Tyne and Wear Pension Fund

Stewardship Code Report 2022/23

Tyne and Wear Pension Fund

South Tyneside Council providing pension services for Tyne and Wear Pension Fund

South Tyneside Council

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Tyne and Wear Pension Fund

Stewardship Code Report 2022/23

Contents

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.

Context

Tyne and Wear Pension Fund (TWPF or the "Fund") operates under the Local Government Pension Scheme (LGPS). The LGPS operates on a 'funded' basis, this means that contributions from employees and employers are paid into a fund which is invested, and from which pensions are paid. The primary purpose of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death for their dependants, on a defined benefits (DB) basis. The Fund has a Vision Statement[1] which states that its primary goal is to provide an efficient, affordable and attractive pension arrangement that is regarded by employers and members as being an important and valued part of the employment package. To do this, the Fund will invest the assets in a responsible manner and seek to achieve sustainable, risk-adjusted returns on its investments, which in turn depend on investing in a sustainable economy, environment, and society. As further detailed later in the submission paper, the Fund largely delegates most stewardship functions, however it retains the key responsibilities for policy setting and outcomes, clearly communicating these to the managers and monitoring their actions.

South Tyneside is the administering authority for TWPF, so the Fund has adopted South Tyneside Council's Vision and Strategy.[2] The Vision and Strategy, states its ambition for all residents in South Tyneside to be financially secure, healthy and well, connected to jobs, skills and learning, and part of strong communities. The purpose of the Fund is therefore well aligned with the Council's Vision and Strategy. Similarly, TWPF's culture and values are rooted in Council values, to be PROUD: Professional; Respectful; Open and Honest; Understanding and engaging; and to Deliver what it says it will. These values guide TWPF's engagement with managers to understand and challenge stewardship activities undertaken on behalf of the Fund and its beneficiaries and to deliver on the purpose of the Fund.

TWPF has a fiduciary duty to employers and members and recognises the importance of being a responsible asset owner, which includes having a clear Investment Strategy Statement (ISS). The ISS was updated in 2022, with the addition of new investment beliefs reflecting the growing importance of ESG in general, and climate change in particular, as financial risk factors.[3] The Fund's ESG related investment beliefs are shown below[4]:

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[1] The Fund's Vision Statement can be found in the Pensions Service Plan for 2023-2026 here https://www.twpf.info/media/2980/Pensions-Service-Plan-2023-2026/pdf/2023.01_-_Service_Plan_2023-26_-_Pensions_Final.pdf?m=638113816756900000

[2] The Council Vision and Strategy can be viewed here https://www.southtyneside.gov.uk/article/15972/The-South-Tyneside-Vision-and-Council-Strategy

[3] The full Investment Strategy Statement can be viewed here https://www.twpf.info/media/2519/Investment-Strategy-Statement/pdf/Investment_Strategy_Statement_291122_TW_Clean.pdf?m=638059251227270000

[4] The Fund's Investment Beliefs can be found in Appendix I of the Investment Strategy Statement here https://www.twpf.info/media/2519/Investment-Strategy-Statement/pdf/Investment_Strategy_Statement_291122_TW_Clean.pdf?m=638059251227270000

- Well run companies will produce superior returns for shareholders over the long term. There should be a focus on governance and engagement over disposal.
- ESG issues can represent long term financial risks to the Fund and its holdings. Climate Change is one of the most significant of these risks, reflecting the changing nature of the world we live in. The investment strategy includes approaches to addressing these issues for both actively and passively managed assets.
- Effective oversight of Responsible Investment requires monitoring of ESG and Climate Related Metrics
- It is not just through the shareholdings in public companies but also holdings in bonds, property and private market investments that can influence and effect improved outcomes over the longer term.
- Engagement with companies on climate related issues can be effective in creating change to protect shareholder value.
- Climate change provides investment opportunities as well as risks.
- Asset owners and managers have a responsibility to ensure there is effective engagement on climate related issues.

These investment beliefs inform the decisions that TWPF take on managing risks like climate change and TWPF's approach and expectation of asset stewardship accordingly.

For example, TWPF's preference for engagement over divestment means the Fund has chosen not to automatically divest from oil and gas companies. The Fund prefers to engage to support their transition, in the best long-term interests of its beneficiaries. If the Fund were to divest from certain high carbon sectors, the carbon emissions will still exist but be owned by other investors, who may be less interested in driving change going forward. Similarly, TWPF recognises that exclusions are a blunt instrument, which is why it supports engagement, escalation and divestment decisions being taken on a case-by-case basis by the appointed investment managers. The Fund does all of the above because it believes this will maximise long term shareholder value, thereby facilitating the payment of pensions.

Activity

In 2022, the Fund reviewed its vision statement, objectives, investment beliefs and strategy to ensure they would continue to serve as an appropriate foundation for TWPF and its stewardship activities. These were discussed at a workshop for Pensions Committee members so that their views could be expressed and incorporated. The Service Plan (i.e. the document that sets out the aims, objectives and actions that the Fund needs to achieve to meet its vision) was then updated in line with the revised vision statement and objectives and presented to the Pension Committee for approval.

Outcomes

The beliefs outlined above recognise the importance of stewardship and climate change, which is an issue of particular importance to TWPF, in setting the direction of the Fund. The ISS states that the Fund expects both Border to Coast Pension Partnership Ltd (the LGPS pooling partner for the Fund and hereafter "BCPP") and any directly appointed fund managers to also comply with the Stewardship Code and this is monitored on an annual basis. The ISS also states that it expects managers to use best efforts to apply the principles of the UK Stewardship Code to overseas holdings.

TWPF believe the actions it has taken to consider ESG related beliefs to help guide stewardship activities and the investment decisions taken, supports its purpose of providing pensions and other related benefits to beneficiaries. The Fund will continue to monitor the investment beliefs, as it was done over the past year, to ensure that they remain appropriate to guide its strategy and to deliver long-term benefits for beneficiaries.

In assessing the performance of the Fund vs its benchmark the long term performance has been in excess of the benchmark, demonstrating the Fund has been delivering for the beneficiaries.

Period	Performance	Benchmark	Outperformance
Three years	+9.6 p.a.	+8.3 p.a.	+1.3 p.a.
Five years	+6.4 p.a.	+5.5 p.a.	+0.9 p.a.
Ten years	+7.7 p.a.	+6.8 p.a.	+0.9 p.a.
From April 1986	+8.6 p.a.	+8.2 p.a.	+0.4 p.a.

Principle 2

Signatories' governance, resources and incentives support stewardship.

Activity

The Fund's Pension Committee (the "Committee") is primarily responsible for the investments and administration of benefits under the scheme, meeting quarterly to achieve this goal. The Committee has nineteen members. South Tyneside Council has legal responsibility for the Fund and nominates eight members, whilst the other five local authorities within the Fund each nominate one member. The scheme members are represented by three trade union representatives and the employers in the Fund are represented by three employer representatives, the latter nominated by the employers themselves. The Committee's role is to set the strategic policy framework and monitor implementation and compliance within the framework including the appointment and monitoring of the Fund's Investment Managers and their stewardship arrangements.

The Fund created a Local Pension Board (LPB) and delegated certain responsibilities to the LPB mainly to ensure compliance with legislation and with any requirement imposed by The Pensions Regulator. The LPB provides assistance to the Committee in matters relating to governance and administration. The LPB has eight members and is responsible for assisting the Committee to ensure the effective and efficient governance and administration of the Fund and to comply with legislation and with any requirement imposed by The Pensions Regulator. There are four representatives of the employers in the Fund appointed to the LPB. One is nominated by South Tyneside Council and the other employers in the Fund nominate the remaining three representatives. The scheme members nominate four trade union representatives to promote their interests.

The Fund has also established an Investment Panel to provide a greater focus on, and scrutiny over, the investment strategy and the performance of investment managers, including on stewardship. The Panel advises the Committee on investment-related issues and on actions to be taken on investment matters (more information on oversight is provided in disclosure against Principle 8).

As mentioned earlier, the Fund does not engage in direct investment. Instead, it delegates the task to investment managers who act on its behalf. Consequently, the Fund aims to encourage the incorporation of responsible stewardship into the process of making investment decisions, both within its own operations (such as defining its Investment Strategy) and externally (such as selecting expert advisors and investment managers to support its governance procedures and meet its investment needs). The Fund's governance structure serves as the primary means to incentivize the incorporation of stewardship into internal investment decision-making. This involves establishing a transparent Investment Strategy and investment beliefs, as well as continuously evaluating the Fund's performance at various levels of detail. This includes monitoring the performance of individual investments and the ESG (Environmental, Social, and Governance) activities of investment managers at a granular level, as well as conducting strategic evaluations such as the triennial actuarial valuation and comprehensive reviews of the Investment Strategy.

Investment managers also have clear incentives on stewardship. Effective stewardship improves returns, and strong track records are critical to the commercial success of any investment manager. Furthermore, six of the Fund's thirteen private markets investment managers earn performance fees and therefore can directly benefit from the value created by effective stewardship.

The Fund draws on the resources of its service providers to support its stewardship activity, with day-to-day stewardship activities being undertaken by BCPP[5] and other appointed managers. The Council's Constitution requires the Committee to work with BCPP to implement the Fund's investment strategy, prepare and maintain a Responsible Investment Policy which takes account of the policy of the BCPP, and provide guidance to the Council on exercising its rights as a shareholder in BCPP. All managers appointed by TWPF, including BCPP are expected to have appropriate governance and resources to ensure adequate stewardship of investments.

TWPF is a long-standing member of the Local Authority Pension Fund Forum (LAPFF) with Officers and members of the Pensions Committee and Local Pension Board regularly attending business meetings, executive meetings and the Annual Conference. The Pensions Committee Vice-Chair has also been a member of the LAPFF Executive for the past two years.

In terms of resourcing, as well as appointing independent advisors, the Fund ensures that it has sufficient skills, experience and diversity to deliver the objectives set out in the Pensions Service Plan, which includes effective stewardship of assets and engagement with the managers, as outlined below.[6]

South Tyneside Council has set up its own Equality Diversity and Inclusion Survey to learn more about its workforce. A summary of the results covering age and ethnicity is shown in the table below and compared to Census 2021 data for the region[7].

	South Tyneside Council	South Tyneside Region
Age	**%**	**%**
0-16	0.0	17.9
16-50	53.6	39.5
51-65	43.0	21.7
66+	1.4	20.9
Prefer not say	2.0	0.0
Ethnicity	**%**	**%**
Asian	1.4	2.9
Black	0.3	0.5
Mixed	0.7	1.4
White	95.3	94.4
Other ethnic groups	0.3	0.8
Prefer not say	2.0	0.0

[5] Tyne and Wear Pension Fund is a founder member of the Border to Coast Pension Partnership (BCPP) was created by eleven likeminded pension funds, established in 2018 in response to the Government's LGPS: Investment Reform Criteria and Guidance (2015). BCPP's purpose is to make a difference for the Local Government Pension Scheme by providing cost-effective, innovative, and responsible investment opportunities that deliver returns over the long-term.

[6] The full Pensions Service Plan can be seen here https://www.twpf.info/media/2980/Pensions-Service-Plan-2023-2026/pdf/2023.01_-_Service_Plan_2023-26_-_Pensions_Final.pdf?m=638113816756900000

[7] The comparative results are available here How life has changed in South Tyneside: Census 2021 (ons.gov.uk)

The Investment Team, headed by the Principal Investment Manager, comprises of seven officers responsible for the oversight and administration of the Fund's investments as well as responsible investment matters and financial control.

Key roles at the Pension Fund include:

Name	Role	Experience
Ian Bainbridge	Head of Pensions	26 years' experience of LGPS investments at a senior management level at TWPF
Neil Sellstrom	Principal Investment Management	20 years' experience across LGPS including 7 years as investment client and 12 years in advisory role across LGPS governance
Paul McCann	Principal Governance and Funding Manager	8 years' experience within LGPS covering legal and governance arrangements with investment managers
Heather Chambers	Principal Pensions Manager	35 years' experience of LGPS including 23 years at a senior management level at TWPF. Member of PLSA LA Committee and LGPC Technical Group
Andrew Lister	Pension Fund Finance Manager	8 years' experience within LGPS covering investments and stewardship
Cllr Anne Walsh	Chair of Pension Committee	8 years on the Pension Committee as Chair or Vice Chair and sitting on Investment Panel. Also, two years as a Non-Executive Director at BCPP 2020-2022.
Cllr Wilf Flynn	Vice Chair of Pension Committee	27 years on the Committee including 2 years as Vice Chair and sitting on the Investment Panel. Also sits as member of LAPFF executive Committee for 2 years.

In addition, the Fund recognises the importance of training for Committee and Pension Board members and officers responsible for financial management, decision making and administration of the Fund. The Fund has adopted the CIPFA Knowledge and Skills Frameworks for Officers, Elected Members and Board members as the basis for its training programme. The Training Policy and Programme takes account of the ongoing specific requirements of the Pensions Committee and the LPB, and requirements set out in the Pensions Regulator's Code of Practice Number 14 on the Governance and Administration of Public Service Pension Schemes. Training is provided to ensure Committee and Pension Board members and staff possess an appropriate level of knowledge, skill and understanding to carry out their duties, including on oversight of stewardship activities.

Over the year to 31st March 2023, in-house training delivered to officers, board and committee members amounted to over 30 hours. In addition, the respective Chairs and Vice Chairs of the Committee and LPB, along with senior officers, also attended externally provided, professional development events amounting to over 60 hours. These included the Pensions and Lifetime Savings Association (PLSA) Conference in June 2022, LGC Investment Summit in September 2022, BCPP Annual Conference in September 2022 and LAPFF annual conference in December 2022, which each included sessions on engagement activities, climate change and education on ESG issues.

In addition, individual members assess their personal training needs against the programme available to ensure all applicable skills are targeted and developed when required. The Fund monitors training attendance and ensures an adequate level of participation, as stated in the Training Policy[8], with a report on training included in the Annual Report and Accounts.

Outcomes

On a yearly basis Deloitte undertakes a comprehensive governance audit of the Fund, in particular assessing TWPF's adherence to the Myners Principles as set out in the guidance published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and how the Fund compares against recommendations of the Scheme's Advisory Board's ("SAB") Good Governance review. In the latest review conducted in 2022-2023, Deloitte awarded the highest level of assurance to the Fund.

Deloitte has noted that TWPF has a more self-sufficient and internal-based set-up when compared with other LGPS Funds. Regarding resources, Deloitte observed that TWPF benefits from having a strong base of experienced internal staff, familiar with and exclusively dedicated to monitoring the Fund full-time on a day-to-day basis. In addition, a formal training programme for all members of the Committee is implemented based upon the CIPFA Knowledge and Skills Frameworks. A training checklist is also maintained and benchmarked against the Pensions Regulator's Code of Conduct training requirements.

Two main recommendations were made by Deloitte in their conclusion to the January 2023 governance review, which were adopted as improvement points by TWPF. First, given the increased challenges on the UK labour market, TWPF were advised to formulate a more robust and sustainable strategy for staff hiring and retention and this objective was consequently entered in the 2023-26 Service Plan. Secondly, while Deloitte pointed out TWPF's significant improvements on climate reporting, a recommendation was made to strengthen engagement with private markets managers, requiring them to improve data coverage on carbon emissions reporting. TWPF is actively working on these areas and is committed to maintaining the highest standards of governance in support of its stewardship activity. Meetings have already taken place with a number of the investment managers, including BCPP and private market managers, to highlight the Fund's climate data requirements and to discuss actions to be taken to address previous deficiencies.

In March 2023, Deloitte also finalised an independent review of the Fund's investment reporting practices which concluded with the auditor granting a 'substantial' assurance (the highest level available) opinion. Deloitte pointed out that TWPF is 'reaping the benefits of a familiar dedicated team whilst still obtaining sufficient exposure to external industry trends through its investment advisor and training sessions'. Two non-critical recommendations were presented by the auditor, focused on the formalisation of investment monitoring evaluations and internal procedures. The Fund is addressing this feedback and the associated actions are reflected in the current Service Plan.

[8] Full Training Policy available here https://www.twpf.info/media/2585/Training-policy-for-Pensions-Committee-and-the-Local-Pension-Board/pdf/Training_Policy_for_Committee_and_LPB_06072022.pdf?m=638048847043300000

Principle 3

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

Context

TWPF Conflicts of Interest Policy[9] sets out how conflicts are defined as well as means to identify, manage and monitor potential conflicts. Conflicts of interest, including those relating to matters of investment stewardship, are managed according to South Tyneside Council's Codes of Conduct.[10] Members (i.e. of both the Committee and the LPB) and Officers of the Fund are required to observe the Council's Members' and Officers' Codes of Conduct.[11] In addition, TWPF expects investment managers, advisors and contractors to have effective policies in place to address potential conflicts of interest, and for these to be publicly available on their websites. This aspect is reviewed through officer due diligence upon the appointment of any new mandate and regularly monitored throughout the Fund's holding period.

All formal meetings of the Committee and the LPB have disclosures of interest as a standing item of the agenda at the commencement of each meeting. When a matter is under discussion that applies to a Disclosable Pecuniary Interest (DPI) of an elected member, they are required by law to declare their interest and leave the meeting when the matter is under discussion. Members are required to declare any interest at the start of each meeting, or at any time during the course of business, should a conflict subsequently become apparent. Members that declare a conflict of interest in relation to a particular matter may not participate in any discussions or vote on that matter.

Activity

The Pensions Committee and Local Pension Board members attended a refresher training session on their roles and responsibilities as representatives of the TWPF on 21st September 2022. A section of the training was dedicated to identifying and appropriately acknowledging potential conflicts of interest. Such sessions will continue to be provided on a regular basis to aid Officers in adequately addressing any applicable conflicts.

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[9] TWPF Conflict of Interest Policy can be seen here https://www.twpf.info/media/2584/Conflicts-of-Interest-Policy/pdf/Conflicts_of_Interest_Policy_for_the_Local_Pension_Board_2_Feb_2021.pdf?m=637915076339370000

[10] As the Council is the administering authority of TWPF.

[11] The Pensions Committee is the decision-making body for the Tyne and Wear Pension Fund. Whilst the Committee comprises elected members from each of the Tyne and Wear Councils and Northumberland County Council, the Committee is a committee of South Tyneside Council only. The Code of Conduct is therefore contained in the Constitution for South Tyneside Council, and this applies to all elected members on Committee (non STC councillors are classed as "co-opted members"). The Code of Conduct for Elected Members starts on page 283 of The Council's Constitution[11]. The Code of Conduct is based around Nolan's Seven Principles of Public Life and around the regime of Disclosable Pecuniary Interests (DPI) and personal interests, see page 296 onwards. The Council Code of Conduct can be seen here https://www.twpf.info/media/2972/Managing-conflicts-of-interest-policy/pdf/Managing_conflicts_of_interest_policy_e9hwtb1rlhpg.pdf?m=637922594459000000

Outcome

The Fund's approach to managing conflicts has operated satisfactorily during the year. The Chair of Pensions Committee (Cllr Walsh) declared a DPI in all relevant meetings leading up to 31 March 2023. The DPI in question was that Cllr Walsh was a non-executive director of BCPP for some of the year in question. Whilst declaring a DPI at the start of each relevant meeting, Cllr Walsh was able to remain in the meetings as she had been granted a dispensation by the South Tyneside Council Standards Committee. This dispensation allowed Cllr Walsh to remain in the meeting, participate in discussions and even vote on matters. TWPF will continue to operate the policy to manage conflicts of interest to put the best interests of beneficiaries first.

Principle 4

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

Activity

The Investment Team, Committee, investment managers and the investment consultant monitor global markets to ensure systemic risk and specific risks are properly considered. TWPF works with the investment consultant and scheme actuary to develop investment and funding strategies which address a range of risks outlined in the risk management framework including:

- Climate risk – TWPF views climate change risk as a materially important factor that could significantly impact its long-term investment performance given the effects it could have on global financial markets and has produced a climate change policy to assist in managing this risk.
- Governance risks – TWPF considers risks inherent in operational changes within the Fund's structure and takes steps to mitigate such issues. In the latest Risk Register (from March 2023), risks relating to potential lack of knowledge and understanding and excessive turnover in the Committee and LPB were highlighted. TWPF ensures the Committee and Local Pension Board have sufficient depth and maintains a training policy and programme (in line with CIPFA guidance) to mitigate these risks.
- Asset risks – TWPF acknowledges the individual risks associated with investments and the process of delegating a significant part of investment decision making to its investment managers. To manage these risks, practices such as counterparty reviews, quarterly monitoring and having a robust governance framework in place are quoted as key mitigations. The strategic use of risk constraints, portfolio diversification and a rigorous manager selection process provide additional risk mitigation.
- Funding risks – TWPF was fully funded as of the latest valuation, but specifically addresses the risk of potential increases in the funding gap with mitigating actions such as regular meetings with the actuaries and Scheme employers, reviewing the funding strategy and obtaining guarantees and bonds from participating employers where appropriate and possible.

The key risks mentioned above are recorded in the Fund's Risk Register and are reviewed quarterly. The Committee delegates the quarterly review to the LPB and the Fund's officers but reviews the Risk Register on an annual basis[12]. A periodic risk management workshop is facilitated by Deloitte to ensure the Officers, Committee and Board members are knowledgeable and updated on potential risk factors affecting the Fund, with the latest such session conducted in March 2023.

Market and systemic risks are managed through the Fund's risk management framework which highlights the impact of these risks on asset returns, value of liabilities and therefore funding position. Market risks

[12] Latest version of TWPF's Risk Register is available here https://www.twpf.info/media/3681/Short-form-risk-register/pdf/Executive_Summary_Risk_Register_March_2023_FINAL.pdf?m=638161223182730000

considered include inflation, interest rates, equity, credit and currency risks. Climate change is a systemic risk currently given particular focus.

The impact of these risks on the Fund is assessed in detail in the triennial investment and funding strategy reviews, with the former focusing on the asset portfolio and the latter on the liabilities. Interim reviews of investment strategy, including reappraisal of market/systemic risks, are undertaken as necessary. Impacts are evaluated using both quantitative, asset-liability modelling ("ALM") and qualitative assessments. Both provide insights into potential future funding outcomes across a very wide range of scenarios, each of which are defined in terms of the future path of market/economic risk factors such as growth, inflation, interest rates and currencies. The range of scenarios considered include extreme scenarios designed to model the impact of systemic risk factors such as climate change, banking crises and war. Market risk cannot be eliminated, because the Fund needs to take such risk to generate a return on investments, but the level of exposure to both market and systemic risks is carefully controlled in line with the Fund's return requirements and risk appetite.

The primary mitigant of market and systemic risks generally is diversification. The Fund has an investment portfolio which is well diversified by:

- Asset class – over recent years the Fund has reallocated capital from equities to income-producing assets such as infrastructure and high yield debt to diversify risk; in FY 21/22, for example, the Fund made a 5% allocation to the BCPP Multi-Asset Credit strategy which provides diversified exposure to a wide range of high yield debt markets.

- Geography – in most asset classes, the Fund invests globally to reduce concentration risk in individual markets.

- Manager – in each asset class, the Fund invests with more than one investment manager and/or makes use of passive management techniques to reduce manager performance risk.

Investment risks are considered on a quarterly basis by the Investment Panel with input from the Fund's investment consultant. Panel meetings include performance reviews with two Investment Managers, at which future risks/issues and barriers to delivering the benchmark return are discussed. The Investment Panel is also responsible for reviewing the Fund's exposure to market and systemic risks at each quarterly meeting, at which an update on relevant market and economic developments is provided. At each meeting, the Panel considers whether additional actions are necessary to mitigate these risks. Potential actions include tactical changes to the Fund's asset allocation designed to strengthen downside protection.

Some of the Fund's investments are designed to mitigate specific risks. For example:

- The returns on the Fund's investments in equity, real estate and infrastructure (63.5% total assets) are sensitive to inflation, so these asset classes can mitigate the impact of high inflation over the long-term.

- The Fund invests in private debt and multi-asset credit (11.5% total assets), asset classes which contain a high proportion of floating rate instruments which provide protection against rising interest rates.

- All the Fund's managers are required to take ESG factors including climate change into consideration in their investment decision making and stewardship activities. In addition, approximately 25% of passive equities are managed against benchmarks which explicitly tilt exposure to companies with good ESG characteristics based upon the investment managers assessment against 30 ESG metrics such as lower GHG emissions and/or companies providing decarbonisation solutions. Furthermore, in FY 22/23, the Fund made an initial commitment of 3%

of its total assets to BCPP Climate Opportunities, a strategy which explicitly targets decarbonisation opportunities in private markets.

The Fund does not deal directly in financial markets but does expect its managers to act responsibly when doing so, and to participate in industry-wide initiatives such as the Stewardship Code, Principles for Responsible Investment (PRI), Net Zero Asset Managers Initiative and the ESG Data Convergence Initiative (EDCI) which aim to promote well-functioning financial markets.

Outcomes

The Fund remains alert to risks to the global financial system and responds quickly in the event of systemic risks arising. The outcomes resulting from identifying and responding to systemic and market wide risks in 2022 were as follows:

- The Russian invasion of Ukraine for example prompted immediate contact with each of the Fund's Investment Managers to understand the scale and nature of exposures in Russia, Ukraine and Belarus. Where these exposures were identified meetings were held with each manager to understand the implications for the investment market and the Fund's portfolio and the action that the Manager had taken and how this would develop. The Pensions Committee and LPB members were also made aware of the situation and the scale of the Fund's exposures within days and further updated through formal reporting as the situation progressed.

- During the banking crisis in March 2023 a similar process was followed to establish the Fund's exposures to Silicon Valley Bank, Signature Bank and Credit Suisse and to ensure the Investment Managers were responding appropriately. TWPF continues to monitor the position with its Investment Managers.

- In 2020 the Fund implemented a policy to hedge a proportion of listed equities to mitigate the risk of a strong US Dollar on the sterling value of the portfolio. This hedge has remained in place during 2022 and is reviewed quarterly by the Investment Panel against the trigger points agreed in the policy.

- As set out in the Service Plan 2023-2026[13], and as an ongoing activity – not prompted by events in 2022 alone - TWPF is in the process of considering transition out of the Fund's current factor-based strategy into a multi factor product with stronger ESG and climate change credentials in 2023/24, to better manage this systemic risk.

[13] See the TWPF 2023-26 Service Plan here https://www.twpf.info/media/2980/Pensions-Service-Plan-2023-2026/pdf/2023.01_-_Service_Plan_2023-26_-_Pensions_Final.pdf?m=638113816756900000

Principle 5

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

Activity

The Committee receives an annual Governance Compliance Report issued by the Head of Pensions which clearly states that it is a matter of good governance to keep key policy documents under review and to update them periodically. This report details the Fund's compliance with the Department for Levelling Up, Housing and Communities (DLUHC) regulations and guidance for pension funds, which focuses on governance issues. Stewardship aspects such as the execution of voting rights, representation to the BCPP Joint Committee meetings and manager monitoring duties (among many more) are mentioned and supervised in this yearly report to the committee[14]. The latest report from January 2023 indicates the Fund is compliant with all the DLUHC Guidance Compliance Standards.

The Fund maintains a Policy Tree control document which sets a clear timetable for policy reviews and updates. Policies are updated on a cycle as deemed appropriate for each policy. The Pension Fund Committee regularly considers the policies due for review in line with this timetable. On an annual basis, including 2022/23, the Fund's Corporate Governance and Responsible Investment policy, Climate Policy, ISS and Funding Strategy Statement were all reviewed.

In addition, the following policies and planned actions were established as particularly high priority for 2022/23:

- UK Stewardship Code reporting and signatory status – this item is marked as red because the Fund has undertaken a significant amount of work on stewardship and responsible investment, but not yet applied to become a signatory to the UK Stewardship Code. Therefore in 2022/23 TWPF has actively prioritised making a report submission.

- Pensions Administration Strategy – there is an ongoing review of this key policy document. The document was considered by the LPB in December 2022, before being submitted to Pensions Committee in January 2023. Following provisional approval, the document was circulated to all employers in the Fund for a consultation exercise. The document will be finalised by senior management in the near future.

Other policies reviewed include the Fund's Communications Policy and the 2023-2026 Service Plan, which were reviewed and approved at a Special Committee Meeting on 31st January 2023.

Outcome

The review of current policies, and the process for review ensures that policies remain effective, fit for purpose and up-to-date. Higher priority actions from 2022/23 have been well progressed – namely, TWPF have developed evidence to submit for UK Stewardship Code signatory status and the ongoing review of

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[14] The latest Governance Compliance Report from January 2023 is available here https://www.twpf.info/media/2974/Governance-Compliance-Statement/pdf/Governance_Compliance_Statement_Jan_2023.pdf?m=638115379335370000

the Pensions Administration Strategy to ensure its own stewardship of the TWPF and the Fund's functioning remains effective.

Principle 6

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

Context

TWPF is a defined benefit (DB) LGPS scheme, responsible for the pensions of over 179,000 members across more than 300 employer bodies. Over 67,000 members are currently in receipt of their pensions. Of the members not yet in receipt of their pension, over 61,000 are active members with a further 51,000 deferred members.

As at 31 March 2023, the Fund's total assets were c£12.4bn, with investments spread across a number of asset classes and geographies shown below.

Asset Class	Geography	%
Equities	UK	7.88
	North America	8.98
	Europe	7.49
	Japan	3.98
	Asia Pacific	3.02
	Emerging Markets	3.27
Factor Based Equities	Global	6.35
Fixed Interest	UK Gilts	1.37
	Sterling Non Govt	19.51
	Multi Asset Credit	4.55
Private Equity		10.83
Property	UK	10.25
Infrastructure		5.18
Private Debt		6.02
Climate Opportunities	UK	0.47
Cash		0.86

The average member age is c.55 years, so the Fund has adopted an investment horizon of 20 years in setting its investment strategy. However, the Fund has obligations to its members which extend from the present day over a much longer period, which is considered when managing its assets. The Fund's investment strategy is recorded in the Investment Report within the Annual Report and Accounts (Appendix II includes the 2021/2022 Investment Report as the 2022/2023 version is being produced at the time of submission).

Activity

The Fund's Communications Policy sets out how the Fund communicates with members, prospective members, employers, representatives of members and other interested parties.

TWPF is committed to seeking the views of its members and employers, facilitated through:

- The Fund website which has information for members and employers including contact details to allow members and employers to ask questions and provide feedback. The Fund also has a Member Services Team accessible via telephone helpline and email channel.
- Employers can raise issues at the annual general meeting and also by contacting the Employer Services Team.
- Individual meetings for scheme members (including trade unions) and employers are available on request.

Membership of the Committee and Board includes employer and member representatives. Through the Committee and Board meetings held, these representatives have the opportunity to comment on and help inform the Fund's approach to stewardship. This is the primary mechanism by which member and employer views on stewardship are taken into consideration.

The Fund proactively communicates with scheme members in a variety of ways, including via:

- Annual benefits statements.
- The Annual Report, which includes a summary of stewardship activities.
- Engaging with trade union representatives through committee and LPB roles.
- Ensuring public disclosure of the Fund's governance and key policy documents on the Fund website.
- Presentations about the LGPS, which are usually arranged through Fund employers.

The Fund communicates with employers in a variety of ways, including:

- The website has a dedicated area to provide information for employers.
- Employers are invited to attend the Annual General Meeting, which is a formal seminar-style event with several speakers covering key issues such as investment performance as well as topical LGPS issues. Employers are always provided with the opportunity to ask questions.
- The Fund publishes an Annual Report, which includes a summary of stewardship activities.

Outcomes

The Pension Fund records the engagement it receives from scheme members and other stakeholders on all investment matters including stewardship. In 2022/23, a small number of letters were received from scheme members and lobby groups and some employers in the Fund in respect of climate change, and all received a comprehensive reply outlining the Fund's approach to the issues raised where appropriate. TWPF used the queries raised to hold meetings between Fund officers and key stakeholders to better understand and consider their perspectives and to share more about the work undertaken to develop the Fund's climate policy[15] and investment strategy to mitigate climate risks, and the rationale for the approach taken.

Representatives from these lobby groups now regularly attend public meetings of the Pensions Committee and speak directly to members of the Committee. Officers of the Fund have also established periodic meetings with Climate Change Officers from the Fund's main employing bodies to share the latest developments from the Fund.

Going forward, TWPF has plans to develop its member engagement strategy further, as detailed in the 2023-26 Service plan.[16] Furthermore, recognising the importance of public reporting on the progress made to reduce the Fund's carbon footprint, the Fund produced its first Taskforce for Climate-related Financial Disclosure (TCFD) report in 2022 (in respect of FY 21/22)[17]. TWPF is now working towards publishing a second TCFD report covering 2022/23 activities. Metrics will be monitored, updating the report as necessary to meet Department for Levelling Up, Housing and Communities' (DLUHC) TCFD reporting requirements.

[15] The Fund's Climate Change policy is available here https://www.twpf.info/media/2522/Plans-and-Policies-Climate-Change-Policy/pdf/TWPF_Climate_Change_Policy_2022.pdf?m=638059250587000000

[16] The plan can be seen in more detail here https://www.twpf.info/media/2980/Pensions-Service-Plan-2023-2026/pdf/2023.01_-_Service_Plan_2023-26_-_Pensions_Final.pdf?m=638113816756900000

[17] The Fund's 2021/2022 TCFD report can be seen here https://www.twpf.info/media/4940/Task-Force-for-Climate-Related-Financial-Disclosure-TCFD-Report/pdf/Task_Force_for_Climate_Related_Financial_Disclosure_TCFD_Report_2021-22.pdf?m=638066348575170000

Principle 7

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

Context

The Fund's approach to ESG is described in the ISS and Corporate Governance and Responsible Investment Policy, where it is "recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns." Through policies and challenge and engagement with investment managers, TWPF sets stewardship priorities and objectives that are in line with its approach. The process of ensuring a mutual agreement starts from the manager selection phase, with ESG commitments and prior records being key aspects considered during due diligence. Once a suitable asset manager is selected, expectations in terms of ESG targets are formally communicated upon appointment and monitored on an ongoing basis.

TWPF expects its managers to incorporate ESG factors into their investment process and stewardship activities and to demonstrate the outcomes being achieved. As a result, managers' research and analysis capabilities, approach to ESG integration, stewardship policies and processes are key considerations in the appointment process for all prospective managers. Managers are also expected to identify and communicate material ESG issues relating to the Fund's investments. The Fund monitors the investment and stewardship activities of all its managers, including those investing in private markets, through the quarterly reporting and manager review process.

TWPF is invested globally in equities, fixed income, property, infrastructure, and other assets across both public and private markets. The activity section below describes the Fund's general approach to stewardship and investment across asset classes, including in the design and award of mandates. The outcomes section offers selected case studies to demonstrate how the award of mandates, manager integration of stewardship, investment by managers and monitoring of managers, has been implemented in practice.

Activity

Integrating stewardship and investment in Equity assets

TWPF holds a well-diversified selection of publicly traded equity mandates, with active UK and Global equities managed by BCPP, emerging market equities managed by JP Morgan, Japanese equities held through Lazard and other Asia Pacific equities managed by TT International. Passive listed equity investments are held through LGIM. Furthermore, the Fund invests in private equity through Lexington Partners, Coller Capital, HarbourVest, Pantheon, Capital International and Partners Group.

For listed equities managed directly by LGIM, ESG data and research from specialist providers is used alongside general stock and sector research to inform engagement and voting undertaken on the Fund's behalf.

BCPP delegates investment management to a range of underlying investment managers. Here, RI is incorporated into the external manager appointment process including the 'request for proposal' (RFP) criteria and scoring and the investment management agreements. The RFP includes specific requirements relating to the integration of ESG by managers into the investment process and to their approach to engagement. BCPP's Head of RI works with colleagues from partner funds to shape its RI policy via workshops and dedicated meetings of the Officers Operations Group ("OOG") on ESG issues to ensure managers focus their stewardship in accordance with partner fund policies. Information from managers is shared with the BCPP investment team to increase and maintain knowledge, and ensure voting and engagement is not detached from the investment process.

Over the past year the Fund has been collecting data from the quoted equity and bond managers on the climate metrics of each mandate and how they compare to an appropriate index or benchmark. The intention is to keep this as a high-profile issue with the managers and ensure the Fund engages with them on this subject. As part of the data collection the managers have been asked to provide the top 3 exposures under the following headings:

- Carbon emissions by company in each Portfolio
- Fossil fuel exposures by company in each Portfolio
- Companies with the highest green revenues

The active managers are asked to provide the investment rationale for holding these positions in light of the Fund's Climate Change Policy and an explanation of how each position will improve its climate metrics including timescales. The same data is also collected for the passive mandates with updates on engagement activity. This information is collected each quarter and the managers are challenged to ensure the rationale remains valid and demonstrable progress is being made. The Pension Committee receives a report each quarter summarising the exposures and highlighting any material changes.

For private equity investments, to ensure managers are adequately integrating ESG factors within their decision-making and stewardship activities, TWPF holds positions on Advisory Boards[18] to advocate for effective consideration of these issues. Private markets managers can be, and typically are, much more "hands on" and TWPF sees it as its role to steer managers' stewardship focus via Board seats. Advisory Board positions are unpaid and form a key part of the arrangements for private market investments. As of the time of publishing this submission, TWPF held seats on the advisory boards of seven private asset managers covering private equity, infrastructure, private debt and global property.

Integrating stewardship and investment in Debt assets

The Fund invests in index-linked gilts via LGIM, listed credit via LGIM and BCPP as well as private debt via Pemberton, HPS Partners, Pantheon and BCPP.

The Fund recognises that debt managers lack the control rights afforded to shareholders but can still have significant influence over portfolio companies. The ability to influence is based on borrowers' obligations in bond/loan agreements and lenders rights to act such as enforcing security interests in the event of default. The Fund expects its managers to use that influence to improve investment outcomes. Specifically, it expects managers to take ESG factors into account when underwriting new debt investments and in ongoing stewardship activities. These expectations are defined in mandate specifications and taken into consideration in the selection of new managers/funds. , They are reinforced through regular review meetings with directly appointed managers. BCPP does likewise for managers it appoints, as detailed above for equity investments.

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[18] A full list of funds for which TWPF uses Board appointments to positively influence the approach to stewardship and ESG issues can be found in Appendix 1.

Integrating stewardship and investment in Property assets

The Fund invests in both commercial and residential property mandates. TWPF requires its managers to take a wide range of ESG factors into consideration in their acquisition, development and ongoing management of properties.

The commercial property mandate is managed by Abrdn, representing the largest property allocation of the Fund. Alongside regular performance and monitoring activities, the manager provides reporting on ESG aspects such as their progress towards Net-Zero targets. Furthermore, Abrdn is actively involved in providing training on Stewardship within real estate investments, to assist the Fund's Officers, Board and Committee members in adequately evaluating the mandate's credentials. At the latest training, held on 28th February 2023, Abrdn informed the officers that TWPF's investments with the manager have been improving their Global Real Estate Sustainability Benchmark ("GRESB") score in each of the past four years. The overall GRESB score awarded to the Fund for its 2022 activities was 74%. The GRESB score is built up from an assessment over three components – management, performance and development. The current management score of 100% is a testament to the Fund's approach to strategy and leadership and dedication to improving ESG factors in its property mandates.

TWPF commissioned an external consultant to assess the impact of climate risks on the property portfolio. This led to the development of a net zero pathway for the portfolio which sets out the current carbon footprint and timescales for emissions reduction. The report also identifies interventions required to reduce energy consumption and carbon emissions which will be updated and monitored annually.

The residential property mandates are managed by Aberdeen, Hearthstone, Henley, CBRE and M&G. Key factors considered include energy efficiency/carbon footprint, the quality and affordability relative to local incomes of the homes offered and the quality of services provided to tenants. The Fund receives annual impact reports from selected managers which are prepared by an independent specialist and detail the environmental and social impacts delivered by the investments.

Outcomes

At a Joint Committee meeting in November 2022, TWPF input to the review of BCPP's Responsible Investment Policies. As a result, revenue thresholds for thermal coal and oil sands have also been revised using analysis conducted across equity and fixed income funds, associated benchmarks and the MSCI Universe. This is one example of the way in which TWPF guides investment policies to incorporate ESG factors in in Fixed Income investing.

The case studies below provide other examples of how stewardship and investment are integrated into the management of the Fund's assets, and how this has therefore best served the Fund's beneficiaries.

Case Study: Integrating stewardship and investment in residential property
Mandate: Secure Income Fund (UK residential property), Henley
Background
In 2021 and 2022, TWPF increased its exposure to UK residential property by making commitments to a number of investment managers active in the affordable and social housing sector. Whilst the primary objective of all these investments is to generate a financial return, social impacts including increasing the volume and quality of housing stock accessible to less well-off members of the community were an important consideration.
Actions taken

TWPF evaluated managers' ability to assess and engage on issues such as: energy efficiency/carbon footprint, the quality and affordability relative to local incomes, and quality of service, prior to making commitments. At the selection stage, TWPF supported by its investment advisor, screened prospective managers on a range of high-level criteria characteristics including their approach to ESG integration and stewardship of assets. Due diligence questionnaires and interviews were then used to assess shortlisted managers on the effectiveness of their responsible investment processes and the outcomes achieved. Stewardship expectations were set out upon awarding mandates. One of the ESG risks that had been anticipated crystallised in early 2022 when concerns were raised about the quality of asset management and tenant services provided by one of the registered providers of supported housing units. Henley, the fund manager responsible for the assets, was aware of the issues through its service partnership monitoring and management system.
Outcomes
The manager was able swiftly to agree a plan of remedial actions with the registered provider involved, demonstrating to TWPF effective stewardship of the assets, and proactive consideration of ESG risks being integrated with stewardship activity. Comprehensive disclosures were provided to TWPF, which enabled officers to evaluate the severity of the issues that had arisen and the effectiveness of the proposed remedies. The actions have now been implemented and improvements in the quality of asset management and the care provided are being reported.

Case Study: Integrating stewardship and investment in private equity
Mandate: Private Equity, HarbourVest
Background
This private equity manager invests through three types of indirect investment strategies: primary funds, secondary funds, and direct co-investments. As an indirect investor, the manager's general approach to stewardship is to engage with General Partners (GPs) or lead sponsors of transactions and to use its influence to foster GP adoption and support of ESG principles. For direct co-investments where the manager has company board or observer seats, the manager can engage with lead GPs to increase discussion around ESG topics and monitoring at the portfolio company where relevant or material.
Actions taken
Through a co-investment position on a North American pharmaceutical company, the manager used their Board seat to raise the topic of ESG oversight and requested a follow-on call with the portfolio company and lead sponsor. The manager's Head of ESG conducted the call, working with the company and lead sponsor to identify financially material ESG factors (per the SASB sector standards) for the business to monitor and report upon. The manager also identified physical climate change risk in the company's supply chains and elevated this as a risk that requires oversight. The lead sponsor committed to developing a tailored ESG Scorecard to flag and monitor material ESG issues and presented this at the next company Board meeting for regular reporting and Board oversight.
Outcomes

This engagement work has led to positive outcomes for the lead sponsor, portfolio company, and the manager:

- Following its commitment, the lead sponsor developed an ESG due diligence framework and materiality based ESG scorecard which is used to set and track ESG KPIs for all portfolio companies in its most recent funds. As a healthcare sector specialist general partner (GP), the ESG KPIs were selected based on their relevance and potential value-add to healthcare portfolio companies. These metrics were used to develop an ESG maturity score for each portfolio company across its portfolio, which the lead sponsor integrated into its broader process as an indicator for ESG progress.
- As examples of cross-portfolio monitoring metrics, the lead sponsor now tracks employee engagement and greenhouse gas (GHG) emissions for companies across the portfolio, providing related insights and oversight over these topics to portfolio companies.
- Finally, with the support of a reputable consultant, the lead sponsor developed an annual ESG report, which the lead sponsor continues to seek constructive feedback on from the manager.
- The portfolio company began reporting data related to the SASB topic *Access for Low-Income Patients* to the lead sponsor in 2022, and beginning in 2023, the company will expand the metrics reported under *Access for Low-Income Patients*.

As a result of this work, the manager has used these learnings and the lead sponsor's framework to share as a best practice example when engaging with other healthcare specialist GPs to explain the applicability of ESG analysis to healthcare investments and the value of a robust approach to ESG monitoring. This supports the manager's stewardship objectives to foster GP adoption and support of ESG principles

Case Study: Integrating stewardship and investment in private debt
Mandate: Private Debt, Pantheon
Background
As a secondary investor, Pantheon Private Debt predominantly invests in fund positions and not directly into individual companies. Therefore, while their due diligence process does include analysis of underlying company ESG risks (via an internal scorecard and RepRisk), they predominantly benefit from the GP's assessment of these considerations. Pantheon partners with GPs that have demonstrated strong capabilities in managing ESG risks and will actively engage with the GP where they identify areas of concern; as such TWPF believes that their portfolio is protected against potential losses arising from ESG-related risks, and value is naturally enhanced within the portfolio. Pantheon Private Debt can influence their GPs to introduce ESG investment frameworks and exclusion policies through active engagement and support, which in turn influence the portfolio investments in terms of reducing ESG risk and increasing ESG opportunity. In other cases, Pantheon makes it a focus to identify a GP with a strong existing ESG framework to support the current and future ESG opportunities in their investments.

Actions taken
The manager completed the traditional LP-led secondary process, whereby they acquired a position in CVC Credit Partners Global Special Situations Feeder Fund II SCSp, from an Asian financial institution. The process was run by an intermediary, who managed a bidding process amongst interested parties. At the time of Pantheon's analysis, the portfolio consisted of 27 underlying assets. During initial due diligence stages, having full visibility of the portfolio, the deal team screened the assets to assess whether there was any exposure to the pre-defined exclusion list. They noted that some companies at first glance may be involved with oil drilling, which due to environmental and social considerations, Pantheon seeks to exclude investments with such exposure. Direct and active engagement with the GP soon after allowed them to confirm that the company was not actually involved in the principal activities of oil and gas, power generation or transmissions which supports coal-fired power plants, greenfield oil sand projects, etc. Given Pantheon's prior review of the GP's ESG policies and procedures, they considered the manager to have a reasonable level of ESG maturity and therefore a lower ESG risk. The conversation with the manager corroborated the view that they were cognizant of having any exposure to businesses and sectors with heightened ESG risks. The deal team then subsequently completed an ESG scorecard for the opportunity, whereby each of the 27 assets were analysed using RepRisk (i.e. an environmental, social, and corporate governance data science company); there was no meaningful sector or company specific ESG risk detected during this process. Furthermore, through a recent GP ESG outreach initiative, the deal team had received details of the GP's ESG policy, approach to Responsible Investing, as well as PRI signatory status.
Outcomes
The deal was then discussed at ESG Committee. Given the results of the ESG due diligence there were no concerns, and the deal was approved by all relevant committees at onboarding stage, roughly a month after initial review. As the deal has only recently closed into Pantheon's portfolio, each underlying asset will be monitored by the manager's Data team on a quarterly basis, via the use of RepRisk, to assess whether any ESG concerns arise during the period of investment. This will be reflected in the Pantheon vehicle specific, ESG reporting which is produced on a quarterly basis. Furthermore, as part of Pantheon's Annual ESG Survey outreach across all portfolio GPs, the manager will engage with the GP more formally to assess their ESG policies and values.

Case Study: Integrating stewardship and investment in infrastructure
Mandate: Infracapital Partners III, Infracapital
Background
Neos Networks - formerly SSE Telecoms - is a major owner, operator, and aggregator of UK telecoms infrastructure, serving enterprise customers and critical national infrastructure providers via its best in class connectivity network of fibre, exchanges (POPs) and data centres. Neos Network's UK wide telecoms infrastructure network includes a 34,000 kilometre underground fibre network, 676 Points of Presence ("PoPs") across the UK and 90 data centre sites. Prior to manager engagement Neos Networks did not have a net zero roadmap.

Actions taken
Since the investment and engagement from Infracapital commenced, Neos has set up several initiatives in its roadmap to ensure it reaches Net Zero by 2030. Actions and commitments keeping the company accountable for the change that is required include: • Enact a carbon reduction plan measuring emissions produced by its office, exchanges, data centres and from business travel. • To date it has already ensured more energy efficient LED/PIR lighting controls in its main offices and has renewed its IT equipment to the highest energy efficiency rating. • Planning to decarbonise its vehicle fleet by 2030 and provide more EV charge points. • All suppliers will be expected to sign up to the Race to Zero by 2024 and all future procurement selection will be assessed and weighted on ESG criteria.
Outcomes
Neos Networks has formally committed to be Net Zero by 2030

Principle 8

Signatories monitor and hold to account managers and/or service providers.

Activity

TWPF monitors its investment managers and service providers, to hold them to account as described in more detail further below.

Asset managers

Asset managers provide monthly and quarterly performance reports which are received and reviewed by the Investment Team. Review includes compliance with investment management agreements. Quarterly investment performance is reported with detailed commentary to the Pensions Committee. Asset performance monitoring is undertaken by a third-party provider to validate the information provided by managers. This includes detailed stock attribution analysis of the active listed equity portfolios which provides information which is used in the regular meetings with investment managers. If a manager's performance raises any concern, more frequent information is shared with the Committee. TWPF have regular one to one review meetings with all major investment managers and there are two manager review sessions at each Investment Panel. The rolling programme of manager meetings including attendance at Investment Panel is updated and agreed annually.

TWPF asks its managers to provide ESG metrics and benchmarks and explanation of variances. For example, managers are requested to provide information to allow monitoring of the impact of their decisions on the Fund’s GHG emissions including Weighted Average Carbon Intensity (WACI) and green revenues. Furthermore, an ESG questionnaire was sent out to managers to request broader information on how they practically approach ESG issues in investment and stewardship practices, allowing for an informed evaluation of the manager’s adequacy on their approach to responsible Investment and stewardship. Managers are also required to present to the Investment Panel on a regular basis, which provides the Committee with the opportunities necessary for further scrutiny of performance and asset stewardship.

The Fund’s main listed and private markets asset managers provide high quality ESG reports on a quarterly and annual basis which allows the Investment Team to monitor the activities being undertaken on behalf of the Fund and ensure they are in line with the Fund’s own beliefs and policies.

An increasing proportion of the Fund’s assets are managed through BCPP. Enhanced monitoring arrangements have been implemented which reflect the importance of this relationship to investment outcomes. These include:

- A Joint Committee representing all partner funds which oversees the investment performance of all BCPP investments.
- A senior officer group, comprising Chief Finance Officers at all partner funds, contributing to strategic direction for the pool.
- An Officer Operations Group (“OOG”) set up to monitor and influence the day-to-day operational activities of the company. This is achieved through regularly meetings and specific topic workshops.

- All Committee and Board members are invited to attend the BCPP annual conference to enhance their understanding of the operation and governance of the Pool.
- Regular meetings between BCPP and Fund Officers to discuss specific mandates.

On a quarterly basis BCPP provide portfolios analysed against MSCI ESG Weighted Score and the MSCI ESG rating along with the ESG Rating Distribution (AAA to CCC). In a commentary BCPP feature an investment each quarter to describe its nature, ESG rating risk, ESG impacts and direction of travel to ensure TWPF is satisfied their approach aligns with the Fund's expectations. BCPP also provide a quarterly Carbon Commentary for each portfolio describing any developments in the quarter. It features an investment, describing its nature, carbon impacts, initiatives it is involved in and direction of travel. BCPP also hold a quarterly RI meeting with Partner funds to provide updated on policy development and highlight voting and engagement activity.

BCPP's appointed managers are required to provide quarterly reports that include:

- Descriptions of how RI issues are integrated into the investment processes and the materiality of such issues to portfolio performance.
- Summaries of engagement activity outcomes during the review period
- Details of investments that are considered to have high RI related risks.
- Voting records for the review period, analysed between UK and Global, showing the proportions and numbers of votes cast, and summaries and explanations of instances where:
    - Voting rights were exercised in a manner that was inconsistent with a policy.
    - Voting rights were exercised against company management.
    - Managers abstained from voting.
    - Voting rights were not exercised.

To effectively monitor and challenge BCPP's external managers, BCPP have developed a manager monitoring framework to use across all equity, fixed income and multi asset credit and private markets managers. This allows assessment of managers on a quarterly basis on ESG integration and stewardship, noting any progress, improvements and direction of travel. TWPF in turn engages with BCPP on their scrutiny of managers. This output is used alongside the information from the ESG and carbon screens which are conducted on a quarterly basis to feed into the quarterly meetings and annual reviews held by BCPP's External Manager Team. Managers are challenged on holdings which score poorly on ESG and carbon metrics with detailed rationale required to support the investment. A separate annual ESG review is also held with each manager led by the RI Team to look at each manager's approach to RI integration.

The Fund requests that all the investment managers, including BCPP, share a copy of their Internal Controls Assurance Report (AAF Report) or equivalent. This is reviewed by the Fund and any issues raised are discussed with the manager and referred to Internal Audit if necessary.

LAPFF regularly issues alerts on upcoming votes that are significant in terms of ESG matters for organisations owned by the wider LGPS group. TWPF circulate these alerts to all relevant investment managers and request a response in terms how the manager is intending to vote and an explanation where this is not in line with the alert. The Pension Committee is kept informed of LAPFF alerts and other high profile engagement activity on a weekly basis. Managers are challenged on their approach as part of the quarterly monitoring meetings and more immediately where appropriate.

Other service providers

The Fund has set objectives against which to assess the performance of the investment advisor. The performance of the investment advisor is assessed by the Pensions Committee against these objectives on an annual basis. During 2020 the investment advisor contract was put out to tender to ensure value for money.

TWPF uses the Byhiras portal established by the LGPS Scheme Advisory Board (SAB) to monitor investment managers fees and charges in the Code of Transparency template (CTI) format. Most of TPWF managers have provided data to the portal. The remaining managers have been requested to provide data to the site. The information gathered on investment costs is collated and incorporated into the Fund's Annual Report and Accounts. At the start of each financial year the Fund estimates a budget for all investment costs which is approved by the Pension Committee. The actual costs are reported against the budget to the Pension Committee and any significant variances are highlighted as well as being challenged with the investment manager.

ClearGlass were also appointed to review the CTI templates provided by each manager to give assurance on their accuracy. The templates were then used in a benchmarking exercise to demonstrate how these costs compared to similar peers and market expectations.

The Fund has also participated in the annual CEM Benchmarking exercise for many years on both the Investment and Administration side. The results of the benchmarking are used to monitor trends and comparisons with a peer group and the results are presented annually to the Pension Committee and Local Pension Board.

The performance and service levels of the Global Custodian are reviewed annually, and a report is presented to the Pension Committee highlighting the results and any areas of concern.

Outcomes

The services delivered to us in 2022 have met TWPF needs to ensure TWPF are delivering to the needs of fund beneficiaries and therefore have not taken any remedial action within the last year.

However, the Fund has continued to challenge its managers on their investment decision making and stewardship of specific assets. During FY 22/23, for example, the Fund:

- Challenged Lazard (Active Japanese Equities) on their continued investment in Nippon Steel, one of the highest emitters of greenhouse gases in the portfolio. The manager defended the investment based on the actions the company is taking and the robust plans it has in place to decarbonise its operations, as well as strong prospective financial returns. The Fund continues to monitor the position closely.
- Challenged LGIM (Passive Global Equities) on the holding of high emissions stocks in its Future World range of ESG-driven passive funds. The manager justified these investments on the basis that its policy is to remain invested in such companies (albeit at lower capital weight) and to proactively engage with them on ESG-issues. In addition, some of the companies involved are engaged in the provision of products and services that are critical to the decarbonisation process.
- Challenged BCPP (Active Global Equities) on increasing the level of exposure to China and the appointment of a specialist manager to focus on this market. The Fund was concerned about standards of governance and the prospects for the Chinese economy and equity market returns given elevated geopolitical risk. The manager believes that China now represents too large a share

of global capital markets to ignore, that careful stock selection and engagement is the best way of addressing governance concerns and that closer integration into global markets most effectively mitigates geopolitical risk.

One constraint on the Investment Team is the capacity to continue to monitor the increasing range of ESG reporting being provided by the asset managers. To address this issue plans are under development to increase the capacity of the Investment Team with some dedicated ESG resource to enhance monitoring.

In the search for improvement on climate metric reporting, the Fund is currently working with its private markets managers to ensure a better and more comprehensive picture in terms of their climate impact is provided to TWPF.

In addition, the Committee has noted that the last set of ESG questionnaires sent to managers to assess their approach and alignment with TWPF policies was issued in 2021. Given the fast-moving pace of ESG issues and Stewardship, TWPF aims to improve the frequency of such ongoing monitoring activities to meet the targeted yearly schedule.

Principle 9

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

Activity

As set out in the ISS, TWPF believes that well governed companies that manage their businesses in a responsible manner will produce superior returns over the long term. TWPF employs external investment managers and sets clear expectations with those managers on engaging with issuers on its behalf.[19]

The Fund's equity and debt managers, public and private, engage with portfolio companies on its behalf. Engagement takes many forms depending on the asset class, including meetings with company management, filing shareholder resolutions, voting, taking up Board seats in private companies, participating in creditor committees, etc. The Investment Team ensures all managers, including those appointed directly and those engaged by BCPP, adopt an approach to engagement which is consistent with TWPF's expectations. The approach to engagement is a key consideration in the selection of new managers/funds, and expectations are reinforced through the quarterly reporting and manager review process. As noted in more detail against Principle 8, each of the Fund's managers reports quarterly, highlighting areas where engagement has helped to drive change.

In terms of selecting and prioritising engagements, BCPP chooses to focus on several key areas to ensure meaningful changes can be made in collaboration with the underlying funds, with the themes being reviewed every three years[20]. Since 2021, BCPP has had four priority areas which guide and prioritise engagement: low carbon transition, diversity of thought, waste and water management and social inclusion through labour management. TWPF share with BCPP the belief that companies which prioritise these themes have the potential to drive positive outcomes across environmental, social and governance factors, which will ultimately have the most material financial impact on its investment portfolios in the long term. The themes are also used to determine priorities in working with BCPP's voting and engagement partner, Robeco, in considering which collaborations to join on TWPF's behalf (see more on collaboration under Principle 10).

Selected case study examples of such engagements are offered further below to illustrate how these engagements have met the Fund's expectations from managers working on its behalf.

The Fund actively monitors and influences subjects of discussion and training in collaborative environments. TWPF has a track record of requesting ESG issues to be added to the agendas for LAPFF

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[19] Engagement also takes place on behalf of the Fund via the Local Authority Pension Fund Forum (LAPFF) of which TWPF is a member, including the Vice Chair of TWPF Pensions Committee sitting on the executive of LAPFF. LAPFF forms part of our collaborative engagement efforts to work with other Pension Fund investors (see disclosure against Principle 10).

[20] BCPP's Responsible Investment Policy is available in full here https://www.bordertocoast.org.uk/wp-content/uploads/2023/01/Responsible-Investment-Policy-2023-1.pdf?_gl=1*ef9j03*_up*MQ..*_ga*OTYyMTAzNDg5LjE2ODEyMTk1ODA.*_ga_KKJQ3HKXSW*MTY4MTIxOTU3OS4xLjEuMTY4MTIyMDc4MC4wLjAuMA..

meetings, with topics such as Climate Change in Private Markets, Green Bonds and Climate Scenario analysis being the latest of the suggestions made towards the LAPFF 2023/2024 workplan.

Outcomes

The table below presents an overview of ESG engagements reported by BCPP, highlighting their work with underlying companies towards improving their Environmental, Social and Governance practices.

Engagement by Issue	Environmental	Social	Governance	ESG General	Business Strategy	Global Controversy	AGM	Total
External Managers	127	48	133	141	69	0	2	520
Robeco	99	55	45	60	0	18	7	284
LAPFF	575	142	56	7	0	0	0	780
Total	**801**	**245**	**234**	**208**	**69**	**18**	**9**	**1584**
Percent	**50.6%**	**15.5%**	**14.8%**	**13.1%**	**4.4%**	**1.1%**	**0.6%**	**100.0%**

Specific examples of collaborative engagement covered by the summary above can be found below:

Tesco
Mandate: UK Equity Alpha Fund, BCPP
Background
Following the military coup in Myanmar in February 2021, it has been widely reported that there has been a drop in human rights and labour standards throughout the country, with union leaders targeted, internet connections cut, wages withheld, and a lack of freedom of assembly for workers. Tesco announced a responsible exit from the country, concluding in May 2022. LAPFF sought a meeting with the company to discuss this responsible exit and gain insight into the company's global supply chain due diligence.
Actions taken
When LAPFF met with Tesco, a range of factors relating to the company's withdrawal from Myanmar were discussed. The Ethical Trade Initiative's recommendations for responsible business in the garment sector arose as a point of reference. There was also a useful discussion about whether companies can maintain leverage over factories and the human rights situation on the ground with the Junta in power.
Outcomes
LAPFF is continuing to monitor companies that have supply chain links to Myanmar and will likely seek meetings with those that are seeking to exit the country or have already done so to gain a broader picture of how companies are approaching a 'responsible exit'

Dell and CISCO
Mandate: RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund (OFC), LGIM
Background
LAPFF has continued to investigate issues of Uyghur forced labour in Xinjiang and other regions of China. After two engagements with companies earlier in the year, LAPFF has been looking at potential ways forward through collaborative engagement on the issue.
Actions taken
LAPFF joined the Investor Alliance for Human Rights Uyghur Region Engagement Group earlier in the year and has attended a quarterly meeting, gaining insight into what other investors have learned in their engagements. The Forum also reached out to the Australian Strategic Policy Institute (ASPI), which produced the report 'Uyghurs for Sale' in March 2020, linking 82 global brands to factories in the Xinjiang region with suggestions of forced Uyghur Labour. LAPFF met with ASPI representatives to discuss the work it had done for this report and for a wider discussion on its work around the issue. The conversation implied that companies operating in the Xinjiang region could not undertake the thorough levels of due diligence they were claiming to be able to do. LAPFF followed up with questions to both Cisco and Dell after meetings earlier in the year, but neither company responded to these questions.
Outcomes
LAPFF is currently looking at ways to progress dialogue with companies already engaged on this issue and how to get non-responders to engage in a meaningful manner.

JAFCO Group Co Ltd
Mandate: Japanese Listed Equities, Lazard Asset Management
Background
JAFCO Group Co Ltd ('JAFCO') is a Japan based private equity and venture capital firm that manages investment funds and invests its proprietary capital directly in private companies. Lazard Asset Management ('LAM') has been a large and long-term holder of JAFCO shares and has a history of open dialogue with management, which has been responsive to suggestions regarding the strengthening of its corporate governance and capital efficiency. In August 2022 activist investor Mr Yoshiaki Murakami informed the board of JAFCO that his City Index Eleven, along with other entities he controls, had acquired around 15% of the company shares. He further indicated the possibility to continue to purchase more JAFCO shares, that could potentially take their stake to a controlling 51%. In response, JAFCO's board decided to introduce anti-takeover measures (a 'poison pill'), featuring stock option allocation to dilute ownership if Murakami related parties were to attempt to acquire more than 20% of JAFCO's listed shares. The board claimed that the share buying of these parties could prevent maximization of the company's corporate value and the shareholders' common interests.

Actions taken
Following this announcement, LAM met with senior management of JAFCO to understand the company's position and rationale for the takeover defence policy. The manager followed up with a formal letter to the President CEO of the company, stating their opposition to the takeover defence that was adopted without shareholder approval, referring to guidance in the Japan Corporate Governance Code (Principle 1-5), which expresses disapproval of anti-takeover provisions, and the fact that LAM has historically opposed other companies' attempts to employ defence measures in similar situations. As these anti-takeover defence measures are not in the best interest of JAFCO's long term shareholders, Lazard stated in their letter that they would plan to vote against JAFCO's anti-takeover measures if the opportunity were to arise. The manager further articulated that it is in the shareholders' interest to permit potential tender offers and requested that the company promptly remove the anti-takeover defence. President and CEO Keisuke Miyoshi responded to the letter, justifying the company's position by arguing that Murakami's buying of shares would not maximize shareholder value because he could, in theory, buy the shares in the market and acquire a controlling interest without offering a sufficient premium to remaining shareholders
Outcomes
In November 2022, the board of JAFCO decided to review its policy on shareholder returns and to implement measures to further improve capital efficiency. The company sold all its shareholdings in Nomura Research Institute and - with the proceeds - conducted a 42 billion share buyback through a tender offer. Upon completion of this tender offer in January 2023, JAFCO also announced the abolition of the anti-takeover defence measures. In the medium to long term, JAFCO has set a 10-year management goal of reducing the net assets. In addition, the company will aim to reduce its investment ratio in new funds from the current 40% to 20% in 10 years. By improving capital efficiency and profitability, the company will aim to increase the total return ratio to between 60% and over 100% and the ROE to between 15% and 20% (from 6% currently). Following the announcement of the new capital efficiency improvement policy, Lazard met CEO Miyoshi to express their approval as well as discuss issues related to its execution. LAM also welcomed the company plans to provide opportunities for dialogue between independent directors and institutional investors regarding its future capital and dividend policies and investment activities that contribute to ESG and sustainability goals.

Principle 10

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

Activity

TWPF has been a long-standing member of the Local Authority Pension Fund Forum (LAPFF) which engages directly with companies on behalf of the LGPS on a range of ESG issues from executive pay and reliable accounts to a just transition to a net zero economy. TWPF proactively collaborates through LAPFF. The Fund is represented on the LAPFF executive and Officers attend meetings which help to shape the work programme for LAPFF.

TWPF's involvement in LAPFF is one of the main conduits TWPF uses to participate in collaborative engagements to influence issuers. LAPFF's Climate Change Investment Policy Framework[21] is designed to support Funds as they develop their investment strategies and associated policies to address the financial risks of climate change. The Framework and LAPFF engagement supports TWPF's Climate Policy. Outside LAPFF activity, TWPF expects managers working on the Fund's behalf to work collaboratively with other investors to enhance their influence. For example, BCPP participates in collaborative engagement that has been instigated by its managers, through its membership of the Local Authority Pension Fund Forum (LAPFF), or with the Cross Pool Group. As BCPP manages assets on behalf of eleven local government pension funds (including TWPF), this already provides highly effective collective engagement. BCPP is partnered with several organisations including LAPFF on a range of issues, Climate Action 100+, and the 30% Club which promotes board and senior management diversity.

Similarly, LGIM is a member or supporter of multiple industry-wide organisations and initiatives, including:

- a number committed to increasing female representation on boards to at least 30% across multiple jurisdictions, including the UK, US and Japan 30% Club Investor Groups.
- Initiatives focused on nature: FAIRR (Farm Animal Investment Risk and Return) initiative which is an investor network focusing on ESG risks in the global food sector such as climate change and antimicrobial resistance via the livestock industry.
- Finance for Biodiversity Pledge, where signatories commit to protect and restore biodiversity through their finance activities and investments.
- Initiatives with a focus on climate change: Climate Action 100+, CDP (formerly the Carbon Disclosure Project), Climate Bonds Initiative, Institutional Investors Group on Climate Change and Transition Pathway Initiative (research funding partner).
- Industry associations including: the Investment Association (IA), International Corporate Governance Network (ICGN), and Investor Forum (IF).

[21] The Framework can be seen here https://lapfforum.org/wp-content/uploads/2020/11/2020-LAPFF-Climate-Change-Investment-Policy-Framework.pdf

Both LGIM and BCPP are key managers acting in collaborative efforts on behalf of the Tyne and Wear Pension Fund. LGIM manages the assets of a very large number of other UK pension schemes which strengthens the influence it has on the underlying issuers through engagement on behalf of the wider LGPS market. The Border to Coast Pensions Partnership collects inputs from 'Partner Funds' such as TWPF through workshops and regular meetings, ensuring its policies and engagement activities reflect the values and policies of its members. Through their collective influence, the two managers ensure that TWPF's views are adequately accounted for and relayed to underlying public market equity and bond issuers.

In addition, three of the five private equity managers employed by TWPF are members of the Initiative Climat International (iCI) (Harbour Vest, Pantheon, Coller Capital), ensuring that appropriate stewardship practices are used with the Fund's private equity assets. The iCI is a global, practitioner-led community of private equity firms and investors that seeks to better understand and manage the risks associated with climate change[22]. The Fund expects, supports and encourages its managers to participate in such collaborative engagements on the TWPF's behalf.

Outcomes

Engagement with Chipotle regarding water stewardship
Mandate: RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund (OFC), LGIM
Background
LAPFF has been engaging with Chipotle on the company's approach to water stewardship for three years. The focus of the engagement has been to encourage the company to undertake a full value chain water risk assessment. Following discussions between LAPFF and the company, an agreement was reached that would see a resolution submitted on this issue withdrawn from the 2022 AGM ballot. The withdrawal was conditional upon formal commitments being made relating to the company's water stewardship programme.
Actions taken
LAPFF held a follow-up call with Chipotle to measure progress made against LAPFF's initial asks. In response to the resolution, the company has completed a materiality assessment covering ingredients, its supply chain and restaurants.
Outcomes
In Progress: Given the company now 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 will continue to work with the company to develop these goals.

[22] The iCI was originally launched as the iC20 (Initiative Climat 2020) in 2015 by a group of French private equity firms to contribute to achieving the Paris Agreement's objectives. The iCI has since expanded internationally and now counts some 212 firms representing over US$3.4 trillion in AUM, as of 1st October 2022.

Engagement on modern slavery
Mandate: UK Equity Alpha, BCPP
Background
Modern slavery is a widespread and criminal activity with a significant global economic impact. Weak enforcement, complex supply chains, and a growing number of migrants in search of prosperity have fuelled the exploitation of people through forced labour and sexual slavery. The UK's Modern Slavery Act requires companies to publish a statement detailing their efforts to prevent modern slavery, but the act lacks enforcement powers and standards of disclosure are generally low.
Actions taken
In January 2023, BCPP joined the 'Votes Against Slavery' initiative, led by Rathbones, to improve supply chain transparency through collaborative engagement. In 2023, the initiative focused upon 38 non-compliant companies from the FTSE 350, of which the UK Equity Alpha mandate is invested in 12. Following engagement, 8 companies are now compliant.
Outcomes
Failure to comply for the remaining companies results in votes against the acceptance of their annual report and accounts during the 2023 AGM season. Engagement is ongoing.

Engagement on National Grid's transition plan
Mandate: Sterling Investment Grade Credit Fund, BCPP
Background
In July 2022, LAPFF issued a voting alert recommending a vote against National Grid's transition plan. It flagged concerns that despite draft climate action plans from Massachusetts and New York state agencies proposing nearly 10 million households change their heating systems to electric heat pumps by 2050, National Grid still envisaged 50% of households in these states having some form of gas burning system by 2050.
Actions taken
A meeting was held with Duncan Burt, the Head of Sustainability, and Justine Campbell, the Company secretary, prior to the AGM to discuss these concerns. This was followed by attendance at the company AGM to ask about Scope 3 targets being aligned with the remaining global carbon budget, on processes to ensure lobbying was aligned with the goals of the Paris agreement, and on disclosing progress against the CA100+ benchmark. At the meeting, National Grid representatives provided more detail on 1.5°C alignment and the challenge for the gas business in the US. At the AGM, LAPFF representing the lead investors for the CA100+ group, noted the importance of government, regulators and companies working constructively together to deliver the energy transition, and commended National Grid for the adoption of real zero as a goal. The chair, Paula Reynolds, and the Chief Executive, John Pettigrew, both responded positively, with further information being provided on Science-Based Target initiative (SBTi) certification in the UK and

committing to an assessment against the benchmark. The full AGM transcript is provided on the company website.
Outcomes
In Progress: As part of engagement coordinated through Climate Action 100+ correspondence has been sent to the company to identify and unlock potential policy barriers to the delivery of decarbonisation of the power and utilities sector. An initial response suggests a focus on legislative challenges, measures to accelerate net zero infrastructure, actions around affordability, and a fair and just transition.

Engagement with Renault and General Motors on responsible mineral sourcing
Mandate: Multi-Asset Credit, BCPP
Background
LAPFF has continued its engagement with electric vehicle manufacturers to gain a better understanding of how they are addressing the risks associated with sourcing the minerals they need to produce the batteries for their vehicles. LAPFF met with Renault and General Motors on this issue for the first time and with Mercedes for the second time in Q4 2022.
Actions taken
An overview of Renault's work on risk assessments for the minerals it sources and contingent reporting was discussed. LAPFF also raised the potential benefits of membership of the Initiative for Responsible Mining Assurance (IRMA).
Outcomes
The discussion with Mercedes provided an in-depth view of the work the company was doing with regards to risk assessment of minerals and some of the work the company was doing in the Democratic Republic of the Congo. General Motors laid out new additions to its board and the skills they would bring in the transition to electric vehicles. The company also spoke about the aspirations it had with its risk assessment process, audit programme and its dialogue with suppliers on the IRMA. LAPFF is continuing to seek engagements with electric vehicle manufacturers, impressing upon them the benefits of transparent reporting and enhanced due diligence, whilst seeking to better understand what work companies are doing and how they are managing a just transition.

Engagement on Sainsbury's staff wages
Mandate: RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund (OFC), LGIM
Background
Sainsbury's came under scrutiny for not paying a real living wage to all of its workers. LGIM initially engaged with the company's former CEO in 2016 on this issue and, by 2021, Sainsbury's was paying a real living wage to all employees, except those in outer London. The manager joined forces with ShareAction to encourage the company to change its policy for outer London workers. However, these engagements failed to deliver the desired change.
Actions taken
In April 2022, LGIM joined ShareAction in filing a shareholder resolution asking the company to become a living wage accredited employer. As an accredited living wage payer, the company would be obliged to ensure that all workers within its premises were earning the real living wage, including its contracted staff. Both TWPF and LGIM believe that the successful companies of the future will be those that recognise the importance of all employees – not just those who are directly employed, but also contractors and those within their supply chains. Thus, the manager encourages companies to work together to make the living wage the new normal for lower skilled roles.
Outcomes
Since filing the shareholder resolution, Sainsbury's has made three further pay increases to its directly employed workers, harmonising inner and outer London pay and is now paying the real living wage to its employees, as well as extending free food to workers well into 2023. TWPF welcomes these actions which demonstrate the value the board places on its workforce. LGIM and ShareAction are currently undergoing further enquiries with the board to collaborate with other key industry stakeholders to bring about a living wage for contracted staff.

Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers.

Activity

TWPF supports active management aimed at enhancing the value of the underlying investments and this is set out in its expectations of the managers TWPF appoints. TWPF believes that managers, who have both the knowledge and experience, are best placed to determine the course of any escalation required for a successful intervention.

Where an issue has arisen through engagement, and a manager has been unable to reach a satisfactory outcome through active dialogue, an abstention or vote against a company's position may be required and TWPF supports manager discretion in doing so on its behalf. TWPF expects managers to inform the company in advance of their voting intention, with reasons.

TWPF also supports and participates in class actions to safeguard assets when a manager is unable to resolve issues through voting or direct communication. Managers must seek direction from the Fund when the Fund has informed them that it is involved in a class action against a company. The decision on participation is governed by a protocol that has been approved by the Pensions Committee. The class action protocol clearly defines the role of two US-based law firms, Grant and Eisenhofer ("G&E") and Robbins Geller Rudman & Dowd LLP ("RGRD"), to identify class actions where the Tyne and Wear Pension Fund is a potentially affected party of the alleged violation. The decision on whether to progress with a formal complaint is taken by the Head of Pensions and the Head of Legal Services once the impact on the Fund has been examined[23].

TWPF also expects its debt managers to take appropriate action when portfolio companies default on their obligations in bond or loan agreements. Escalation may include enforcing enhanced information rights, interest margin step-ups and/or security interests with a view to protecting the Fund's interests. Where appropriate, managers will be expected to enter negotiations with company management regarding a debt restructuring or to take control of the company and refinance it. Expectations are set in mandate specifications and the manager's approach to stewardship including escalation is one of the factors considered when new managers are selected. Escalation decisions and activity are monitored through the quarterly manager reporting/review process.

The Pensions Committee has discussed the issue of divestment in several areas of investment previously. The policy of active engagement with companies is considered a more productive approach to effecting change, rather than divestment. This is reflected in the Fund's investment beliefs, as noted in disclosure against Principle 1. However, TWPF does engage in dialogue with managers in disinvesting from certain holdings where engagement or other escalation is deemed to be unsuccessful.

Managers employed by TWPF are expected to follow the Fund's policy on escalation. Border to Coast's approach, for example, is aligned with TWPF. BCPP believe that engagement and constructive dialogue

[23] The TWPF class action protocol is available here https://www.twpf.info/media/2999/Class-action-protocol/pdf/Class_Action_Protocol.pdf?m=637922632134370000

with the companies in which it invests is more effective than excluding companies from the investment universe. However, if engagement does not lead to the desired result escalation may be necessary. A lack of responsiveness by the company can be addressed by conducting collaborative engagement with other institutional shareholders, registering concern by voting on related agenda items at shareholder meetings, attending a shareholder meeting in person and filing/co-filing a shareholder resolution. If the investment case has been fundamentally weakened, the decision may be taken to sell the company's shares'[24].

Outcomes

TWPF works with managers to discuss escalation strategies, drawing on a range of options as noted above. The case studies below, which relate to equity interests, provide examples of the approach in action. The Fund also expects its bond/loan managers to escalate issues of concern. Stewardship reporting is less well developed in the fixed income space and as a consequence further improvements to this process are under development.

During FY 22/23, for example, the Fund's managers:

Class Action against Chemical and Mining Company of Chile (SQM)
Mandate: RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund (OFC), LGIM
Background
Chemical and Mining Company of Chile (a/k/a Sociedad Quimica y Minera de Chile S.A or "SQM") is one of the world's largest producers of agricultural and industrial chemicals. The allegations made were that SQM made illicit payments and then filed fictitious tax receipts to conceal these payments. These actions resulted in an artificially high share price for SQM which caused the Fund to lose in the region of £5 million.
Actions taken
In September 2015, the Pensions Committee was advised that the Fund had applied to become lead plaintiff in the US based action. On 14 October 2015, the US Court appointed the Fund as the lead plaintiff in the litigation. This was an important step and gave the Fund greater control over the case. The Fund's complaint was filed with the US Court on 15 January 2016. Following which there was a period of several years of negotiations and hearings in respect of liability and other issues, including jurisdiction. The Fund's Head of Pensions was deposed to give evidence as part of the hearings for this case. As part of the claim process, the parties entered mediation. Whilst SQM were willing to accept liability, there was a big difference in the parties' positions in respect of the value of the claim. The Fund, on behalf of the class, were seeking $118 million, but the defendant was offering a total sum of $4 million. As the prospect of litigation grew, the parties agreed to attend further mediation. A full day mediation hearing took place on 9 October 2020. The parties did not reach an agreement at the mediation hearing, but subsequently agreed to settle the action for $62.5 million on 10 November 2020. On 17 December 2020, the court held a telephone hearing on the plaintiff's motion for preliminary approval and granted the motion on 18 December 2020.

[24] Extracted from the BCPP Responsible Investment Policy, page 10 https://www.bordertocoast.org.uk/wp-content/uploads/2022/03/RI-Policy-2022.pdf

Outcome
In early 2021, RGRD filed a motion for final approval of the settlement and a motion for attorneys' fees. The Court held a final approval hearing on 2 April 2021. As noted above the Fund received a final settlement payment of $462,000 in May 2022. The matter is now considered closed.

Group action against Volkswagen
Mandate: RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund (OFC), LGIM
Background
The use of so called "cheat devices" in certain Volkswagen vehicles has been very widely reported. Once the conduct of Volkswagen came to light in September 2015, the share price in Volkswagen fell significantly causing a loss to investors. The Fund's loss has been estimated to be in the region of €2,500,000 - €5,500,000 (approximately £1,900,000 - £4,300,000) depending upon the method of calculation used. There are different methods available for calculating loss in Germany and this will be an issue for the German court to determine. The Fund has joined a group action litigation against VW seeking to recover financial losses incurred.
Actions taken
Hearings in the group action case commenced on 10 September 2018. Three judges will hear evidence and decide the case. The court expressed its preliminary opinion that there were significant indications that VW had violated its disclosure obligations for claims arising out of purchases after 10 July 2012. Separate to the group action litigation, VW is also facing challenge from other sources, including: In September 2019, German prosecutors charged the CEO of Volkswagen with misleading investors in withholding information about the scandal to prop up VW's share price. On 25 May 2020, VW announced it would pay $9million to end legal proceedings against the Chairman and CEO who were accused of market manipulation. The payment by VW ends the case with no admission of wrongdoing, however, the charges originally brought in September 2019 remain active against VW its former CEO and over 30 executives. Additional charges were filed against VW managers in September 2020 alleging the fraud began as early as November 2006, further supporting the theory of the case. VW has also been ordered to pay compensation to owners of vehicles with defeat devices. The ruling allows owners to return the vehicle to VW which will serve as a template for roughly 60,000 consumer suits still pending. VW said it had paid out a total of $750 million to more than 200,000 claimants in Germany to settle a consumer group litigation, although it was setting aside $830 million in total for that settlement. On 17 December 2020, the European Court of Justice ruled that VW broke European law by installing defeat devices to cheat on emissions tests. The ECJ held that "a manufacturer cannot install a defeat device which systemically improves during approval procedures, the performance of the vehicle emission control system and thus obtain approval of the vehicle". Germany is bound by rulings of the

ECJ and therefore this decision prevents VW from arguing that the defeat devices were allowable to "protect" the engine. Limited hearings continued due to COVID-19. In these hearings the Court examined whether Porsche should remain a defendant. The Brunswick Court determined that Porsche shall remain a defendant in so far as Porsche aided and abetted VW's fraud. Hearings scheduled through the spring and summer of 2021 were cancelled due to COVID-19.
Outcome
On 18 November 2021, the Court issued a 30-page resolution in the group action litigation, taking the opinion that the decision to install defeat devices in vehicles for the U.S market constituted 'inside information' that should have been made known to the capital market as early as 2008. This case remains ongoing, and settlement does not appear imminent currently. Fund officers will continue to liaise with external lawyers to assist with the progression of the group action litigation.

Principle 12

Signatories actively exercise their rights and responsibilities.

Context

TWPF recognises that voting rights are one of the most significant sources of influence on equity investments and are essential to protect the interests of the Fund's employers and beneficiaries. The latest version of the Fund's Corporate Governance and Responsible Investment policy (approved by the Committee on 29th November 2022) clearly shows that we believe the application of voting rights deserves the same duty of care as any other investment decision[25]. The Fund requires its managers to vote with the Fund's shares wherever it is practical to do so.

It is important that voting is carried out in an informed manner. For this reason, it is believed that the Fund's investment managers are best placed to undertake it. However, the Fund engages with managers to ensure its expectations on voting are clear, and managers are required to demonstrate they have adhered to the Fund's policy.

To ensure that the managers are following agreed guidelines on proxy voting, TWPF requires managers to complete a voting template detailing their approach to voting. The template is requested annually and covers aspects such as client consulting, voting process, voting statistics over the year and more details on votes perceived as 'most significant'.

As a founding member and partner fund of BCPP, TWPF has influenced the BCPP Responsible Investment Policy and Corporate Governance Voting Guidelines. Voting rights must be exercised in a manner that establishes a consistent approach to the issues, in order that company directors fully understand the managers' views and intentions.

TWPF has a stock lending programme in place with its custodian and may also participate in programmes arranged by certain of its managers. Stock is to be recalled from loan where the Fund's voting rights are required to be exercised on contentious issues.

The Tyne and Wear Pension Fund considers stewardship responsibilities in fixed income investments to the same extent as it does for its equity holdings. As such, the private and public debt managers are required to engage with and promote sustainability in the underlying companies as early as possible in their investment process. Reporting on stewardship to the Fund's officers is expected on a regular basis, alongside performance reporting and other common updates. Examples of fixed income managers engaging with underlying companies are provided in the Outcomes section below

[25] Full Corporate Governance and Responsible Investment Policy available here https://www.twpf.info/media/2520/Corporate-Governance-and-Responsible-Investment-Policy/pdf/Corporate_Governance_and_Responsible_Investment_Policy_29112022.pdf?m=638059251674530000

Activity

TWPF ensures that its managers are effectively exercising their proxy voting duties26. This is done by scrutinising the managers' voting policies and records and checking these are consistent with the Fund's beliefs and voting practices. The Fund actively requests managers to complete the Pensions and Lifetime Savings Association (PLSA) Voting Questionnaire, which aims to ensure that managers realise their significant role and responsibilities as stewards of capital. The questions gather an overview of the voting process and distinction criteria for 'most significant' votes as well as statistics on votes submitted over the year and several details on significant votes. For example, Lazard AM voted on 100% of the votes they were eligible to participate in the year to November 2022, implicitly representing TWPF in the process.

The Fund expects its private markets managers to exercise their shareholder or lender rights to the same extent as it does its public markets managers. To ensure that such responsibilities are met, TWPF actively seeks involvement through positions held on advisory boards, as indicated previously at Principle 10. Taking on advisory board seats allows the Fund to exert its influence and make its stewardship preferences clear to the managers. TWPF is consequently well-represented by its private market managers when they take board seats in underlying funds / companies and actively engage with the individual management teams.

To ensure the Fund's shareholder rights are exercised appropriately, regular proxy voting reports are requested from all publicly listed equity managers. The statistics for the year to 31st March 2023 are presented in the table below. Furthermore, a meaningful proportion of the votes have been cast to abstain or vote against management recommendations, demonstrating that managers are voting objectively, taking into consideration the Fund's views and service provider recommendations. The large number of votes show the impact of TWPF across the public equity markets.

Mandate	Number of meetings attended	Total resolutions voted on	Total resolutions not voted on	Votes for management	Votes against management or abstained	Percentage of votes against or abstained
BCPP UK	209	3,301	0	3,000	301	9.1%
BCPP Global	201	2,750	16	2,402	348	13.2%
LGIM	7,310	80,196	860	63,937	16,259	21.1%
JPM	110	783	18	728	55	7.0%
Lazard	55	743	0	717	26	3.5%
TT	91	653	4	583	68	11.0%
Total	**7,976**	**88,426**	**898**	**71,367**	**17,057**	**20.1%**

Note: JPM Emerging Market Mandate does not have Q1 2023 voting statistics published, thus the statistics for this manager are 3-month lagged at time of submission and publication

[26] Voting policies are available online for BCPP https://www.bordertocoast.org.uk/wp-content/uploads/2023/01/Corporate-Governance-Voting-Guidelines-2023.pdf?_gl=1*rqpb2h*_up*MQ..*_ga*MTI0NzkyMTA0Ni4xNjgwNjIwODE0*_ga_KKJQ3HKXSW*MTY4MDYyMDgxMy4xLjEuMTY4MDYyMDgzOC4wLjAuMA., LGIM https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/equal-voting-rights-tagged.pdf, Lazard https://www.lazardassetmanagement.com/docs/-m0-/16376/LazardProxyVotingPolicyAndProcedures.pdf and TT International https://www.ttint.com/documents/149/Proxy_Voting_Policy.pdf

Outcomes

ExxonMobil
Mandate: RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund (OFC), LGIM
Background
At the Annual General Meeting on 25th May 2022 resolution 6: Set greenhouse gas ('GHG') emissions reduction targets consistent with the Paris Agreement goal was put to vote for the shareholders. Management recommended an against vote for this issue.
Vote and rationale
The proposal called on Exxon to set a credible net zero plan in alignment with the 1.5°C trajectory – LGIM supported this resolution given the company's current level of ambition, and its stated expectations. A vote FOR is applied in the absence of reductions targets for emissions associated with the company's sold products and insufficiently ambitious interim operational targets. TWPF and LGIM expect companies to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5°C. This includes the disclosure of scope 1, 2 and material scope 3 GHG emissions and short-, medium- and long-term GHG emissions reduction targets consistent with the 1.5°C goal.
Outcome
The resolution only achieved 27% support. LGIM had communicated their expectations regarding the net zero transition to the company and will continue to engage on the investors' behalf.

EasyJet
Mandate: UK Listed Equity Alpha and Global Listed Equity Alpha, BCPP
Background
BCPP's holding in EasyJet is classified as material due to the Fund voting on more than 1% of votable shares. The voting advisor's (Robeco) custom voting policy position was to vote 'Against' a proposal for adjusting the executive remuneration policy mainly due to concerns over the long and short-term criteria which were not referring to capital employed. Furthermore, the advice on the issue of re-appointing the auditor was also 'Against', as the same auditor had been in place for 17 years.
Vote and rationale
Following dialogue with portfolio managers and external managers BCPP was able to understand further information about the remuneration policy and in particular the company perspective of the choice of current criteria weighed against a shareholder-approved aircraft order (impacting current use of capital). In addition, the manager also found out that the next competitive tender for auditor is scheduled for 2024 and the incumbent firm is unable to participate.

As a result, both votes were changed to 'For'.
Outcome
BCPP also contacted the company and spoke directly with them about the issues above and explained their concerns. As well as providing further information the IR reiterated that the manager's feedback will be communicated to the board. BCPP initiated future strategic engagement with the company later in the year now that a reliable contact has been established.

Alibaba Group
Mandate: Asia Pacific Listed Equities, TT International
Background
The vote concerned electing Joseph C. Tsai and J. Michael Evans as directors. ISS recommended voting against non-independent director candidates on the basis that the company's board is not majority independent.
Vote and rationale
TT noted that the board's independence improved with Eric Jing, the Chairman and CEO of Ant Group, stepping down. This raised the board independence from 45% to 50%, even when a stricter independence criterion is applied (10 members composed of 4 executives, 1 Softbank candidate, and 5 independent directors).
Outcome
When deciding the vote, two factors carried the most weight – the board's improved independence and Joe Tsai deserving the role of director as a co-founder of the company.

Toyota Motor Corp.
Mandate: Japanese Listed Equities, Lazard Asset Management
Background
At the 15th June 2022 meeting the appointment of statutory auditor George Olcott was recommended by management.
Vote and rationale
Olcott is a director of Denso, an affiliate of Toyota so cannot be considered independent. An independent auditor is key to ensuring management is accountable to the company's shareholders.
Outcome

The management proposal received the majority shareholder support required to pass despite the opposition shown by Lazard on TWPF's behalf. The manager will continue to engage with the company to address the independence and objectivity of its auditors.

HPS engagement with private debt issuers
Mandate: Private debt, HPS Investment Partners
Background
The Company (anonymised) is a leading UK-based insurance underwriter, lacking diversity targets.
Engagement and actions taken
During the due diligence phase, HPS and the Company engaged and agreed to integrate certain ESG incentives into the credit agreement. Examples of the agreed-upon incentives include incorporating D&I considerations into corporate governance through female representation at the board and executive level and a target proportion of new hires to be from ethnic minority groups.
Outcome
After closing of the transaction, the applicable HPS deal team and ESG team engaged with the sponsor in the transaction to codify these KPI targets.

Engagement with Enel Spa
Mandate: Sterling Investment Grade Credit Fund, BCPP
Background
Enel is an Italian multinational manufacturer and distributor of electricity and gas, and its predominant shareholder is the Government of Italy. The Company is amongst the highest emitters across BCPP's fixed income assets.
Engagement and actions taken
Engagement has been carried out under the Climate Action 100+ initiative for several years and recently, significant improvements have been seen in the Company's emissions reduction targets, transition plan, and climate policy advocacy. Key actions taken include the Company obtaining external verification by the Science-Based Targets Initiative (SBTi) on their emissions reduction targets' alignment with a 1.5°C scenario, committing to phase out of thermal power generation (coal and natural gas) and exit gas sales to customers, and aligning its capital investments with its net zero targets.
Outcome
Enel has also disclosed its first industry association review to ensure that its climate policy engagement (direct & indirect via industry associations) is consistent with the goals of the Paris Agreement. This progress has been recognised by the Climate Action 100+ initiative's Net Zero Benchmark disclosure

assessment by becoming the first and only company assessed to fully meet the Disclosure Framework criteria in 2022.

Appendix I

TWPF Advisory Board Representation

Partners Group Funds	Partners 2006 Direct
	Partners Global Infrastructure Fund 2009
	Partners Group Direct Infrastructure 2011
	Partners Global Infrastructure Fund 2012
	Partners Group Direct Infrastructure 2015
	Partners Global Infrastructure 2018
	Partners Direct Infrastructure 2020
	Partners Asia Pac. & Em. Mkts 2009
	Partners Secondary Fund 2009
	Partners Global Real Estate 2011
	Partners Direct Real Estate Fund 2011
	Partners Asia Pac. Real Estate 2011
	Partners Real Estate Secondary 2013
	Partners Real Estate Income 2014
	Partners Global Real Estate 2013
	Partners Real Estate 2014
	Partners Real Estate Secondary 2017
	Partners Global Value Real Estate 2019
	Partners Real Estate Opportunities 2019
	Partners Real Estate Secondary 2021
HarbourVest Funds	HVP VII Buyout
	HVP VII Mezzanine
	HVP VII Venture
	HVP Direct Fund 2004
	HIPEP V Partnership

	HIPEP V Direct
	HVP VIII Buyout
	HVP VIII Venture
	HVP Direct Fund 2007
	HVP Direct Fund 2013
	HIPEP VII Partnership
	HVP X Buyout
	HVP X Venture
	Dover Street IX
	Co-Investment IV
	HIPEP VIII Partnership
	HVP XI Combined Fund
	Co-Investment V
	Dover Street X
Pantheon Funds	PEURO IV
	PEURO VI
	PASIA VI
	Pantheon Access Euro 2016
	Pantheon Access USD 2016
	Pantheon Private Debt PSD II
Infracapital Funds	Infracapital I
HPS Funds	HPS Core Senior Lending Fund
Abrdn Funds	Aberdeen Standard UK PRS LP
Hearthstone Funds	Hearthstone Residential Fund 1 LP
	Hearthstone Residential Fund 2 LP

Appendix II

2021/2022 Investment Report (Extracted from Report and Accounts)

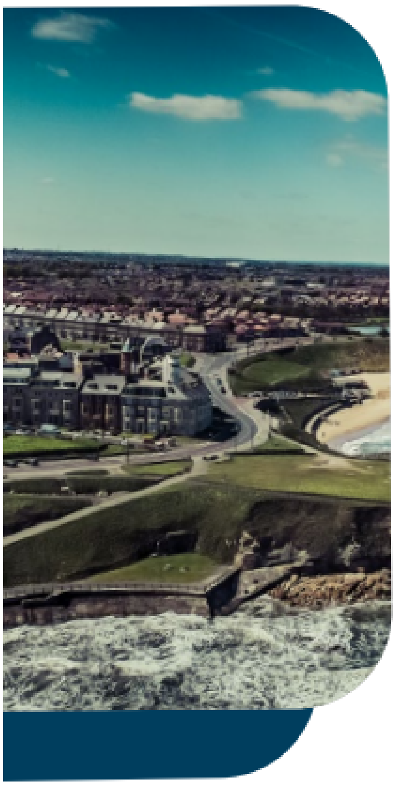
INVESTMENT REPORT

INTRODUCTION

The Investment Office of the Pensions Service manages the investment and financial control of the Fund.

The formal investment objectives are:

- To invest the Fund money in assets of appropriate liquidity to produce income and capital growth that, together with employer and employee contributions, will meet the cost of benefits
- To keep contributions as low and as stable as possible through effective management of the assets.



INVESTMENT STRATEGY

The investment strategy is derived from Asset Liability Modelling (ALM) that uses data from the triennial valuations. This examines the Fund's financial position, the profile of its membership, the nature of its liabilities and an analysis of projected returns from differing investment strategies. This exercise is undertaken by the Investment Advisor, Hymans Robertson, based on liability data provided by the Actuary, Aon.

The current investment strategy is based on ALM work undertaken in 2019/20, using the liability data from the 2019 valuation. This modelling concluded that the Fund should look to de-risk out of growth assets (quoted equities) and into income assets (infrastructure and private debt) and protection assets (corporate bonds).

At Pensions Committee in September 2019, the following long term strategy for the Fund was agreed.

Growth Assets (48.0%)

- 40.5% in quoted equities
- 7.5% in private equity

Income Assets (29%)

- 8.0% in UK property
- 5.0% in global property
- 6.0% in private debt
- 5.0% in infrastructure
- 5.0% in multi asset credit

Protection Assets (23%)

- 22.0% in bonds
- 1.0% in cash

By the end of March 2022 the Fund had made the required moves out of quoted equities and into corporate bonds. Additional commitments have also been made to the infrastructure and private debt programmes. It was recognised, however, that building up these allocations, out of equities would take several years implement.

Further ALM has been undertaken in early 2022, based on market conditions at that time and updated liability data. This is being used to inform a review of the investment strategy. This review is now well progressed and at Pensions Committee in March 2022, provisional approval was given to a new high level strategy. This was the first phase of the review. This provides for further increases to private equity, infrastructure, and private debt and a new allocation to climate opportunities. This will be funded, in coming years, by a further reduction in the Fund's allocation to equities.

The second stage of the review has now also been undertaken and the outcome has been discussed with the Committee. This second stage provided more detail on the allocations to equities, bonds and property.

A final decision on the approval of this new strategy and other potential changes to mandates and portfolios will be taken at the September 2022 meeting of Pensions Committee.

QUOTED EQUITIES AND BONDS

The Fund uses a range of investment managers in relation to its quoted equity and bond assets. The mandates cover both active and passive strategies.

With regards to the Fund's active mandates, most of the assets being managed actively are through investments with the Fund's pooling partner Border to Coast. Although, it should be recognised that the Fund still has some direct equity mandates with other managers.

The passive allocation is managed by Legal and General Investment Management. Whilst the passive assets with Legal and General are not formally part of the investment pool run by Border to Coast, they have been subject to a joint procurement exercise with the other ten funds in Border to Coast. This has helped deliver the benefits of pooling, through reduced fees and these assets have therefore been categorised by the Fund as pooled assets.

In July 2020, the Fund switched 6% of assets from the market cap passive investments, with Legal and General, to a range of passive funds, called Future World funds. These Future World funds incorporate 30 different environmental, social and governance (ESG) factors into the investment process, including carbon emissions. It is believed that over time tilting a portfolio towards companies scoring well on these factors should result in outperformance compared to a more traditional index.

The managers and mandates are set out in the following table:

MANAGER	PORTFOLIO
Under Pooling:	
Border to Coast	**Active Management** - UK Equities - Global Equities - Sterling Investment Grade Credit - Multi Asset Credit
Legal and General	**Passive Management** - UK Equities - Europe ex UK Equities - US Equities - Emerging Market Equities - Japanese Equities - Asia Pacific ex Japanese Equities - Fundamental Global Equities - UK Index-Linked Gilts - UK Gilts - Corporate Bonds **Future World Equities** - UK - Europe ex UK - US - Emerging Market - Japanese - Asia Pacific ex Japanese
Outside of Pooling:	
JP Morgan	**Active Management** Emerging Market Equities
Lazard	Japanese Equities
TT International	Asia Pacific ex Japan Equities

PROPERTY

The ALM study in 2019/20 confirmed that the long term strategic allocation to property should be 13.0%. This is comprised of 6.0% to UK direct commercial property, 2.0% to UK residential property and 5.0% to global property.

The main UK commercial property exposure is primarily through a mandate managed by Abrdn. This was valued at £573.9 million at the year end. The Fund also inherited two property unit trusts following the merger with Northumberland County Council Pension Fund. Together these were valued at £63.2 million, bringing the total within UK commercial property to £637.1 million, representing 5.0% of the Fund. The underweight position relative to the 6.0% strategic weighting is attributable to the slow pace of investment due to concerns over pricing in the property market.

The allocation to UK residential property was established in 2016/17. This was initially through a fund managed by Abrdn. Two funds managed by Hearthstone was added during 2018/19, and 2020/21 respectively. During 2021/22, a review of the residential property portfolio was undertaken and a decision taken to make commitments to two further funds. The first was the Henley Secure Income fund which specialises in supported living and the second was the CBRE Affordable Housing fund. These commitments should be fully drawn down in 2022/23. At the year end the Fund had £127.8 million, or 1.0% invested in residential property. This is below the 2.0% strategic weighting. The Fund is looking to add an investment in shared ownership to fully diversify this portfolio. The pace of investment continues to be dependent on identifying suitable investment opportunities.

The global property programme had been built up to the target level of 5.0% through investment into funds provided by Partners Group, however following the merger the proportion of the total Fund invested in global property fell as Northumberland did not invest in global property. The programme with Partners Group includes fund of funds, direct and secondary investments. The proportion of the Fund invested through this programme was 3.4% at the year-end, valued at £435.2 million.

INFRASTRUCTURE

The Fund made its first investment into infrastructure in 2006. A review of the approach in 2010 set an allocation of 2.5%, which was achieved largely through investment in funds offered by Partners Group. Between 2017 and 2019 the Fund diversified its infrastructure programme through investments with Infracapital, Pantheon and AMP Capital.

Following the merger with Northumberland, further Infrastructure assets with Antin, GIP and Pantheon were transferred into the Fund. This helped to further diversify the programme.

In 2019/20, the Fund made its first commitments and investments in infrastructure with Border to Coast. In 2021/22 the Fund committed £150 million to the Border to Coast Infrastructure programme. In addition a £50 million commitment was made to a new fund with Partners Group. Most, if not all future commitments to infrastructure will be made through Border to Coast.

The 2019/20 review of the Investment Strategy increased the strategic allocation to 5.0%. At the year end, the total investment in Infrastructure was valued at £468.2 million, representing 3.7% of the Fund. The increased allocation will be built up over the next few years.

PRIVATE EQUITY

The programme is well developed and diversified across providers, geography, industry and vintage years. For many years the main focus of the programme was investment into fund of funds with HarbourVest and Pantheon.

The Fund also made investments into secondary funds managed by Lexington Partners, Coller Capital and HarbourVest, and into direct and co-investment funds managed by HarbourVest, Pantheon, Capital International, Partners Group and Lexington. In 2020, as a result of the merger with Northumberland, further assets were transferred into the Fund managed by Pantheon, Morgan Stanley and Neuberger Berman.

In 2019/20 the Fund made its first commitment to the private equity programme launched by Border to Coast. A further commitment of £350 million has been made in 2021/22. As with infrastructure, most, if not all future commitments to private equity will be made through Border to Coast.

At the year end, £1,259.9 million was invested in private equity, equal to 9.9% of the Fund. This is above the strategic weighting of 7.5%.

PRIVATE DEBT

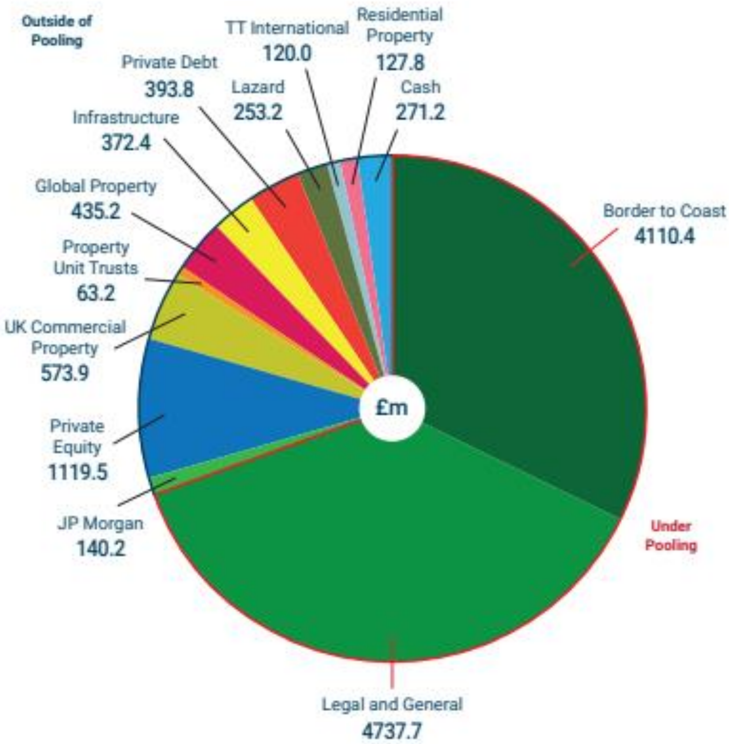
The Fund made its first investments into private debt in 2018. This was through funds managed by Pemberton and HPS. In 2019/20 the Fund also made commitments to funds managed by Pantheon and Border to Coast.

Initially the target allocation was 3.5%. The review of the Investment Strategy in 2019/20 increased this target allocation to 6%.

Good progress towards building up this allocation has been made. In total, at the year end, the Fund had £494.2 million invested in private debt, being 3.9% of the total value of the Fund. In 2021/22 commitments of £350 million were made with Border to Coast to help increase the allocation to the target weighting, although it is recognised that this may take several years.

ASSETS UNDER MANAGEMENT

The value of assets with each manager and in the alternative investment programmes at the year end is shown below:



INVESTMENT MANAGERS' OBJECTIVES AND RESTRICTIONS

The Pensions Committee has set objectives and restrictions for the investment mandates with the aims of ensuring a prudent approach to investment whilst allowing each manager to implement their natural investment style and process.

In addition to the specific restrictions on each mandate, all managers are required to comply with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The investment managers have been set performance targets, mostly based on appropriate indices, which generally require outperformance over three year rolling periods. Annual downside targets or tracking error targets have also been set.

The UK property portfolio had for several years a target based on a long-term return of Retail Price Index plus 4%. The UK residential property portfolio had an absolute target return of 7%. However, a decision was taken to amend these targets and align them with each other. The new target for these asset classes, from 1st April 2021, is the Consumer Price Index plus 4%.

Absolute return targets are in place for the private equity, infrastructure, global property and private debt programmes.

CUSTODY

Northern Trust was appointed in 2002 to provide custody services for the Fund. The service has been market tested and benchmarked regularly to ensure that it remains competitive.

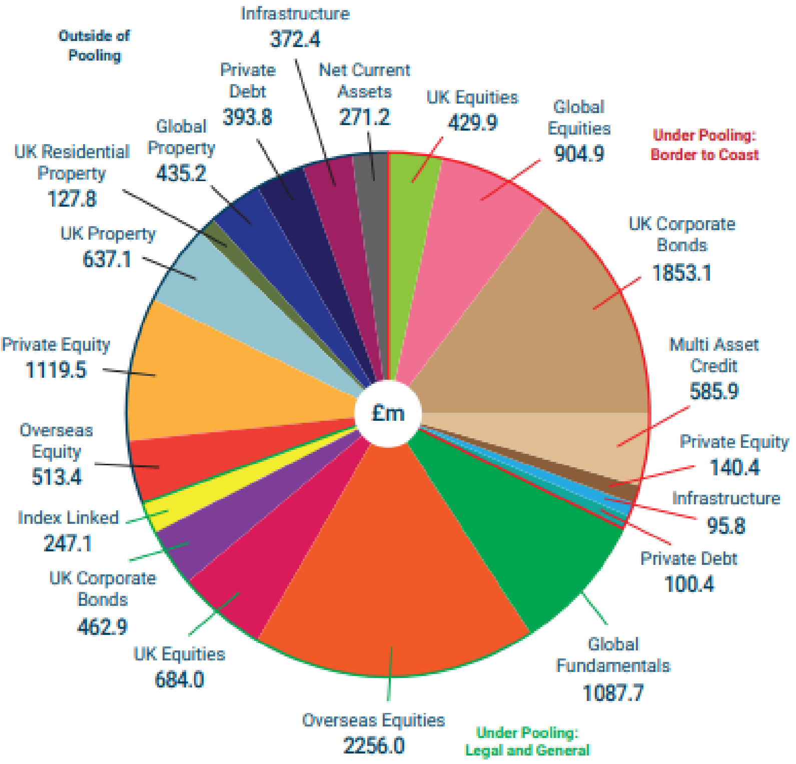
As at March 2022, Northern Trust was providing custody services for approximately £253.2 million of segregated assets held in one mandate.

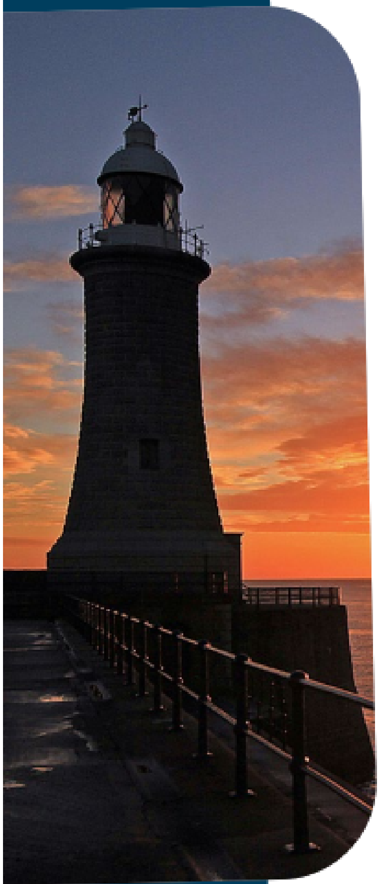
ASSET ALLOCATION

The asset allocation is maintained within pre-determined ranges around the strategic benchmark. Action is considered to bring the Fund back within these ranges when a breach occurs. Legal and General provides management information to assist with this process.

The active managers that invest in more than one market are permitted to take tactical asset allocation decisions within their portfolios. This provides additional scope for managers to outperform their targets.

The asset allocation as at March 2022 is shown below:





LONGER TERM PERFORMANCE OVER THE VARIOUS ASSET CLASSES

The chart below shows the Fund's returns over the main investment markets for the three and five year periods up to 31 March 2022.

The Fund is unable to report performance over the individual asset classes for the ten year period due to changes in the Fund's investment structure and benchmarks during that period.

	Note	THREE YEARS		FIVE YEARS	
		FUND %	BENCHMARK %	FUND %	BENCHMARK %
Fund		**8.9**	**7.3**	**7.6**	**6.4**
UK Equities		5.2	5.3	4.8	4.7
US Equities	1	18.7	19.4	14.7	15.1
European ex UK Equities		9.9	9.8	7.5	7.2
Japanese Equities		8.4	6.5	5.9	5.2
Pacific ex Japan Equities		8.5	11.5	8.0	8.4
Emerging Market Equities		5.5	4.9	6.2	5.3
Corporate Bonds		2.1	1.0	2.4	1.6
UK Index-Linked		3.3	3.3	3.2	3.2
Private Equity	2	26.0	8.0	21.4	8.0
UK Property	3	11.7	7.5	11.1	7.3
Global Property	4	4.3	8.0	5.1	7.8
Infrastructure	5	9.7	7.0	12.6	7.0

1 The benchmark for US equities is a mixture of hedged and unhedged against sterling indices, from 2021/22 the Fund used a position of 40% hedged against sterling and 60% unhedged. All earlier years are 100% unhedged.

2 The return for private equity is shown against an absolute return benchmark of 8% per annum net of fees.

3 The benchmark for UK property is CPI plus 4% per annum for 2021/22. Prior to this it was RPI plus 4%.

4 The benchmark for global property assumes that an individual fund will deliver a zero return for the first three years to allow for J-curve. An absolute return benchmark of 8% per annum net of fees is then assumed.

5 The benchmark for infrastructure assumes that an individual fund will deliver a zero return for the first three years to allow for J-curve. An absolute return benchmark of 7% per annum net of fees is then assumed.

Overall, most of the Fund's equities and bond assets have produced positive returns relative to their benchmarks. However, the main driver to the Fund's good returns over the three and five year periods has been the alternatives programmes.

The private equity returns of 26.0% per annum for three years and 21.4% per annum for five years are well ahead of the benchmark of 8.0%.

The UK property portfolio has performed well above its Inflation plus benchmark over the three year and the five year period.

Whilst the global property programme produced a strong return in 2021/22, over the three and five year period it is below the benchmark. This is because performance suffered due to the impact of Covid on the property markets.

Returns for the infrastructure programme were well above the

Tyne and Wear Pension Fund