bodies. The scheme is defined benefit based on the Local Government Pension Fund 2013 Regulations which has multiple sets of scheme rules. Of the members, over 23,000 are currently in receipt of their pensions. Of the members not yet in receipt of their pension, nearly 25,000 are active members with a further 33,000 deferred members. During the 2021/22 financial year the Fund made payments of approximately £134 million.

At the 2022 triennial valuation the scheme was 123% funded and had a 20-year maximum time horizon for scheme employers in modelling for contribution rate setting and valuation assumptions. Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum likelihood. A higher required likelihood bar will give rise to higher required contributions, and vice versa. Details of the Fund's assumptions and funding basis are included in the Funding Strategy Statement.

Most of the employer bodies whose staff are members of the Fund have strong covenants due to their status as public sector bodies. This means that the Fund can take a long-term view when making investment decisions, helping the Fund to achieve its investment aims.

These aims include managing employers' liabilities to achieve long-term solvency by ensuring that 100% of liabilities can be met over the long term, without creating volatility in contribution rates for employers (and therefore taxpayers) or taking excessive investment risk outside of reasonable risk parameters.

Activity

Communications

Communication from the Fund is an area where extra specific resource was allocated and implemented in 2022 to improve the way the Fund engages with its stakeholders. The Fund has a communication working group (CWG), responsible for improving communications following a review by the ESCC Head of Communications of how well the Pension Fund communicated in 2021. The CWG consists of Pension Board members (representing the Fund's employer and member stakeholders) and Fund officers. To complement and progress the initiatives generated and monitored by the CWG the Pension Fund recruited a Communications Manager to set a new Communications Strategy and implement recommendations from the formal review and from the CWG. In 2022 the Fund significantly revised the Communications strategy to change the look and feel of the strategy to enhance the readability of the document and ensure beneficiaries can easily see how the Fund will communicate with them, while retaining the policy elements for the Fund to ensure it provides a robust communication provision to members and employers within a structured governance framework. The Fund refreshed the aims and objectives of the strategy and measures in which these objectives will be assessed. In addition, the Fund added a section to clearly lay out how and when communications will be issued to stakeholders.

To further complement this the Fund has a specific business plan and set aside an approved budget allocation in February 2022, to enhance the communications of the Fund to cover the areas identified for short term implementation and improvement, including the costs of the new communications manager. Areas that are specifically being targeted are the Fund's digital communications software, surveys, setting out a cohesive investment story, website evaluation and refresh, support for business projects and media responses.

The Fund's Communication Strategy sets out how the Fund will engage, educate, and fulfil the needs of its stakeholders including members and employers. The Fund are committed to developing communication which is relevant and engaging and is also clear and easy to navigate. In consultation with Fund employers and scheme members through their representatives on the Pension Board or other feedback mechanisms for fund employers and scheme members this strategy is reviewed every three years.

Communication Strategy 2022 (eastsussexpensionfund.org)

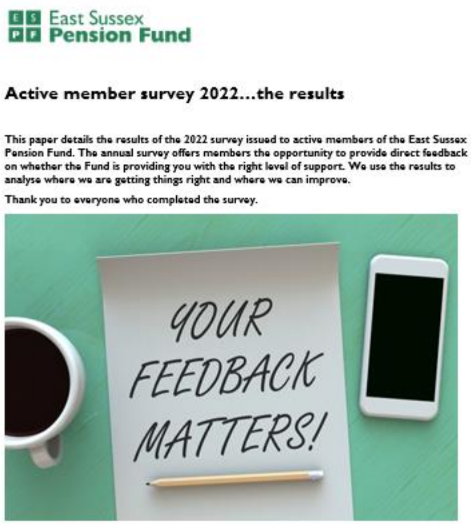
The Fund undertakes a number of regular communication activities each year which include:

- **Employer newsletters –** regular newsletters are issued to employers detailing information key to their role as employers in the Fund.
- **Member newsletters –** regular newsletters are issued to active, deferred and pensioner members of the Fund which provide key information they need in order to keep track of their Local Government Pension Scheme.
- **Guides –** a number of guides are produced for both members and employers to support them in understanding the LGPS. For example: HR Guide, Payroll Guide, Brief guide to the LGPS, Preparing for retirement guide, ill health retirement guide and more.
- **Forms –** member and employer forms are provided in both standard and editable formats.
- **Surveys –** each year the Fund surveys both members and employers to gauge how well the Fund id performing and publishes the results on our website with actions shown.
- **Annual benefit statements –** An annual statement which shows benefits accrued for active and deferred members is issued each year (prior to the 31 August regulatory deadline)

Consultation with Beneficiaries

All active members receive newsletters twice a year and Pensioner members once a year. These newsletters update on pension issues, especially on any changes affecting benefits.

The Fund conducts an annual survey with active and pensioner members to seek their views on the administration and communications of the Fund. In 2022 this survey also lightly touched on investment strategy.


East Sussex Pension Fund

Active member survey 2022…the results

This paper details the results of the 2022 survey issued to active members of the East Sussex Pension Fund. The annual survey offers members the opportunity to provide direct feedback on whether the Fund is providing you with the right level of support. We use the results to analyse where we are getting things right and where we can improve.

Thank you to everyone who completed the survey.

Consultation with Scheme Employers

All employing bodies are kept informed of current pension issues, such as proposed changes in the regulations and their implications, by quarterly newsletter. They are encouraged to get in touch if they have questions.

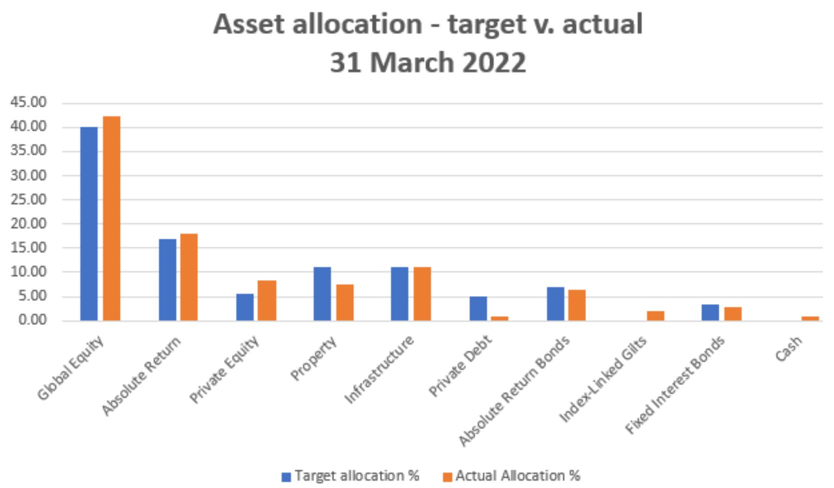
In addition to these electronic briefings, the Fund holds an annual Employers' Forum to which all scheduled and admitted bodies of the Fund are invited. This was held at the AMEX stadium in 2022 and focused on actuarial issues as part of the triennial valuation. In 2022 employers received various information around topics such as Administration, the Funding Strategy and i-Connect (a new service to transfer data from scheme employers monthly to the Fund to improve the data held when providing services to the Fund's beneficiaries). Employers can raise topics of interest for this forum and ask questions of officers and advisers as required at the event.

An annual survey is conducted with employers to get input into the administration of the Fund.

Where there are proposed changes to the Administration Strategy or to the Funding Strategy Statement, employers are consulted prior to implementation of the revisions.

The Fund created an Employer Engagement team to specifically focus on improving the information sharing and support to scheme employers.

Investment



As a long-term investor, the Pension Fund can set its strategy over a long-term investment horizon. The average life expectancy of the Fund's members from age 65 are between 21 and 26 years depending on gender and status. The Fund Actuary anticipated that the Fund's best estimated investments returns to be 5.7% based on CPI inflation with an allowance for capital growth and in the case of equities, future dividend yield, over the next 20 years, at the 2022 valuation.

The Fund is transparent with its Funding strategy with strategy and performance reports being published and discussed in public sections of Pension Committee meetings. Confidential items are held in private, which include the specific holdings by a manager, detail of a change in manager, or sale of assets that could be impacted by knowledge in the market. In addition to the public nature of reports and meetings, the Fund has a section on the website for investments where we provide information on strategy and areas of specific interest of our members such as fossil fuel exposure, climate activity and other engagement areas. This area of the website has continued to be developed in 2022.

The Fund has made a number of changes in the Investment strategy partially due to insights into member views on areas such as climate change from the engagement received and areas of focus from questions to the Fund, but also because of the focused work by the Pension Committee in determining their Responsible Investment Principles.

Outcome

Scheme beneficiaries received regular updates through newsletters and information on the website and can contact the Fund and attend public meetings so we can assess their views and incorporate them where possible.

The evaluation of the effectiveness of engagement with scheme members is through the volume of correspondence received and the topics covered. It is rare that the scheme received follow up questions when responding to a member question on an RI matter following detailed responses.

The Pension Board and Committee have agreed that it wants to increase the level of engagement and communications that it has with scheme members further resulting in the setting of a budget for communications. The Fund is continually reviewing the content of the website to ensure the most up to date information is available and covering content as requested by beneficiaries. The Fund will also be expanding the coverage of Responsible Investment in its Annual Report for the reporting year 2022/2023 and will use this document as another means to seek feedback and input from scheme members.

Over the year the Fund has continued to respond to a number of requests from scheme members and other interest groups on RI related matters, in the main these relate to exposure to fossil fuels in light of the climate emergency and investment in companies that conduct business in the occupied territories in Palestine.

Many of these questions come through as Full Council questions where an answer is provided on behalf of the Fund and published in advance of the meeting.

Membership of the Pension Board includes employer and member representatives. These representatives can input into and comment on the Fund's stewardship and investment approach through governance oversight of the Fund and access to policies, or through the Communications working group.

The Fund is happy to engage with employers and scheme members on an ad-hoc basis to provide additional information on Stewardship matters and regularly includes a training item at the employer engagement forum on responsible investment.

In the 2022 annual report and accounts, published 1 December 2022, the Fund publicly reported against the Taskforce for Climate-related Financial Disclosure (TCFD) criteria. The Fund enhanced its TCFD reporting from the previous year to include a wider range of asset classes and additional commentary including climate risks exposure across the property portfolio.

The Pension Fund publicly reports on the carbon footprint of its investments which show a reduction between the second and third year of reporting in intense carbon emitters within the portfolio as well as improvement in energy transition plans. In addition the investment into climate solutions had increased.

Example Physical Climate Risk

Schroders Property Fund

The Schroders Capital Team Estate Partnership element of the Fund's property portfolio has been assessed under a climate risk analysis which constitutes approximately 42% of the Fund's property investment. Under this analysis, 243 assets have been assessed over 19 individual risk indicators such as drought, wildfire and tsunami hazard. The identification of these risks helps the manager asses potential risk of location, but also risk to property in the UK. The next step will be to look at the strategic assessment of resilience of assets exposed to high-risk locations.

Example Disclosure in the March 2022 Annual report

Physical Risks from Climate change across the Property Funds

Acute Shocks	Average	Min	Max
Drought Hazard	5.1	4	7.7
Extra-tropical Cyclone Hazard	5.7	2.3	0.8
Severe Storm Hazard	8.6	7.7	10
Coastal Flood Hazard	9.6	3.7	10

Chronic Stresses	Average	Min	Max
Heating Degree Days (current climate)	3.2	2.6	3.4
Water Pollution	3.9	2.5	7.2
Heat Stress (future climate)	5.7	5.6	5.9

Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change to fulfil their responsibilities

Overview

Environmental, Social and Governance is a crucial part of the Fund's investment process. Climate change risk and opportunity has continued to be the primary driver for changes in the investment strategy throughout 2022 alongside flexibility and liquidity. However, during 2022 the Fund also started to focus on biodiversity as it recognises the strong interlinkages between climate change and biodiversity, resulting in a need 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 unmistakeable. Other ESG focuses in the year have also played a key role in the stewardship of the existing investments and manager selection processes especially around human rights issues and governance structures. In addition, the Fund has focused on the control structures in place of our manager for real assets looking to evidence sufficient control such as a board seat and that there is effective oversight and governance at the board level of companies. In 2022 the Fund started to include questions to all managers on biodiversity risk and how the managers were approaching this risk as a first step in consideration of upcoming disclosure against the Taskforce of Nature related Financial Disclosures (TNFD).

Activity

The Journey - The Fund has integrated ESG and RI into its investment strategy from 2018 and continues to make changes and improvements today and considers stewardship and integration of ESG and RI as a continual journey. The Fund has made several changes and carried out reviews during the past few years.

The Journey started in 2018 with the Fund's first climate aware allocation to a climate tilted passive mandate. In 2019 the Fund commissioned a report into its ESG activities with recommendations on key commitments and changes it should consider and published its first ESG and climate statement and investment beliefs. 2020 saw the outcome of an independent review for recommendations on ESG activity and the first carbon foot printing for the listed mandates and a commitment to investigate investment into climate opportunities with two impact equity managers selected. The Fund also approved a detailed Statement of Responsible Investment Principles, while bringing in a Paris aligned smart beta strategy. As well as focusing on equities the Fund took a step into listed Infrastructure and selected a manger in this asset class that carried out climate scenario testing in the selection of the holdings in the portfolio.

2021 saw a second year in carbon foot printing analysis including energy transition plan assessments and published its first ESG implementation assessment against its previously approved RI principles. An ESG impact assessment was carried out on all Fund Investment managers with actions set for improvements for each manager. Fossil fuel exposure was an area where the Fund assessed its exposure specifically, to understand the positioning and financial risk to the Fund. A statement was published on the Fund's website regarding exposure to occupied territories companies with possible human rights concerns. The Fund was shortlisted for the 2021 LAPF Investment awards Fund of the year (over £2.5bn) – where it was declared the winner at a ceremony held in March 2022. Additionally the Head of Pensions was appointed to the LAPFF Executive Committee to help drive forward engagement on behalf of LGPS Fund's across the country and hold companies to account.

Further actions in the RI journey in 2022 were

February	- IFM appointed as infrastructure manager
March	- Osmosis resource efficient passive equities implemented
April	- Ballie Gifford Paris Aligned active equity fund implemented
July	- Carbon Footprint report received – 3rd year - ESG impact assessment – 2nd year – included Climate score for each mandate for the first time - Updated published statement on exposure to occupied territories companies with possible human rights concerns - Signed the 2022 Global Investor Statement to Governments on the Climate Crisis - Fund manager Baillie Gifford – Paris Aligned Fund - invited to Pension Committee and challenged over China holdings, engagement and discussions on individual holdings - Pension Committee commissioned a report to be presented in September 2023 to: o assess the fiduciary and legal consequences of fossil fuel divestment for the Fund; o examine how such a move aligns with relevant guidance and advice; o explore how practical an act it would be within the context of the ACCESS pool; and o review evidence on the efficacy of such an approach in promoting the energy transition
October	- Stewardship Report submitted to FRC
November	- 2nd TCFD report published, with data covering some illiquid mandates - Responsible Investment Principles Implementation statement updated - Published implementation report against RI commitments of the Fund - Climate scenarios report on liabilities presented to Committee in deliberation of the Funding Strategy - Sustainable Multi Asset Credit mandate approved for investment – first sustainable product in the Fund's FI portfolio

Integrated Strategy

The Fund has an ongoing commitment to stewardship as part of its fiduciary duty to its members and employers. Systematic integration has been achieved through our various published polices; the publication of our ESG statement; ongoing performance monitoring; and regular reviews with Investment managers to ensure they are actively managing the assets on our behalf with aligned principles. The Fund also look to ensure Investment managers do not deviate from the strategy in which the manager was hired to implements. The Fund consider its membership as a PRI signatory and a member of IIGCC helps support the integration of effective stewardship within our strategic approach.

Responsible investment is carried out by:

- External investment managers who are expected to exercise the Fund's voting rights to incorporate stewardship and ESG in their strategy.
- The Fund itself through direct engagement with managers over their positions, approaches, policy, and engagement activities.
- Through collaborative efforts with LAPFF, IIGCC, Pensions for Purpose and other alliances.
- Through Advisory and Consultants, by working with ISIO our Investment Consultants and our Independent Advisor who ensure our ESG strategy goals are priorities in our investment activities. This is also supported by ESG advisers such as carbon footing, the ACCESS pool and independent reviews.

The Fund receives and attends various training opportunities to enable integration into decision making, strategy setting, manager selection, procurement, manager review meetings and engagement opportunities.

Commitments and In Year Changes by Sector

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.

The Fund took a strategic decision to focus on equity allocation as a starting point for ESG integration. Whilst maintaining the 40% target allocation, equity positions were allocated to mandates to provide active impact equity, smart beta passive Paris aligned, resources efficient passive and Paris aligned active.

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.

In February 2022 the Pension Committee considered the implementation of the investment strategy and agreed that the fixed income allocation would include a new Diversified Credit mandate to complement the current holding with M&G, and a new Private Credit mandate, bringing the allocations to 10.5% and 5% respectively.

Following the governance process, in November 2022 the Pension Committee approved Bluebay's Total Return Diversified Credit Fund as the favoured strategy for a number of reasons including its performance, risk appetite alignment and correlation with the wider Fund's strategy, diversification and was considered to be nimble to respond to market volatility well to help the Fund protect its capital. In addition, the Fund considered the ESG integration of the manager and recognised the low carbon emission intensity of the product as well as comprehensive RI reporting. In addition to the strategy itself it was confirmed that this investment would be implemented via the ACCESS pool as a sustainable version of the traditional mandate. Implementation of this strategy will take place in 2023.

As part of the decision making process the Committee were advised that the sustainable Bluebay product excludes issuers who are exposed to the following activities.

Corporates

- Controversial weapons: encompassing cluster munitions, landmines, depleted uranium, chemical and biological weapons, nuclear weapons, blinding lasers, non-detectable fragments and incendiary weapons
- Tobacco companies: (producers) >0% revenues
- Thermal coal: mining and generation – companies where installed thermal coal capacity >10Gw or >5% revenues /operations /output
- Oil sands: >0% revenues
- Arctic drilling (oil & gas): >0% revenues
- Fossil Fuels : >5% revenues from exploration and production
- International norms : UN Global Compact - non compliance
- Norges Bank Investment Management (NBIM) exclusion list

Sovereigns

- Climate: not ratified Paris Agreement
- UN conventions: not party to corruption convention; not party to / not ratified torture and punishment convention

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 to utilise CRREM assessment tools, as recommended by the IIGCC, in assessing their property portfolio alignment with the Energy Transition.

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.

In 2022 the Fund allocated a further 5% of its strategic asset allocation to infrastructure, bringing the total allocation to 11%. This allocation was made into the IFM Global Infrastructure Fund after agreement by committee. IFM's product has a differentiated ESG approach which involves active management and improvement of assets within the portfolio rather than the acquisition of assets with specific ESG credentials (for example renewable energy). This approach was deemed attractive due to current market supply and demand dynamics within the renewables space, resulting in a competitive landscape for ESG focused assets.

As part of the manager selection process the Fund sought details from the manager on a range of criteria, IFM had a long track record and significant Assets under Management (AuM) in infrastructure with an established investment portfolio and robust investment process. IFM were rated highly by the Investment Consultant on the managers approach to ESG, with IFM focusing on the existing long-term holdings and making them fit for purpose for the future.

Manager Selection

The Fund takes the following steps before a new investment manager is appointed:

Direct manager selection route

- The Pension Committee set its Strategic Asset Allocation to determine asset classes and proportion holding in those classes. They also discuss style and geographic requirements to ensure a diverse portfolio on allocation of new mandates. ESG is an integral factor of all strategic decisions as it effects the long term risk and provides opportunities to the Fund's performance.
- A list of criteria to assess potential investment managers and areas of focus in the selection of a manager are discussed and approved by the Committee. ESG specific criteria are included in this as a separate section.
- Managers are questioned over a number of RI topics in addition to their initial responses.
- Due Diligence is conducted with information on managers ESG statements, benchmarks, fees, and policies such as health and safety and renumeration being assessed.

Appointment from the LGPS pool

- The Fund is a member of the ACCESS pool who approved a set of RI Guidelines in 2022.
- Where the pool has a sub fund that meets the strategic asset allocation requirements as set out by the Committee, the Fund's investment consultant conducts a review against a range of criteria including ESG essentials to assess if the manager is a good fit for the Fund's strategy and aligned with its investment beliefs.
- Before a manager is appointed full Due Diligence will also be conducted.
- There were no major changes in the Investment strategy in 2022.

Appointment of a Consultant

- Before appointment of a consultant or service supplier, the Fund will use the LGPS Framework, which has first conducted an OJEU process to put appropriate and professional firms to carry out the relevant functions. From the framework, the Fund then conduct a further competition tender process which includes the consultants ESG standpoint and how ESG issues are incorporated into the consultants' approach.
- Prospective consultants and suppliers are also asked to highlight how they can enhance the RI actions of the Fund.
- In line with CMA, consultants are set annual objectives and reviewed annually.

Procurement

The Fund carries out a number of other procurement activities to provide contractual services to administer the Fund or provide other advice. Where the Fund is able to, it considers the sustainability of the service provider and policies they have in place. Where there is an overlay with Investments, ESG will also be considered. In 2022 the Fund commissioned carbon footprinting reporting; the selection process was based on value for money and a comprehensive reporting provision to aid investment strategy and monitoring of Investment Managers. There were no ordinary contract procurements carried out in 2022.

Example Manager Selections in 2022

Passive Equity - Osmosis

In February 2022, the Fund became the first LGPS Fund to invest in the index managed by Osmosis Investment Management launching a sustainable £200m global equity ex-fossil fuels portfolio, which went live in January 2022.

Osmosis uses a quantitative screening process to remove companies that generate more than 5% of revenue from nuclear energy, any company associated with nuclear weapons, controversial weapons, civilian firearms, tobacco, thermal coal, oil sands and businesses that are not compliant with the United Nations Global Compact principles. The Osmosis strategy addresses the demand side of fossil fuels through the targeting of resource efficient companies across the economy.

Infrastructure - IFM

The Fund invested in the IFM Global Infrastructure Fund in 2022, giving it access to proprietary investment opportunities through an existing global asset footprint, with a strong commitment to integrating ESG considerations into their responsible long-term investment approach. The manager invests in infrastructure that seeks to accelerate the world's transition to a net-zero emission economy and believes that low-carbon infrastructure assets can help to reorient the global economy towards more sustainable sources of energy.

Investment Strategy Priorities within the ACCESS Pool

The ACCESS Authorities believe in making long term sustainable investments whilst integrating environmental and social risk considerations, promoting good governance and stewardship. Whilst the participating authorities have an overriding fiduciary duty to act in the best long-term interests of their LGPS stakeholders to achieve the best possible financial returns, with an appropriate level of risk they also recognise the importance of committing to responsible investment in the investment decision making process.

In June 2022 the Joint Committee of the ACCESS LGPS pool which the Fund is a member approved a detailed set of RI Guidelines for all activities of the Pool. Alongside this summary set of guidelines was approved to provide a more accessible version of the guidelines for beneficiaries of the 11 partner LGPS Fund's. In addition to the guidelines in December 2022 the Joint Committee gave approval for the second phase of development of RI work for the pool, this included the agreement to commence a procurement for a stewardship consultant to address the implementation of the RI guidelines and in particular the delivery of reporting requirements. This procurement will complete in 2023. In addition to the appointment of a specialist consultant the Joint Committee approved investigation into Pool membership of LAPFF and whether the pool would be able to become a stewardship code signatory in addition to the underlying partner Fund's. Further work will be completed in 2023 on both of these areas.

Assessment and Reporting

Principles of Responsible Investment

The Fund has been a PRI signatory since June 2020, due to the time of joining and absence of a 2022 submission for PRI reporting, we have not yet made a submission. The first submission will be made when the PRI allow during 2023. The PRI annual survey will demonstrate how the Fund implements the PRI Principles in the year and we will take forward any improvements in stewardship and RI considerations when undertaking the return and reviewing the assessment.

Taskforce for Climate Related Disclosures

The Fund committed to reporting under TCFD in its Statement of Responsible Investment Principles which was approved in September 2020. TCFD is structured around four thematic areas of Governance, Strategy, Risk Management and metrics and targets. The Fund support the TFCD recommendations to provide a framework to communicate the steps the Fund is taking to manage climate related risks.

The Fund completed its report against these disclosure requirements in its Annual Report and Accounts 2021/22 published in December 2022. Where the Fund has gaps in reportable data, this is highlighted in the sections, with a plan on how this will be progressed in future years reporting including on climate scenario modelling and setting targets and a transition plan.

Sustainable Case Study

Schroders Property portfolio

Within the Fund's property investment portfolio, the Fund invests in Alpha Court in York which is a multi-tenanted office. The Fund manager set a sustainability strategy to transform an underutilised area of the property to increase the biodiversity, create a wellbeing area for tenants and engage with the local community to promote local social enterprises.

Outcome of the strategy: 13 bird boxes were procured from a local charity who provide training in horticulture for adults with learning difficulties and installed on the site. A bug hotel and hedgehog house were installed along with 2 recycled timber benches which were made by a social enterprise that diverts timber from going to landfill and gives volunteer and training opportunities to marginalised people. A wildflower meadow was also created to surround the seating area.

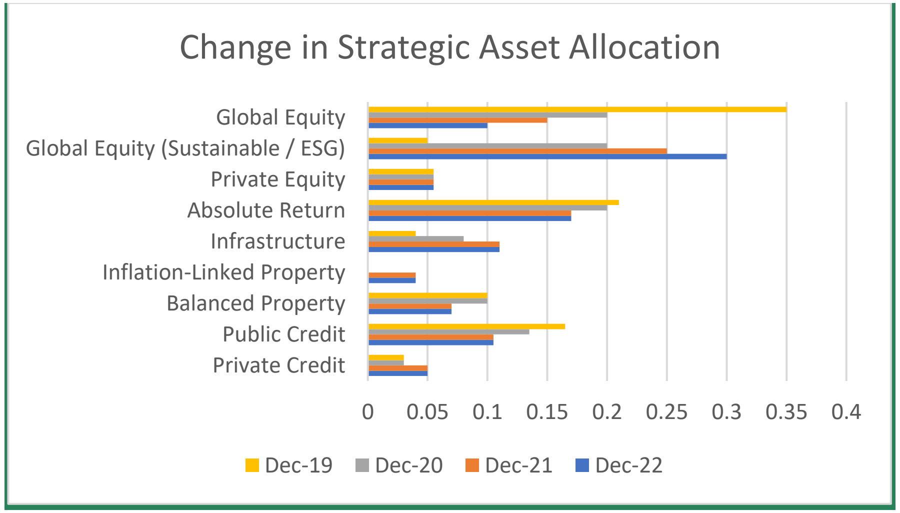
Outcome

The Fund make changes to the strategy and integrate ESG and stewardship into all aspects of its decision-making processes including manager selection and consultant tenders as well as asset allocation and in line with the Fund's RI objectives.

The Fund addresses both risks and opportunities as seen in the restructure of its equity positions through the changes to implement impact funds and Paris aligned products, investing £200m into a resource efficient ex-fossil fuels portfolio and allocating to sustainable multi asset credit. The Fund's integrated actions have looked to align all business activities within the Fund's RI objectives to provide a more robust risk management framework to better protect the interest of the Fund members The Fund are looking at carbon reduction across the whole portfolio as well as opportunities to help drive solutions to climate change. Opportunities can be within market gaps, climate mitigation or climate adaptation, to aid the energy transition so the Fund can continue to generate returns to keep the funding position in surplus and keep contributions of the employers stable.

The Fund's actions from 2020, moved the positioning of fossil fuel exposure away from the passive mandates into tactical positions with focused engagement activities. Traditional passive mandates generally lag the market and could be a significant risk to the Fund's returns by holding these companies without conviction or the ability to sell, so they no longer form part of the strategic asset allocation.

Fossil fuel exposure is now significantly lower, actively managed and held for more defensive reasons. The managers with exposure are Climate100+ leads with a number of the high emitting companies held within the portfolios.



Principle 8

Signatories monitor and hold to account managers and or service providers

Overview

Responsibility for day-to-day interaction with companies is delegated to the Investment Managers, including escalation when necessary. We expect Investment Managers to disclose their policies and procedures for escalation in their own Stewardship Code statement. Investment Managers conduct robust and continual research on underlying holdings, engage with the company's management team, collaborate with other institutional shareholders, voting, filing shareholder resolutions or partially or entirely disinvest. The Investment Manager will seek to add value to their clients through improved company share performance following such escalation. The Fund meets it managers throughout the year. Our Investment Consultants have a continual review programme of all the Fund's Investment Managers. The Consultants will let the Fund know if there are any concerns, changes, or performance issues we need to consider or act upon.

Activity

Investment Advice

The Fund takes investment advice from its Investment Consultants and Independent Advisor. In addition, the Fund seek expert advice in various areas such as Governance, Legal and ESG projects. These advisors allow the Fund to monitor all aspects of performance including ensuring the Investment managers are meeting their objectives and adhering to our principles.

Investment Consultants are set a range of objectives annually which are then assessed to ensure they are carrying out there role effectively and in line with the service procured.

The Investment Consultants produce quarterly reports covering a wide range of investment topics such as Investment Manager performance including any areas of concern, strategy, manager implementation, ESG assessment reports. These reports and recommendations are presented to the Pension Committee for approval.

The Investment Consultants are also part of the Investment Implementation Working Group which includes the Independent Adviser and senior officers. This group meet outside of the Pension Committee to ensure investments are monitored and considered between quarterly meetings and the group discuss key market changes, or investment manager issues, impact analysis, voting, ESG and engagement as well as progress in implementing the Pension Committees decisions.

Committee and Board

The Pension Committee and Pension Board meet quarterly after receiving details on the investment performance. They assess investment activities and the course of action for any change. Managers present on request to committee members. All committee papers can be found at Browse meetings - Pension Committee | East Sussex County Council.

Fund Officers

The Fund officers engage directly with Investment Managers to monitor performance. Investment managers are responsive, and discussion and commentary provided ensures we maintain good Fund performance, oversight of the underlying managers and can challenge on ESG standards. Investment Managers report relative to benchmarks, where applicable, to demonstrate performance. The Fund meets each manager at least once a year with a set agenda and focus on key geopolitical or market issues relevant at the time as well as a strong focus on RI and progress on ESG.

Investment Manager Stewardship Code and collaborative engagement membership

In addition to its own commitment to the Stewardship code the Fund expects its investment managers to also be signatories to the Stewardship Code, PRI, IICGCC and TCFD.

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

Pooling

As a partner Fund within the ACCESS LGPS pool, further work is also conducted at pool level. There are monthly Investment User Group meetings where Investment managers on the ACCESS platform are invited to meet with the partner Fund's to discuss their performance, key focus areas and enables Fund's to challenge the managers on various aspects of their activity including RI and stewardship.

There is quarterly reporting produced for all ACCESS Fund managers which is reported to the Joint Committee for review and discussion. This report covers performance, scale of assets invested within the pool and voting as well as a market overview. The ACCESS active liquid managers are held within an Authorised Contractual Scheme (ACS) which is managed by Link Asset Management solutions who are the FCA regulated element of the ACCESS pool. Link carry out significant due diligence and manager monitoring on the partner Fund's behalf. Link hold the direct IMA (Investment Management Agreement) and agree the Fund prospectus with the Investment Managers rather than us as a Fund.

The ACCESS pool also consolidates the voting results of the Investment Managers within the ACS including any explanations for managers that have not complied with voting policy. This information is shared with the underlying partner Fund's where we can consider and review the relevant voting decisions.

Reporting and Review

The Fund conduct annual Carbon Footprint reporting of the portfolio and has three years of assessment from the same provider. This looks at where the Fund's managers have amended the portfolio and how that has affected carbon footprint impact. This allows the Fund to identify where managers portfolios are reducing in carbon emissions. The reporting also identifies where the underlying companies within the mandates are on their transition pathway reporting, this is particularly important for challenging Investment managers if a company is an intense emitter but also deemed to have a poor energy transition plan in place.

As part of the Fund's production of its quarterly engagement and voting report, the Fund engages with managers on their activity for the quarter and this can lead to additional challenge at manager review meetings to dig further into approaches and considerations for the portfolio construction.

ESG Impact Assessment

The Fund receive an annual report from its investment consultants analysing the Investment Managers over a range of assessment criteria to capture the ESG capabilities of the managers. There are additional sustainability criteria for the managers that have a specific sustainability mandate.

The assessment criteria cover

- Risk Management
- Approach and framework
- Voting and Engagement
- Reporting
- Collaboration

With regards to ESG the Fund scored above satisfactory at 2.4, meaning the investments held have scored strongly on the majority of ESG criteria.

Outcome

The Fund pushes for meetings with external managers and consultants in a way that adds value to its members. The Fund believes integrating ESG opportunities and ESG risk mitigation can have a positive impact to the Fund's investment performance and aligns with the Fund's RI beliefs. The Fund continue to review Investment Managers and other contractual partners policies to ensure alignment with our own position. We have high expectations for our managers and their prioritisation of ESG standards and look for other advisers and suppliers to have stewardship arrangements in place. All third-party supplier commitments to responsible investment activities and collaborative groups are included in the Fund's quarterly ESG reporting to add to the transparency of how embedded the principles of sustainability are to the Fund and its suppliers. The list of supplier commitments have increased during the year with new service providers and new initiatives of existing providers.

The Fund's Statement of Responsible Investment Principles sets out how we expect external managers to function as well as how the Fund will approach decision making, RI and stewardship.

The Fund's ESG impact assessment in July 2022 identified that 9 Investment managers met the traditional criteria set by the consultant, while a further 3 met additional sustainable criteria (the highest ranking). In addition to the 2021 report, the consultant included a consideration of climate risk integration by managers.

The Fund meet with Investment managers throughout the year, where we challenge managers on voting activity carried out on the Fund's behalf; discussion on the purpose of why specific holdings are in the portfolio considering value added and risk characteristics; performance over the short, medium and long term and how the managers are responding to macroeconomic and geopolitical changes in the markets. In 2022 with increased market volatility the Fund spent significant time challenging investment managers over how they anticipated the mandates to respond to high inflation and a low growth environment Through this process the Fund were able to stay ahead in expectations of investment performance over the year and utilise flexibility in the strategy.

Monitoring of service providers

The Fund have set strategic objectives in which its Investment Consultants are assessed annually. This followed the CMA Investment Consultancy and Fiduciary Management Market Investigation Order 2019 which placed new obligations on pension schemes for Fiduciary Management and Investment Consultancy Services, setting objectives for Investment Consultants. The objectives were approved by the Pension Committee in March 2021 and have been reported to the CMA in each subsequent year. The Investment Consultants are assessed mapping a set of objectives to the Fund's own objectives. The objectives outline the expectations of the Consultant to help the Fund achieve its key priorities and define the outcomes and measurement for assessment. The assessment of the Investment Consultants considers the returns of the investment strategy in line with the funding level requirements; liquidity of the fund and income; a focus on risk; solutions to be proactively given where investment strategy requires amendment; a strict approach to compliance; and sufficient knowledge to ensure value for money arrangements are achieved. The Fund's Investment Consultants were assessed to be in compliance with their objectives in 2022, giving assurance to the Pension Committee that the consultant is working in line with the strategic and overriding objectives of the Fund.

2022 Example of the Fund holding a manager to account

The Pension Committee expressed concern over sewage discharges resulting in fines to Southern Water, held within one of the UBS infrastructure mandates. The Committee engaged with the investment manager on this issue through letters throughout 2021 and a meeting in January 2022. The manager holds an increasing smaller minority position in this investment and has limited control. The investment is an illiquid close ended investment, so there is limited ability to exit the position, however the Fund took comfort in the lessons learnt by the manager regarding control structures which are in place in the managers later investments. The manager and Fund continue to monitor and assess the investment.

Holding managers to account
Reappointment of directors in large oil and gas companies

In 2022 the Fund challenged it's Investment Managers on why there were no oppositions to the reappointment of directors and non-executive directors where oil and gas majors were still committing capital to extraction activities. This request was to understand how the managers viewed the governance arrangements at these companies and the future direction in which these companies will take to ensure they continue to be investible in the medium to long term with the energy transition.

In reaching out to the Investment Managers to discuss the topic following the quarter 2 AGM's, the Fund were able to better understand the position of the manager in their engagement and research activities and the risks that major changes to a Board of Directors can have on the longevity of a company.

Information obtained from the manager on this area of challenge is highlighted below.

"With respect to voting in favour of the re-appointment (or appointment) of non-executive directors, we make the point that approving an appropriate climate change strategy, including balancing the need to decarbonise with societal demand for product, sits alongside other duties to the company, including safety performance, capital allocation and generating a return to shareholders. Further, in any company, we look for appropriate skills and experience on the board and, continuity among members of that board. By which we mean, we neither want to see a board comprised of directors all with 1 to 2 years of service nor 8 or 9 years of service. One implies poor succession planning, the other is an indicator of poor governance. If we felt engagement with a company has failed, but we still consider the company fundamentally attractive from a risk-return view and its strategy appropriate, we may (and have in the past) voted against individual directors."

In the specific companies where the questions were directed the Investment manager confirmed they had engaged with the company at executive and non-executive level and went on to highlight areas of key engagement with each of the companies.

Principle 9

Signatories engage with issuers to maintain or enhance the value of assets

Overview

The Fund invests through a range of Investment Managers rather than through direct investments, as a result, much of the Fund's engagement to underlying companies is allocated to Investment Managers or is conducted though collaborative engagement groups such as LAPFF. The Fund carries out its responsibilities of engagement by challenging the Investment Managers over their engagement activities on assets within the portfolio or investment rational for specific holdings.

Activity

The Fund meet regularly with Investment Managers and discusses RI topics and specific holdings to ensure the value at risk of investments is in an acceptable range and the value of beneficiaries' investments are secure. If we believe an Investment Managers strategy is not aligned with our values, we will raise it with the manager for their rationale and further details, and take action to try to ensure our values are better incorporated.

The Fund currently uses mostly active Investment Managers to facilitate effective engagement with underlying holdings and to ensure the types of investments in the portfolio are aligned with the Fund's investment beliefs. Significant due diligence is carried out on an investment managers methodology and integration of ESG issues - including engagement activity before an investment is made.

Both active and passive managers, have a requirement to be responsible investors and are expected to act as good stewards for the companies they invest in. The Fund expects managers to sign up to the Stewardship Code or other local equivalent for Investment managers outside the UK. The Fund requests information from its managers on a quarterly basis on engagement activity, whether this is in a formal published document or as an update to the Fund specifically. The Fund is talking to all managers to encourage them to publish this information quarterly for increased transparency to investors and interested stakeholders.

At meetings with the Investment Managers, discussions take place on a range of engagement topics including carbon emissions, physical and transitional climate risk, biodiversity, diversity of boards, mining risks, holdings in defence companies, holdings in occupied territories, retrofitting of properties and many others.

Challenge on holdings to managers is targeted from a number of activities including companies with intense or high carbon emissions or limited transition plans as identified through the annual carbon foot printing reporting; companies within industries covered by the Transition Pathway Initiative (TPI) where companies management quality score is rated low by the TPI or Carbon performance is not considered to be aligned with the Paris agreement; companies where beneficiaries or stakeholders identify a possible concern based on an ESG principle such as human rights; or companies that have been highlighted by the LAPFF on poor practices.

Investment Manager Engagements

The Fund publishes a quarterly report on the engagement of the Fund's Investment managers and has started to comment on engagement activities of the Fund directly. These Manager Engagements reports can be found on the Fund's website.

Example of Fossil fuel company engagement

Shell
Manager – Ruffer

Topic: Climate and Capital

Shell invited Ruffer to meet with the newly appointed Chief Financial Officer, Sinead Gorman, to discuss strategy and recent results as a part of a wider group meeting. The key topics of discussion were Shell's capital programme, and its shareholder returns framework.

Ruffer were not satisfied with the coherence of Shell's energy transition spending plan, nor its consistency with the company's strengths, and will be monitoring the company's response to investors' concerns over the coming quarters.

Ruffer have long supported Shell's differentiated approach to the energy transition by targeting electric vehicle charging, but the company had recently announced a move into the commoditised renewable power space, mainly solar and offshore wind energy. Ruffer anticipate challenges in finding genuine differentiation in this area and will monitor the company's progress closely.

Outcome

All the Fund's managers are required to report on their engagement activity on a regular basis and exercise the voting rights in relation to the Fund's investments as far as practical. This will continue to be the case when further assets are invested through the ACCESS pool.

We can see from the quarterly ESG statements and especially amongst our impact fund managers biodiversity is becoming as important as climate which we encourage.

Major areas of focus have been on fossil fuel exposure challenging managers on their engagement activities to help drive these companies to transition. The Fund's holdings of these companies have fallen over the past year and the remaining holdings are held through active managers where there is a rational for the holding to help reduce real world emissions.

As well as fossil fuels the Fund updated its published statement on exposure to occupied territories companies with possible human rights concerns.

Example of Company Engagement - Manager – Osmosis

Company under engagement – Bunge

Bunge are an American agribusiness and food company who embrace the power of connection toward a common, global goal of continued sustainable growth. They bring products from where they're grown to where they're processed and to where they're consumed, connecting farmers to consumers to deliver essential food, feed and fuel to the world.

Topics discussed: AGM vote feedback, Climate, Deforestation, Biodiversity

"We engaged with Bunge's Sustainability team on voting, carbon reduction targets, biodiversity and human rights. Although there are still areas for improvement, it is clear that Bunge has increased its commitments overall. We encouraged Bunge to get more ambitious on their SBTi targets, to target 1.5DS and setting short, mid- and long-term targets. The company mentioned that achieving the 2025 no-deforestation target would be a substantial contributor to the overall climate ambition. Despite big consumer brands move towards 'greener' products, the demand for certified products is still marginal and price guides most purchase decisions. As it relates to biodiversity, they are still working as part of TNFD (Taskforce on Nature-Related Financial Disclosure) to identify the right metrics. They are hiring a Head of Human Rights at group level who will coordinate and support policy updates and grievance processes. We will be catching up with Bunge early next year on these topics"

Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers

Overview

Although the Pension Fund has delegated investment management activity to its external investment managers. The Fund believes that Collaboration with other asset owners and Investment Managers is an effective way to help improve the effectiveness when exercising 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 also encourages all its Investment Managers' to be signed up to these collaborations and to demonstrate effective stewardship through adherence to the UK Stewardship Code 2020, however they can sign up to any collaboration entitative that they believe to benefit the Fund.

The Fund is a member of the ACCESS pool, which it uses to access more than half of its investments. The 11 partner Fund's in ACCESS have collectively pooled £34bn. ACCESS are collaborating on RI activities through unified RI guidelines which set the framework for the Investment Managers and enable them to use the combined weight of capital of the ACCESS authorities to positively engage with the companies they invest with.

Collaboration is the fundamental working principle of ACCESS, with a culture of regular dialogue and engagement across the pool, a track record of consensus between the Authorities has been built.

Activity

Collaborations

The Fund seeks to collaborate with like-minded institutional shareholders to maximise the influence that it can have on individual companies.

Institutional Investors Group on Climate Change (IIGCC)

IIGCC has the collective weight of over $65 trillion from over 400 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.

IIGCC and Investor Practices

In 2022 the IIGCC and its members have put forward guidance for three new asset classes,; infrastructure, derivatives and hedge funds, and private equity. Soon NZIF (Net Zero Engagement Initiative) will provide guidance for most major asset classes in a typical investment portfolio. A working group has also been formed to address the urgency of physical climate risk for investment portfolios. In 2022 hundreds of asset managers and owners disclosed their initial net zero targets, and showed that NZIF is the most utilised net zero methodology for investors across GFANZ (Glasgow Financial Alliance for Net Zero).

IIGCC and Climate Action 100+

As a member of IIGCC, the Fund is exposure to Climate Action 100+, in addition a number of the Fund's managers are members of Climate Action 100+ and lead on various engagements.

Climate Action 100+ investors have committed to engage with the world's largest corporate greenhouse gas emitters to improve their climate performance and ensure transparent disclosure of emissions. The group is made up of more than 400 investors, responsible for over $65 trillion in assets under management, are engaging companies on improving climate change governance, cutting emissions, and strengthening climate-related financial disclosures. Climate Action 100+ is focused on companies that are key to driving the global net-zero emissions transition. Climate 100+ Net Zero Company Benchmark results showed that engagements supported by IIGCC accounted for 48% of all global improvements between March and October 2022.

IIGCC Engagement Example

In January of 2022, the IIGCC published an open letter calling for gas to be excluded from the EU Taxonomy. Following previous letters to President von der Leyen and Commissioner McGuinness, IIGCC has published an open letter to EU Member State representatives and MEPs calling for gas to be excluded from the EU Taxonomy. Investors are using the EU Taxonomy to assess alignment of their portfolios and investments with net zero emissions. As such, they view the Taxonomy as a cornerstone for Europe's sustainable finance agenda, both from a regulatory perspective and in terms of the wider political signal it sends to financial institutions and corporates in the EU and beyond. As we have previously stated, IIGCC strongly supports the alignment of the Taxonomy with net zero emissions, and with a science-based approach. As a result, we remain strongly opposed to any inclusion of gas within the scope of the Taxonomy.

Local Authority Pension Fund Forum (LAPFF)

The Fund as a member of LAPFF intends to continue that relationship indefinitely. LAPFF engages with companies over environmental, social and governance issues on behalf of its members. The advantage of collective engagement is that there is greater leverage over the company due to the pooling of holdings.

LAPFF is unique in its engagement approach in that it is a collaborative engagement group made up of institutions with a common purpose and shared values. LAPFF gives a voice to those in effected communities rather than just engaging with the management boards of companies to give a much deeper understanding of the impact of those companies. LAPFF members choose what engagements to pursue and who to target as this is put forward to the membership at its business meeting to agree. LAPFF members take the lead and set the tone in each engagement meeting – the engagement is an authentic voice speaking on behalf of the Pension Fund beneficiaries and not an investment bank which may be unusual for many boards in engagement activities.

The Forum speaks on behalf of all LSPF Fund members with a single voice that carries the weight of more than £300bn in assets under management, placing Forum members in the top 60 asset manager in the world in scale of AUM voice, to get the attention of corporate boards, politicians, or regulatory body.

LAPFF Engagement example 2022

For three years LAPFF has been engaging with Chipotle regarding its water stewardship. To better understand the business's impact on local watersheds, it has encouraged the company to undertake a full value chain water risk assessment. Due to this pressure, the company completed a materiality assessment covering its ingredients, supply chain and restaurants. Now that the company has a better understanding of the water related risks facing the business, the next phase of the stewardship plan is to develop context based targets that relate specifically to areas of the operations under high water stress.

LAPFF Executive Committee

In addition to being a member of LAPFF, the Head of Pensions at the Fund was appointed to the LAPFF Executive Committee in October 2021 and continued on the Executive in 2022. As result the Fund is much more involved in the strategy of this engagement group and the Head of Pensions attending engagement calls with target companies on behalf of the other LGPS member Fund's.

LAPFF Engagement example with the Fund's Head of Pensions

July 2022

Mizuho Bank – 2nd engagement call with the company

Objective: Following a collaborative meeting in July that confirmed medium-term targets had been established for carbon intensity of the electric power sector, more information was sought on the transitional pathway and strategy Mizuho has developed to achieve these targets.

Achieved: Further detail was provided on targets, based on the lower end of the International Energy Agency (IEA) Net Zero Emissions by 2050 Scenario, and the upper end of the IEA's Sustainable Development Scenario. Mizuho has an engagement policy to support clients' capabilities for dealing with transition risks, whereby a review is triggered if the client shows no willingness or strategy to address transition risks after one year of engagement.

In Progress: LAPFF continues to engage collaboratively with a range of Asia-based utilities and financial companies, including ongoing dialogue with Mizuho.

LAPFF Engagement example with the Fund's Head of Pensions

February 2022

Dell - Uyghur Engagement

Objective: The Uyghurs, a Turkic ethnic group native to Xinjiang in China, and other Muslim groups in the region, have reportedly been detained against their will for a number of years. There have been instances of evidence of Uyghurs being used for forced labour in the region, amongst other accusations of human rights violations. A large number of companies have been instigated in having instances of Uyghur forced labour in their supply chains, most notably by the Australian Strategic Policy Institute (ASPI) in February 2020. LAPFF initially reached out to eight companies to discuss supply chain due diligence and to ascertain whether these companies had found instances of Uyghur forced labour in their supply chain.

Achieved: To date, LAPFF has met with two of the eight companies, Dell and Cisco, and has had correspondence on the matter with a further two. Tesco has agreed to a meeting in May 2022, shortly after publishing the annual report and sustainability materials, whilst Microsoft also provided further details. Both Dell and Cisco provided similar responses during the meeting, noting that they had not found any instances of Uyghur forced labour in their due diligence processes. Both companies are members of the Responsible Business Alliance and conduct audits with its assistance. Given the complexity of technological supply chains, it was unclear how far down the audit process went for either company. Both Dell and Cisco appeared to take on board feedback from LAPFF, encouraging for better transparency around reporting, particularly on the topics of modern slavery, grievance mechanisms on whistleblowing, and more examples of precisely what serious findings they find in their audits, and how they remedy this.

In Progress: LAPFF has joined around 60 investors in a working group, coordinated by the Investor Alliance for Human Rights. This provides the opportunity to collaborate going forward and corroborate notes and engagement strategies with a host of other investors. LAPFF will be seeking meetings with those companies that have yet to respond, alongside Microsoft who provided further detail.

Principle of Responsible Investment (PRI)

The Pension Fund is a signatory to the PRI who encourages investors to use responsible investment to enhance returns and better manage risks but does not operate for its own profit; it engages with global policymakers but is not associated with any government; it is supported by, but not part of, the United Nations.

The PRI aim to work to a sustainable global financial system by encouraging adoption of the PRI Principles and collaboration on their implementation; by fostering good governance, integrity, and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures, and regulation.

The Fund has not yet completed its submission to the PRI as it became a signatory in 2020. The PRI were not accepting submissions in 2022, so the Fund will submit its first report when there is a submission window in 2023. As a signatory of PRI, we are committed to collaborating with other signatories to improve and contribute to developing a sustainable global financial system.

Outcome

Collaborative engagement has meant that the Fund is able to engage with companies who would not otherwise be willing to speak directly to the Fund.

Using its collective power, the Fund's engagement partner LAPFF on behalf of the LGPS have made some marked progress in mining companies in relation to tailings dams and across oil and gas sectors and annually review the engagement priorities in liaison with the member Fund's.

As part of its collaborative engagement the Fund was among a record number of signatories to a Global Investor Statement which urges governments to radically step up their ambition on climate policy – the most ambitious global climate statement from investors in history. More details around this commitment can be found here.

The Fund have been able to take active part within the collaborative engagement activities with the Head of Pensions on the executive Committee for LAPFF to help drive strategy and carry out the engagements directly with the underlying companies and with the Chair of Pension Committee sitting on the IIGCC Corporate Programme Advisory Group.

The Fund also actively feed into research areas and attend webinars to help the industry move forward with practical examples, tis can be seen with attendance at Pensions for Purposes events as well as responding to consultations such as the government Climate reporting consultation for the LGPS in November 2022.

Example engagement through collaborative partners with policy makers

IIGCC letter on EU Energy Performance of Buildings Directive (EPBD)

December 2022

Ahead of the European Parliament setting its position on the recast Energy Performance of Buildings Directive (EPBD) in January 2023, IIGCC sent a letter to key Members of the European Parliament (MEPs) on December 2nd 2022, emphasising our strong support for an ambitious outcome. It was also sent in parallel to the other EU Institutions. Investors will be critical for the meeting the objectives of the recast EPBD; IIGCC emphasises the need for strong signals to accelerate private sector investment in buildings' energy efficiency, finance deep retrofits, and support the acceleration of transition finance flows in line with the EU's sustainable finance agenda. The letter contains several specific points that IIGCC wishes to see reflected in the EPBD in order to achieve this. IIGCC will continue to liaise with MEPs on the EPBD to represent the investor perspective

Example engagement through collaborative partners with policy makers

Principles of Responsible Investment (PRI)

European Union

The PRI, Eurosif, Investor Alliance for Human Rights and 142 undersigned signatories (representing approximately 1.5 trillion USD in AUM) welcome the European Commission's CSDD proposal. This statement raises 5 key recommendations to create an ambitious and effective directive, which works for investors, complements the existing EU legislation and is aligned with international standards including the UN Guiding Principles on Business and Human Rights (UNGPs) and OECD Guidelines for Multinational Enterprises.

Example company engagement with LAPFF

Glencore

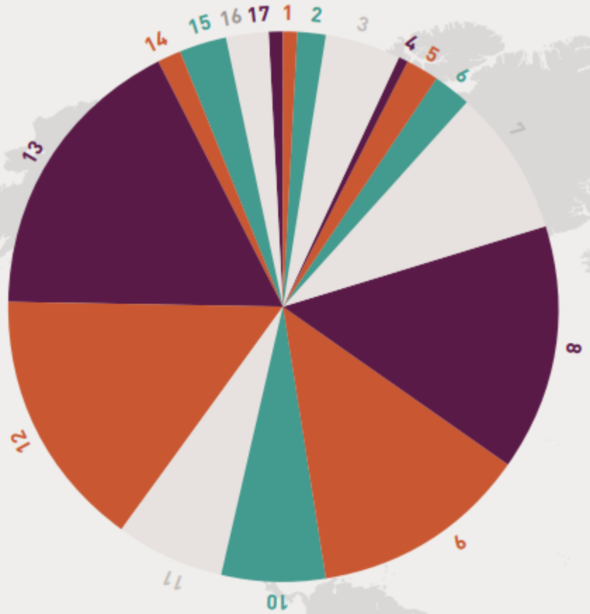
Objective: Although LAPFF was keen to meet Anglo American, BHP, and Vale in relation to its Brazil visit, it wanted to share its findings and observations with other mining companies covered in LAPFF's mining and human rights report issued earlier this year. Therefore, Cllr McMurdo met with Glencore Chair, Kalidas Madhavpeddi, to talk about LAPFF's work in Brazil, to discuss concerns community members in Peru have raised about Glencore's activities in that country, and to discuss various bribery and corruption allegations against the company. Glencore's approach to climate was also discussed.

Achieved: For a number of years, LAPFF had requested that Glencore undertake an independent assessment of the company's internal controls. This request stemmed from an investor collaboration spearheaded by Sarasin when details of Glencore's business relationships in the Democratic Republic of Congo raised concerns of bribery and corruption. Although Glencore does not appear to have heeded this request, the company has now entered settlements in numerous countries in relation to various bribery and corruption allegations. It is hoped that these settlements will place internal control requirements on Glencore to prevent the occurrence of future problems in this area.

In Progress: LAPFF is hearing concerns from community members affected by Glencore's operations in Peru that are eerily similar to those LAPFF encountered in Brazil, Colombia, Mexico, Papua New Guinea, and elsewhere. Namely, communities allege that mining companies have polluted, and are continuing to pollute, their water. The companies respond by stating that the water is naturally polluted. LAPFF needs to investigate to understand what is happening in these situations.

LAPFF 2022 Annual Report Engagement Statistics

LAPFF ENGAGEMENT STATISTICS

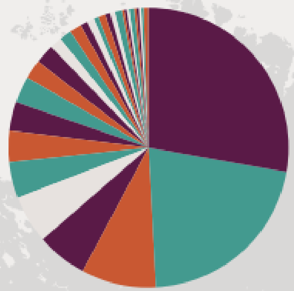


LAPFF SDG ENGAGEMENTS

Goal	
1 No Poverty	10
2 Zero Hunger	14
3 Good Health and Well-Being	42
4 Quality Education	5
5 Gender Equality	20
6 Clean Water and Sanitation	20
7 Affordable and Clean Energy	81
8 Decent Work and Economic Growth	137
9 Industry, Innovation, and Infrastructure	120
10 Reduced Inequalities	57
11 Sustainable Cities and Communities	61
12 Responsible Production and Consumption	144
13 Climate Action	163
14 Life Below Water	13
15 Life on Land	26
16 Peace, Justice, and Strong Institutions	24
17 Partnership for the Goals	6

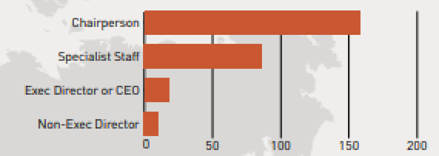
The charts included here do not include 385 letters sent to the FTSE AllShare on putting a climate transition plan to shareholders for approval at the AGM. Letters were not sent to investment trusts or companies that had already committed to doing so. Excluding this engagement, LAPFF engaged with 159 companies.

DOMICILES

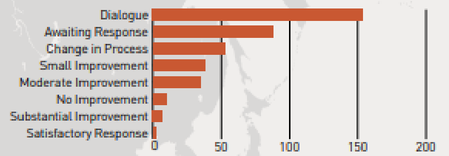


United Kingdom	84
USA	64
Japan	26
Germany	18
France	17
Luxembourg	12
Brazil	11
Australia	10
PR China	9
Switzerland	7
Israel	7
Russia	4
Norway	4
Jersey	4
Sweden	3
Singapore	2
Ireland	2
Thailand	2
India	2
Spain	2
Hong Kong	2
Poland	1
Malaysia	1
Denmark	1
Netherlands	1
Italy	1
Kenya	1
Austria	1
Korea Republic	1
Czechia	1

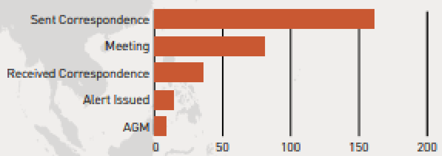
POSITIONS



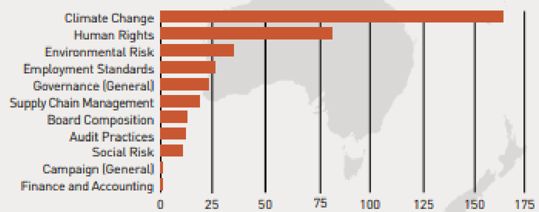
MEETING ENGAGEMENT OUTCOMES



ACTIVITY



TOPIC



Principle 11

Signatories where necessary, escalate stewardship activities to influence issuers

Overview

We expect investment managers to take responsibility for day-to-day interaction and take the appropriate action when operating on the Fund's behalf while engaging in stewardship activities, this includes actions to escalate their approach when appropriate. The Fund discuss emerging issues and priorities at the Investment Implementation Working Group, alongside the Investment Consultants and Independent Adviser. These issues then form the basis for discussions with the investment managers where it has felt issues needed to be called into question or challenged.

Activity

As laid out under principles 9 and 10 the Fund meet regularly with Investment Managers and discuss RI topics and specific holdings to ensure the value at risk of investments is in an acceptable range and the value of beneficiaries investments are secure through these investments.

Within the Fund's Statement of Responsible Investment Principle's the Fund seeks to influence companies through engagement. The Fund will engage with the investee companies and appointed managers, either directly or via their collaborative partners. Where material risks remain following engagement activity, we 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.

Escalation of action can take place through voting where management of companies are not engaging or making adequate changes.

Escalation will Collaborative Partners

LAPFF engaged with 159 companies during 2022 and had numerous engagement meetings with companies such as Rio Tinto, Resolution Copper, Glencore, Freeport Mcmoran, BP and Shell.

LAPFF issued 72 voting alerts in 2022, these voting alerts are issued to members when it is felt that engagements need to be escalated.

Companies where a voting alert was necessary due to inaction of Investee companies were:

Alphabet, Amazon, Apple, Barclays, BP, Caterpillar, Drax Group, Dollar Tree, Electric Power Development CO, Glencore, Meta, Monster Beverage Corp, National Grid, Rio Tinto, Shell, Standard Chartered, SSE, Sumitomo Mitsui Financial Group, and Vale,

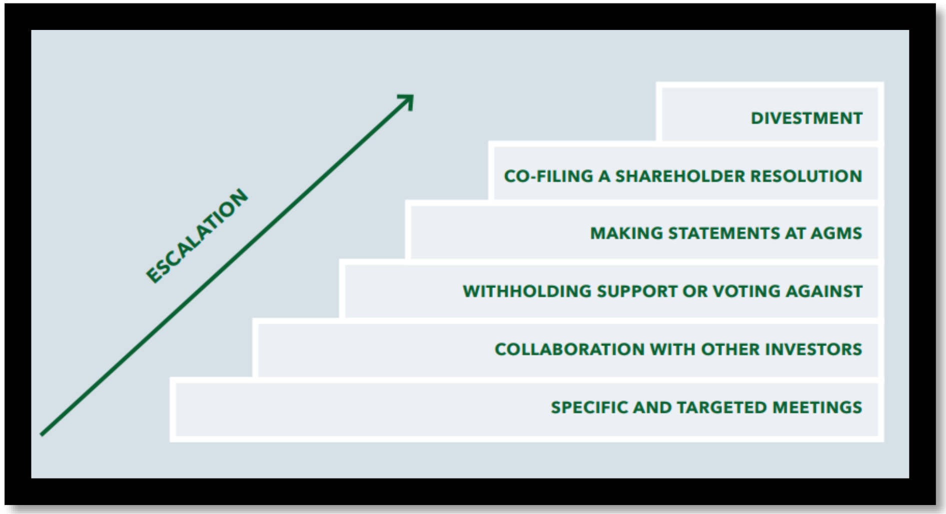
Escalation Example

Storebrand has placed the Swedish company Eolus Vind on its Observation List and has recommended measures to be taken by the company to address risks pertaining to potential human rights violations. Enabling a just transition to a carbon neutral economy will require investments in renewable energy, but such investments must also respect the rights of indigenous peoples and other vulnerable groups, says Jan Erik Saugestad, CEO of Storebrand Asset Management. According to Storebrand's procedures, we expect companies under observation to show improvement within a pre-determined time, in order to be removed from this status. If the improvements are not achieved.

Storebrand asks Eolus Vind AB to:

1) Carry out a new and proper consultation process, with Jillen-Njaarke reindeer herding district, to seek their Free, Prior and Informed Consent (FPIC) about the wind park's continued operation, including mitigating measures that should be taken to allow unhindered access to winter grazing area number 5. The consultation should involve the affected indigenous people from the beginning, according to international best practice standards. The needs and input from members of Jillen-Njaarke reindeer herding district must be given weight and the company mush show willingness to make the changes needed to allow co-existence of the wind park with continued reindeer husbandry in the area.

2) Adopt a policy on respect for indigenous peoples' rights, to be applied in all the company's projects henceforth.

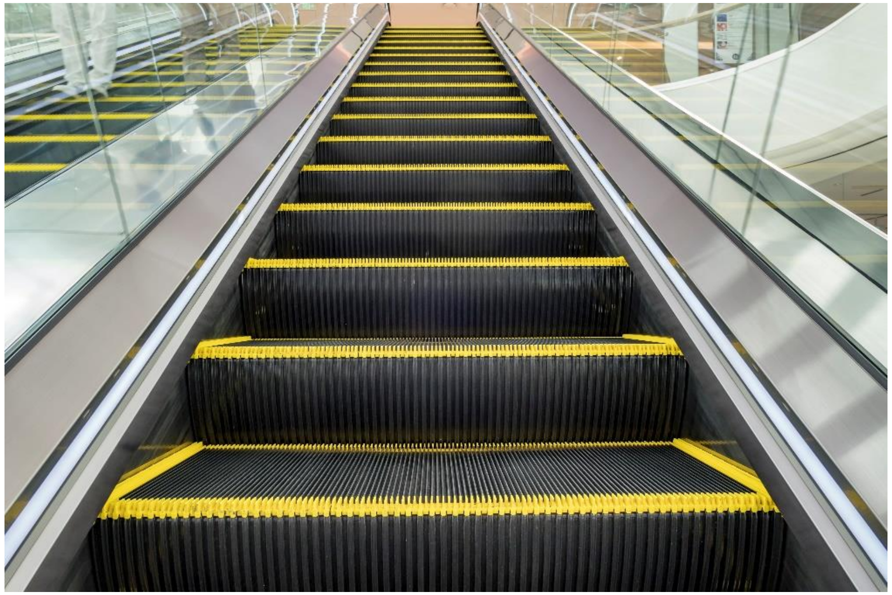


Escalation process of Ruffer – Diversified Growth Fund Investment Manager of the Fund

Outcome

Engagement and divestment can work together for escalation, where managers engagement activities with investee companies are deemed ineffective the Fund expect the manager to escalate through voting, shareholder resolutions or sale of that company. 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. The failure of engaging suggests there are other governance and other risks within the underlying company.

Escalation activities in the Fund are mostly seen through voting alerts from LAPFF to 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.

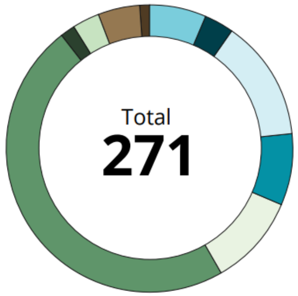


Example Escalation

Storebrand

Nine companies were newly excluded in the third quarter of 2022 under the Storebrand Standard. Seven of the new exclusions were related to climate change and coal exposure, the other two, Porsche Automobil Holding SE was excluded based on conduct and ArelorMittal was excluded based on involvement in controversial weapons.

Companies excluded under the Storebrand Standard, as of September 30th, 2022



Category	Newly excluded	All excluded
Conduct - environment	1	19
Conduct - corruption and financial crime	2	10
Conduct - human rights and international law	0	40
Tobacco	0	24
Controversial weapons	1	30
Climate - coal	7	141
Climate - lobbying	0	5
Climate - oil sands	0	9
Deforestation	0	14
Cannabis	0	0
State-controlled companies	0	3

* Note: Some companies are excluded under several categories

During the third quarter, Berkshire Hathaway Energy was excluded. This was a product-based exclusion in line with the climate criteria for involvement with coal. The Iowa-based holding company owns several US-based companies across the energy sector, as well as controlling power distribution companies in the U.K. and Canada.

Principle 12

Signatories actively exercise their right and responsibilities

Overview

The 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. The Fund's managers have written guidelines of their process and practice, 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 LGPS Investment Regulation 7(2)(f). The Fund's investment managers also file or co-file shareholder resolutions on important issues at the investee companies in the interests of agitating for better governance. In addition managers engage with investee companies on material ESG issues. 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. There is a requirement for the investment manager to explain the rationale for its decisions and ultimately the committee has the option to disinvest if it is dissatisfied with the manager's decisions.

Activity

ACCESS Pool Voting

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 Fund accepts the investment manager will vote in line with its own policy, however there is still a requirement for the investment manager to explain the rationale for its decisions.

The Full ACCESS Voting policy can be seen here

Examples within the ACCESS voting policy:

Vote for:

- Adoption of Report and Accounts unless Auditors Report is qualified.
- The annual report should include a separate section that describes the work of the Audit Committee.
- All directors should be subject to regular re-election, at least every three years.
- Long term incentive schemes should be based on challenging performance targets over a consecutive period of at least three years. Therefore, performance targets for minimum rewards should be based on at least producing median performance for the industry or average market returns.
- All political donations should be fully disclosed and justified. Any political donations should be subject to a separate vote.
- The company should publish a formal statement setting out its approach to dealing with environmental issues.

Vote against:

- The Report and Accounts are not considered to present a true and fair view of the company's financial position.
- The re-appointment of the auditors where the fees for non-audit work are material and exceed the fee for audit work.
- The election of an executive director, who is not subject to re-election by rotation at least every three years.
- Election of a chairman where the candidate combines the roles of Chairman and Chief Executive, unless there are exceptional circumstances e.g., a temporary arrangement, pending separation of the posts
- Proposed dividend and special dividends which are not covered by earnings and the company offers no explanation of policy.
- Annual report, where significant environmental risks in relation to the company's activities are not disclosed or reported on or reporting is considered poor or inadequate.

Example Quarter Voting

WHEB

Number of Vote-able meetings	Resolutions voted	Votes for	Votes against
6	66	54	10

Abstained/ Withheld/ Did not vote	With management	Against management
1	54	12

Note: All data displayed is fund specific, not at fund manager level

The Fund's listed equity managers and their voting approaches

Longview - Equities – within the ACCESS pool – Votes in line with ACCESS Guidelines

Newton - Diversified Growth Fund - within the ACCESS pool – Votes in line with ACCESS Guidelines

Storebrand – Equities – outside the ACCESS pool – Storebrand own voting policy – available here

Wellington - Equities – outside the ACCESS pool – Wellington own voting policy – available here

WHEB - Equities – outside the ACCESS pool – WHEB own voting policy - available here

UBS Osmosis index - Equities – ACCESS pool aligned passive – Votes in line with ACCESS Guidelines

Ruffer - Diversified Growth Fund - within the ACCESS pool – Votes in line with ACCESS Guidelines

Baillie Gifford - Equities – within the ACCESS pool – Votes in line with ACCESS Guidelines

Atlas – Listed Infrastructure – outside the ACCESS pool - Atlas own voting policy – available here

Reporting

To ensure that the managers are fulfilling their duties, the Fund requires the Investment Manager's to report on their engagement with company management and voting record, highlighting any instances that they voted against company management or did not follow its policy. The Fund discuss specific issues when they arise and undertakes an ESG impact assessment by a third party to assess its managers adherence to its stated policies.

The Fund produce and publish a voting and engagement report quarterly, to demonstrate implementation of the Principles and to promote them. The Committee review asset manager voting and engagement through sight of the engagement reports at the Pension Committee meetings.

In addition to the Fund's reporting and assessment of the voting, the ACCESS pool collate and report the voting of all the managers within the ACCESS LGPS 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.

In 2022 the Fund made a focused change to review the reasons for any non-alignment with the voting policy and ensure it is sufficiently robust as an explanation – the Fund have identified a manager which it has discussed the voting explanations with. In addition the Fund will look at contentious voting items or companies where there is engagement activity and will raise questions on relevant votes.

All the Fund's managers publicly report their voting actions which is then shared through the Fund's own reporting.

Examples Votes by managers

UBS Group AG, 06/04/2022, the manager voted against the management Climate Action Policy. The managers rationale for the decision was that a vote AGAINST this proposal is warranted given the apparent gaps in the company's climate reporting and lack of science-based target setting. While UBS Group has committed to a net-zero by 2050 ambition, the company has not disclosed a clear, forward-looking climate strategy, only disclosing some of the short, medium, and long-term targets, to substantiate how it will deliver on this ambition. This was a minority view of shareholders with the Climate roadmap being ratified through an advisory vote by 77.74%.

Alphabet Inc., 01/06/2022 the manager voted for the shareholder resolution for a report on Physical Risks of Climate Change. The manager highlighted that a vote FOR this proposal is warranted. Shareholders would benefit from increased disclosure regarding how the company is assessing and managing climate change risks.

Example LAPFF voting alerts

Apple Inc – ahead of the 2022 Apple AGM, LAPFF issued a voting alert focused on shareholder proposals covering human rights. These proposals included improved transparency regarding the removal of apps following concerns around freedom of expression in China, undertaking a civil rights audit, and reporting on policies and procedures to guard against forced labour. The alert recommended members vote in favour of these proposals as well as resolutions requesting better gender and ethnic pay gap reporting.

BHP - LAPFF attended a BHP webinar on the company's sustainability activities and met with CEO, Mike Henry, informing a position for a voting alert ahead of BHP's November AGM. The LAPFF Chair, Cllr Doug McMurdo, also met with the Australasian Centre for Corporate Responsibility (ACCR) to find out more about why the organisation filed three shareholder resolutions ahead of BHP's AGM. LAPFF issued a voting alert in favour of the ACCR resolutions, recommending that its members oppose the BHP Chair, Ken MacKenzie, and vote in favour of three shareholder resolutions aimed at improving the company's climate practices. While LAPFF was grateful to the CEO for meeting to discuss the shareholder resolutions put to the AGM, there is still concern that the company has denied a meeting on the Samarco tailings dam collapse that occurred in 2015. LAPFF is continuing to engage BHP on both human rights and climate, but the views of both parties diverge significantly at the moment.

In Progress: LAPFF will continue to issue voting alerts and attend AGMs as relevant and possible throughout the year.

The Fund's Investment managers were asked to vote in line with LAPFF recommendations or explain any differing voting action.

Collaborative Voting

The Fund believes that collaboration with other asset owners and Investment Managers an effective way to help improve the effectiveness when exercising 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 also encourages all of its Investment Managers to be signed up to these 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 asks Investment Managers to vote in accordance with voting alerts from LAPFF or explain why they have voted differently. 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.

Stock Lending

The Fund can take part in stock lending through its global custodian (Northern Trust). The Fund has not permitted stock lending in their segregated mandates since 2008. The manager of pooled funds may undertake a certain amount of stock lending on behalf of unitholders. If a pooled fund engages in this activity, the extent to which it does so is disclosed by the manager. The Fund has no direct control over stock lending in pooled funds. However, the arrangements within the ACCESS pool require that the stock is recalled in the event of a company meeting which the Investment manager wishes to ensure all voting rights can be utilised.

Example Engagement on Manager voting decisions

Shell AGM voting May 2022

In 2022 LAPPF issued a voting alert regarding Shell which recommended investors oppose the company's advisory vote on energy transition and vote for a resolution for request for climate targets to be aligned with the Paris Agreement. The Fund's Investment manager who had a position in this company, was asked for an explanation to the vote taken on these two resolutions to understand how the manager was carrying out the voting responsibilities on behalf of the Fund. In both cases the manager voted differently to the LAPFF recommendation. The Fund also asked the Investment Manager why all directors were voted for reappointment which showed confidence in the company's management team to secure an effective energy transition plan. The Investment manager confirmed that they had fully complied with the ACCESS voting policy in which the investment mandate required them to follow on a comply or explain basis, evidencing they were following instructions from the ACCESS LGPS investment pool under the portfolios mandate which is a bespoke voting policy. In addition, the manager confirmed they had supported the transition plan submitted by the management team as the company had actively engaged with shareholders following the 2021 AGM given the 11% dissent on that transition plan and 30% support for the shareholder resolution. The 2022 transition plan was more stringent for emissions reduction targets and continued to make process. The manager also noted that the company had been committing capital in clean technologies such as green hydrogen, CCS and renewables. The manager confirmed they were continuing to monitor the companies progress on newer technologies and have incorporated insights gained from ongoing engagements with Shell and felt at the time the company was listening to stakeholder feedback.

Following the engagement with the Investment Manager on their voting activity, the Fund obtained confidence that the manager was in the first place following the investment mandate set for it by the ACCESS pool, and that it could clearly explain its reasons for voting in a particular manner linking the vote to prior year voting decisions and ongoing engagement with the underlying company. It was felt that the activities of the manager reflected stewardship of the Fund's investment in this portfolio.

Outcome

Active stewardship through exercising voting rights have benefited Fund beneficiaries through the expertise of the investment managers research team as well as from research analysis feeding in from LAPFF to ensure that all votes are used, and votes are applied based on engagement discussions. It is important that there are clear priorities by our Investment Managers in ensuring the underlying companies are well managed, and well positioned from a risk perspective to generate return to the Fund and hold companies with robust valuations, with the objective of preserving and enhancing long term shareholder value.

The Fund expects that Investment Managers vote on all the shares they hold and monitors to this effect. Engagement with the Investment Managers' governance teams has proved successful in building relationships with companies in their transition to net-zero. Managers are required to report their stewardship activities to the Fund and to seek direction where required. As described above, each manager's approach is assessed by the Fund via each manager's written report, in monitoring meetings, and at Committee meetings. The Fund assesses the approaches taken by managers alongside each other and guidance provided by the LAPFF, for consistency and alignment of interests.

It's important that voting and engagement work hand in hand, so the Fund can influence the underlying companies in making improvements thought the selection and monitoring of the Investment Managers.

The voting guidelines for inclusion in the Investment Management Agreements were agreed by the ACCESS Funds and set out the matters of importance to the Council's and promote good corporate governance and management in the companies in which investments are made. In circumstances where investment managers do not adopt the positions set out in the guidelines, they are required to provide a robust explanation of the position adopted.

Example manager explanation on voting activity

Under the ACCESS voting guidelines there is a voting recommendation for opposing the reappointment of an audit firm where the tenure is over ten years.

The Fund review the voting decisions of Investment Managers quarterly and consider explanations associated with votes made in contrary to the ACCESS voting guidelines.

In May 2022 one of the Fund's Investment managers voted for the appointment of Prudential's auditors who had been in place for over 10 years. After looking at the explanation of the manager which stated "We believe auditor tenure is an important issue however do not require a change in auditor after ten years. We instead focus on if the company has a process in place to tender", the Fund felt this was insufficiently clear as to the specifics of the company and their audit arrangements to allow the Fund to gain confidence in the voting actions on our behalf. The Fund asked for further detail and received a more detailed explanation advising that the decision to vote for the auditors was linked to the knowledge that a new tender had been conducted in the year with a new contract starting in 2023. In addition, the audit partner of the current contract was on a mandatory 5 year term for rotation, this provided the Investment managers analysts confidence to continue supporting the re-appointment until the end of the contract the following year in the absence of any known controversies. This additional clarification of the reason to vote against the ACCESS voting guidelines gave a clear and robust understanding of the research and understanding the Investment manager had of this company and the risks of audit tenure.