Bedfordshire Pension Fund

# Bedfordshire Pension Fund

# Stewardship Report

# 2022/2023

## 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

### Purpose of the Fund

Bedfordshire Pension Fund (the Fund) is a contributory defined benefit Local Government Pension Scheme (LGPS).[1] The purpose of the Fund to provide pensions and other related benefits for all eligible employees of local government and other participating employers. The Fund is open to all eligible employees of the Borough and Unitary Councils within Bedfordshire (excluding teaching staff, police officers and firefighters who have their own pension schemes). A number of other bodies also participate in the Fund by right (scheduled bodies) or are admitted to the Fund following application for membership (admitted bodies).

The Fund’s key facts are shown below:

| Fund Membership | Funding Levels and Employers | Investments[2] | Budget and Cash Flow 2022/23 |
|---|---|---|---|
| **Total membership 78,279 (31/03/2023)**<br>23,717 Active Members<br>33,721 Deferred Members<br>20,841 Pensioners | **Funding Level 92% (31/3/2022)**<br>**238 Employers (31/3/2023)**<br>172 Scheduled bodies (of which 111 are pooled into an academy pool)<br>66 Admitted bodies | **Investments £3.0bn (31/03/2023)**<br>£1.7bn Growth Portfolio<br>£0.9bn Income Portfolio<br>£0.4bn Volatility & Liquidity Management plus Cash<br><br>£2.0bn (68%) pooled with BCPP or in pooled passive funds | **£11m Net Budget**<br>£24m Cashflow Positive<br>£162m Contributions<br>£128m Benefits Payable<br>£10m Management Expenses |

[1] The LGPS is a statutory Scheme established by an Act of Parliament and governed by the Public Services Pensions Act 2013 (PSPA 2013). The regulations are set on a national basis with 89 individual Funds managed by designated administering authorities at a local level. Full details of the benefits payable are explained in the scheme booklet, “A Guide to the Local Government Pension Scheme”.

[2] Unless otherwise indicated, all numbers relating to investments are as at 31 March 2023.

Communication, integrity and accountability lie at the heart of the Fund's culture and values.  These values are put into practice day-to-day through our work with and on behalf of the beneficiaries and all stakeholders.  As set out in the Fund's Business Plan 2023-2027, the team:

1. *Deliver a high quality and friendly information service to all beneficiaries, potential beneficiaries and employers;*
2. *Communicate clearly, appropriately and in a timely manner with all Stakeholders;*
3. *Act with integrity and be accountable to stakeholders for decisions, ensuring that they are robust, well based and undertaken by people who* have the appropriate knowledge and expertise;

The Fund's 3-year Business Plan, revised annually, sets the financial and responsible investment objectives and timetable across the key areas of fund administration, investments and governance, following review by the Local Pensions Board (the Board) and agreement from the Pension Fund Committee.  See Principle 2 for further detail about the Fund's governance structure.

## Investment Strategy and beliefs

The Fund has a fiduciary duty to its employers and members and recognises the importance of being a responsible asset owner.  The Fund has a clear Investment Strategy Statement (ISS), which outlines its investment beliefs.  These investment beliefs lie at the heart of the Fund's decision-making practices by providing a clear and auditable structure to guide decisions, specifically in relation to potential new investments, assessing investment performance of existing investments, and questions of disinvestment of allocations that no longer align with those beliefs. A review during the year led to one minor change (highlighted below).

The ISS is prepared in accordance with the government guidance[3] and is available on the Fund's website.[4]  Minor changes to the ISS are expected to be approved by the Pension Fund Committee in November 2023.

The Fund's investment beliefs were last reviewed over the summer of 2023.  These are expected to be long term and any change glacial, but are subject to annual 'tweaks' and are set out in the following table (with updates agreed in 2023 highlighted).

| **Investment Beliefs** |
| --- |
| *Belief 1: The Committee accepts that some investment risk must be taken to generate the returns required to keep the Fund affordable over the long-term. The level of risk taken will depend upon a number of factors including its funding position and market conditions and fiduciary duty.* |

[3] https://www.gov.uk/government/publications/local-government-pension-scheme-guidance-on-preparing-and-maintaining-an-investment-strategy-statement

[4] https://www.bedspensionfund.org/Fund_information/fund_policies/fund_policies.aspx

| Investment Beliefs |
|---|
| *Belief 2: Markets are dynamic and asset valuations fluctuate for a number of reasons, creating opportunities for investors.*<br><br>*Belief 3: Diversification, to an extent, reduces risk and improves stability of returns*<br><br>*Belief 4: An illiquidity premium enhances returns and can be of strategic benefit given the Fund's long-term investment horizon.*<br><br>*Belief 5: The use of derivatives offers the ability to mitigate certain investment risks and may have a place in the risk management of the Fund. However, derivatives also introduce other types of risk which themselves must be understood and managed.*<br><br>*Belief 6: Management fees can have a material impact on Fund performance.*<br><br>*Belief 7: The Fund's governance budget is not limitless and should be focussed on the areas that have the greatest impact on outcomes.*<br><br>*Belief 8: Environmental, social and governance (ESG) factors can influence the Fund's future outcomes* |

## Responsible Investment Beliefs

In addition to the investment beliefs, the Pension Fund Committee has undertaken research and training to develop an additional set of detailed Responsible Investment (RI) beliefs which form the basis of considering the ESG impact and engagement discussions with the Fund's investment managers directly or via the LGPS pool. An annual review of the RI beliefs led to confirmation of the existing beliefs which are set out in the table below.

| Responsible Investment beliefs |
|---|
| ***Investment strategy***<br><br>*1 Having a responsible investment policy that is specific to the Fund should lead to better financial outcomes.*<br><br>*2 Having a responsible investment policy should lead to better outcomes for society.*<br><br>*3 Businesses with more sustainable practices and more effective management of ESG risks should outperform over the long term.* |

| Responsible Investment beliefs |
|---|
| *4 Allowing for the impact of ESG issues has many dimensions to it, including its interaction with the increasing development and use of technology and the impact of that on labour relations.*<br><br>*5 Financial risks should take precedence, so ESG investing needs to seek to have a positive impact on long-term returns*<br><br>*6 The Fund should consider avoiding exposure to securities where environmental or social aspects will be financially detrimental to the portfolio.*<br><br>***Engagement and voting***<br><br>*1 Engagement in a company is more effective then disinvesting from the company.*<br><br>*2 Engagement and voting are influential and can be effective in changing behaviour and improving the Fund's performance as well as having a positive impact on the environment/society.*<br><br>*3 Collaboration with other investors gives the Fund a stronger voice.*<br><br>***Managers***<br><br>*1 The Fund's investment managers should embed the consideration of ESG factors into their investment process and decision making.*<br><br>*2 ESG is one of many factors that plays a part in the investment decisions making process.*<br><br>*3 ESG factors will evolve over time and the Fund's investment managers should seek to take a long-term view, allowing for direction of travel of investee companies and not only current scoring.*<br><br>*4 The choice of benchmark for a passive manager is important as it defines the investment portfolio.*<br><br>*5 The key influence an investor has on a passive manager is the choice of benchmark and level and type of engagement.*<br><br>*6 The Fund should be an active owner seeking to influence behaviour in investee companies.*<br><br>*7 The Fund should consider alternative indices that reflect ESG factors, but also be wary of conflicts of interest that exist for the providers of those indices.* |

## Activity and Outcomes

Other than cash, the Fund does not directly hold any assets, and as such does not buy and sell stocks and bonds, or have direct access to the companies that contribute to shaping outcomes for people and the environment. The Fund invests its assets, either directly or indirectly, through third-party asset managers. The Fund's direct role is therefore to ensure that its RI beliefs are aligned with those of the third-party asset managers, so that their day-to-day investment management activities are consistent with the Fund's beliefs.

The Pension Fund Committee has recognised the need to establish RI as a permanent, core element of its investment process and governance structure. In 2020, the Fund established its RI Sub-Committee as a forum for debating and agreeing the RI beliefs that would govern the Fund's investment decisions. The RI Sub-Committee plays an important ongoing role in ensuring that the Fund's investment beliefs evolve along with industry and real world developments, and that good stewardship remains a central objective throughout the investment process.

The Pension Fund Committee and Panel each hold four formal meetings per year to provide oversight of the Fund which includes presentations from the Fund's investment managers at least once per year.

The RI Sub-Committee is constituted of three members of the Pension Fund Committee aided by the Investment Consultant, Independent Advisor and Fund Officers. The RI Sub-Committee held three formal meetings subsequent to the 2022 Stewardship Code submission. Most recently, the RI Sub-Committee has focused on the development of Proxy Voting, TCFD preparedness, a net zero target date, the annual review of RI Priorities, a review of the Blackrock Low Carbon Fund and the wealth of new opportunities for enhanced ESG related reporting that arise from the Clarity AI tool (see below) using data from the CACEIS custodian system.

The establishment of a separate, permanent RI Sub-Committee demonstrates the Fund's ongoing commitment to responsible investment and provides dedicated time and resources for ensuring that the RI policies remain current and making relevant RI-based recommendations to the Pension Fund Committee.

The terms of reference of the RI Sub-Committee are provided below:

- Consider Bedfordshire Pensions Fund's strategic approach to Responsible Investment; and recommend approaches for the Pension Fund Committee to consider;

- Review and recommend Responsible Investment policies and practices to the Pension Fund Committee for approval

- Monitor the implementation of the Fund's Responsible Investment policy by the Fund's managers and report exceptions and recommendations for action to the Committee, including the pool company, Border to Coast Pension Partnership

- Consider new legislation in relation to Responsible Investment and make recommendations on the Fund's Strategy, Policy and Procedures to the Pension Fund Committee with respect to its approach to RI as appropriate

- Consider and make recommendations to the Pension Fund Committee on the implementation of the Stewardship Code 2020.

The Fund's commitment to responsible investment is now embedded within its ISS. The ISS also sets out the Fund's requirement for all of the Fund's investment managers to be aligned with the Fund's aspirations on good governance and expects all investment managers to be (or become) signatories to the Stewardship Code 2020.

The RI beliefs, which were reviewed during the year, recognise the importance of investment benchmarks in setting the direction of the Fund. In 2021, the RI Sub-Committee undertook training to understand a broader range of index-tracking benchmarks available through the Fund's appointed passive managers, which would better align to the Fund's RI beliefs. This led to the Pension Fund Committee approving a shift in the passive portfolios, covering nearly half of the Fund's assets, from generic benchmarks to new low carbon and ESG tilted index-tracking benchmarks which led to implementation of mandates with a lower carbon footprint and improved ESG characteristics.

In similar vein, during the current year, the Fund has explored further options for its UK equity allocation (c8% of total Fund assets) and further details and provided under Principle 7.

As noted above, the ISS states that the Fund expects its managers to be signatories to the UK Stewardship Code 2020. All apart from one of the Fund's ten investment managers were approved signatories of the FRC's Stewardship Code in 2022. The manager in question is responsible for managing 0.7% of total Fund assets and has noted that while it is not a signatory to the UK Stewardship Code which is principally focussed on public equity investments, the principles contained within the UK Stewardship Code are akin to the manager's ongoing engagement activities. Therefore the Pension Fund Committee is satisfied this manager is aligned with its stewardship goals. The Fund is a member of the Border to Coast Pension Partnership pool who are signatories to the Stewardship Code 2020 and have responsible investment rooted in their concept of duty of care.

Going forward, the Fund will focus further efforts on ensuring its investment managers evidence how the Fund's beliefs have been taken into account in their engagement and voting activities, and what outcomes have been achieved. How the Fund manages this is set out in more detail in disclosure against principles 7-12.

To develop the Fund's capability in this area, the Pension Fund Committee has approved an investment in a new sustainable reporting service, called Clarity AI, to which the Fund gained access when it transferred custody of its assets from Northern Trust to Caceis in early 2023. Clarity AI will provide reliable, transparent comprehensive information, which will allow the Fund to review the ESG related performance and risk at a fund, manager and security level. The capability will also be utilised for management level reporting aggregating all of the underlying metrics into total ESG based scores which can be tracked over time. These ESG metrics can be expanded to a manager-by-manager basis, as well as by company or industry which will allow enquiry on voting and engagement activities undertaken on the Fund's behalf. It will also provide measurement of the Fund's contributions to specific targets and goals including

UN SDG's and provide regulatory reporting capabilities as required for TCFD and prospectively TNFD.  The focus over 2023 has been on installing this "plumbing" which enables the Fund to monitor managers ESG activity more accurately and effectively.

Given the purpose of the Fund is to provide pensions and other related benefits for all eligible employees, the actions taken form part of the way the Fund serves its purpose.  The long-term nature of pension liabilities means that the Fund must take active steps to ensure the assets are invested sustainably to deliver returns over this multi-decade time horizon.  The Fund believes the actions it has taken, and will continue to take, to put its RI beliefs into practice through its stewardship activities, together with the investment decisions taken, will deliver sustainable benefits to the economy, the environment and society along with sustainable long-term financial returns to the Fund.

## Principle 2 Signatories' governance, resources and incentives support stewardship.

### Context

As noted above, Bedfordshire Pension Fund is a contributory defined benefit Local Government Pension Scheme (LGPS). Bedford Borough Council is the designated Administering Authority for the Fund and is responsible for the investments and administration of benefits under the scheme. Under section 101 of the Local Government Act 1972, Bedford Borough Council has delegated its functions as the Administering Authority to the Bedfordshire Pension Fund Committee. The Fund is a member of the Border to Coast Pension Partnership (BCPP)[5] investment management pool. As at 31 March 2023 the Fund held £679 million of assets (or 22.6%, 2022: 18.5%) in investment vehicles managed by its LGPS pool, BCPP. The Fund had an additional £533 million of undrawn commitments to BCPP, which the Fund expects to be invested over the new few years. In addition to its investments through BCPP, the Fund has passive allocations totalling c46% of total assets. These passive allocations benefit from an LGPS-wide low pricing structure, and hence achieve the same economies of scale as pooling through BCPP. Including passive assets, the total assets under "pooled" arrangements equals £2.05bn, or 68% of Fund assets.

The Board provides oversight and assurance to the Fund in matters relating to governance and stewardship. The Board is constituted of four employer and four employee representatives to review areas such as compliance with the regulations and guidance such as Code of Practice 14, risk management and scrutinises administration policies and activity.

The Governance Policy provides the full details of the governance arrangements of the Fund. Membership of the Pension Fund Committee is constituted from the elected members of the three unitary authorities within Bedfordshire:

- Bedford Borough Council
- Central Bedfordshire Council
- Luton Borough Council

In addition to these employer members, a scheme member observer from a recognised trade union and a recently appointed Academy representative also sit on the Pension Fund Committee, which enables representation across all the major employers groups. A Governance Policy Working Party has been established to review the voting membership and to ensure that meeting of the Pension Fund Committee achieves its quorate requirements. The Pension Fund Committee is supported by: a Pensions Panel (Panel) constituted of the same members as the Pension Fund Committee; and external advisors. Hymans

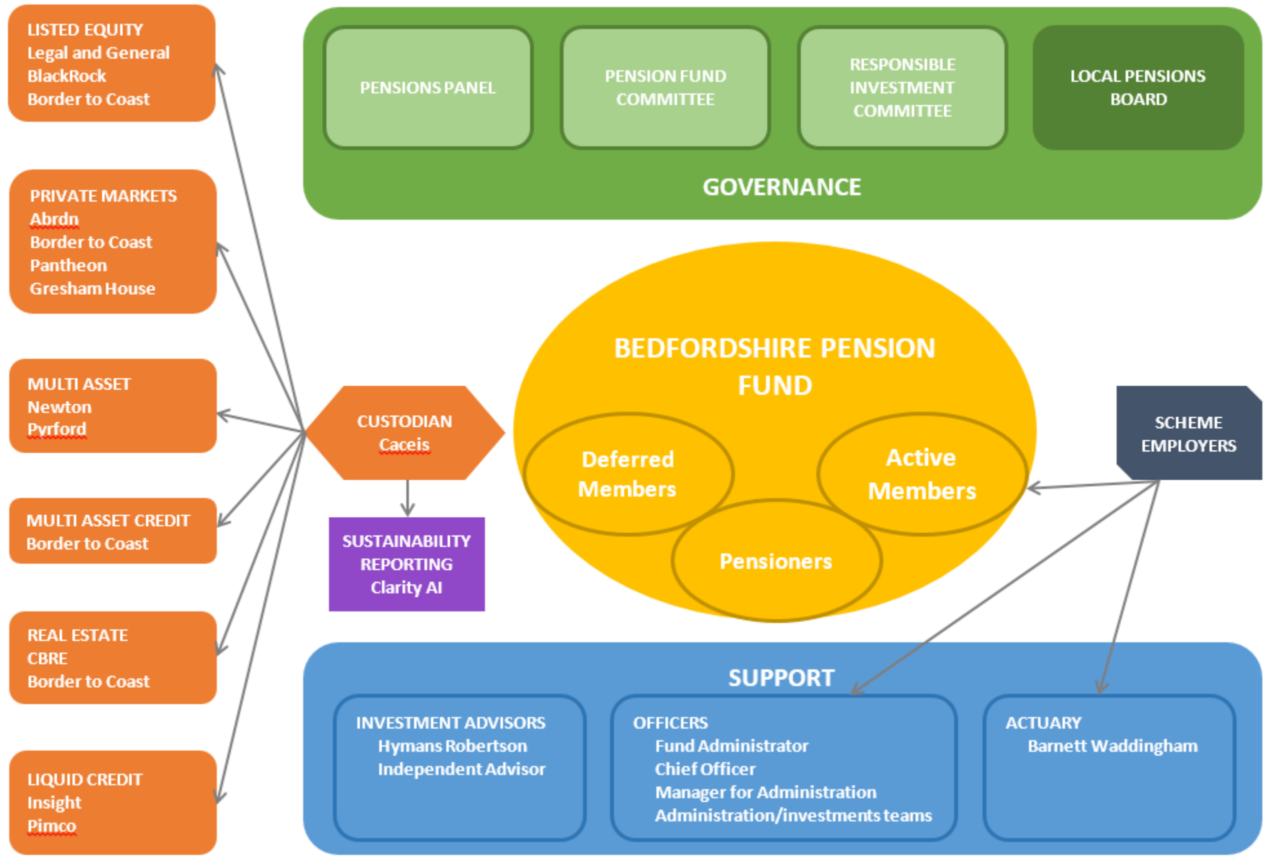
[5] The Boarder to Coast Pension Partnership (BCPP) was created by eleven likeminded funds, established in 2018 in response to the Government's LGPS: Investment Reform Criteria and Guidance (2015). BCPP's purpose is to make a difference for the Local Government Pension Scheme by providing cost-effective,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

Robertson advise on all investment and responsible investment matters in conjunction with Barnett Waddingham, the Fund's Actuary. The Fund also contracts an Independent Advisor to provide additional market perspective and appropriate challenge on the advice of Hymans Robertson.

Bedford Borough Council has delegated the role of Fund Administrator to the Assistant Chief Executive (Finance) with responsibility for the day-to-day management of the Fund, including the exercise of the Council's functions as Administering Authority.

The ACE (Finance) is authorised to seek advice as needed and devolve day-to-day handling of the Fund's investments to Fund Officers and professional advisors within the scope of the Local Government Pension Fund Regulations[6].

The diagram below summarises the governance structure for the Fund.




[6] Public Services Pensions Act 2013 (PSPA 2013)

## Activity and Outcomes

The Pension Fund 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.  This oversight by the Pension Fund Committee covers those assets held with BCPP as well as those held by other managers.

The Panel meets with each investment manager, including BCPP, at a minimum of once a year, or more frequently if required.  The Panel also undertakes training and invites officers of the Council, external advisors and consultants and other attendees to give presentations on investment and stewardship matters.

The ACE (Finance) regularly reviews the staffing structure of the Fund to ensure that Fund Officers have sufficient skills and capacity to deliver the objectives as set out in the business plan.  The Chief Officer for Bedfordshire Pension Fund and the Manager for Pensions Administration ensure that the Fund Administrator has provide sufficient senior management capacity to manage the Fund.  The delegation of responsibilities to these roles are laid out in the Governance Policy.

The Fund recognises the importance of training for Pension Fund Committee and Board members along with officers responsible for financial management, decision making and administration of the Fund. In September 2023 the Pension Fund Committee approved a Training Policy which formalised the existing approach to Training.

Training is provided to ensure Pension Fund Committee and Board members along with all staff possess an appropriate level of knowledge, skill and understanding to carry out their duties, including on oversight of stewardship activities.

The Fund has in place a formal training framework based on CIPFA's (Chartered Institute of Public Finance and Accounting) Knowledge and Skills Framework for LGPS funds. This framework is used to assess the training needs and draw up the annual training plan. Training for officers is assessed as part of their annual performance development review.

Committee training is delivered in a variety of formats to reflect its importance, supporting different learning styles and requirements of the members and officers. All new Pension Fund Committee and Board members are required to attend the LGA Fundamentals Course and undertake the Pension Regulator Public Sector Pensions Online Toolkit at the start of their term of service to the Fund.  Training is delivered predominantly through detailed Pension Fund Committee agenda items, presentations from investment managers, and attendance at conferences.  Recent training received has covered a range of topics including effective investment stewardship, governance and ESG related matters, for example:

- Proxy voting policies — BlackRock/ISS — October 2022
- TCFD — Hymans — June and October 2022
- Net Zero — Hymans — October 2023

In 2021 the Fund's Governance Policy was reviewed and amended to improve the arrangements in relation to the attendance at Pension Fund Committee meetings and to ensure that there was a quorum of members at all times to undertake the business of the Fund in a timely and effective manner. One decision taken was that Pension Fund and Panel meetings would revert to being held in-person to ensure sufficient opportunity for thorough presentation of ideas accompanied by robust discussion and challenge, which had proved more difficult in virtual meeting format. Building on this improvement the Pension Fund Committee has approved the setting up of a Working Group to review the Governance Policy with the objective of reviewing membership to ensure that the Pension Fund Committee is robust in terms of members and officer input. The activity and outcomes will be included in the 2024 Stewardship Code submission.

The Fund has adopted Bedford Borough Council's procurement strategy for all key contracts which provides a robust framework together with specialist procurement support. The Fund requires all organisations to pass an environmental impact assessment ahead of bidding for any contract.

Integral to the scoring and evaluation of all contracts is assessing each bidding organisation's own approach to ESG, and it's fit with respect to the Fund's responsible investment beliefs. For example the Fund would expect bidders to take demonstrable actions in relation to board representation, diversity and minimising their carbon footprint.

The Fund considers it best practice to assess the effectiveness of its committees. The Board, led by its Independent Chair, carried out a self-assessment during 2021 to reflect on members experiences and identify potential scope for improved efficiency and effectiveness. The review identified areas for improvement, and delivery of the plan to address these areas is in progress. The Committee has committed to carry out a self-assessment of its effectiveness which will include investment stewardship in December 2023. The activity and outcomes will be included in the 2024 Stewardship Code submission.

The contract with the Independent Advisor was reviewed and, with the agreement of the Pension Fund Committee, extended for a further three-year term until 2025, with the aim of providing effective challenge to the Investment Consultant.

It is important to note that the commitment of some of RI Sub-Committee members to ESG / Just Transition themes predates the FRC's publication of the Stewardship Code 2020 by some years. The Committee chair has been a member of the LAPFF Executive for seven years, and was appointed Vice Chair in 2018, and has been Chair since 2019.

The Board has overseen the governance of the Fund and reported assurances gained on governance matters and recommendations to the Pension Fund Committee. The Board's recommendations have been led to an enhanced the risk register and associated actions to mitigate risk.

During 2022/2023 Members undertook 43 days of training and development through attendances at conferences, seminars and webinars that met the scope of the Training Plan in addition to any training carried out during the 16 meetings of the Pension Fund Committee, Panel, RI Sub-Committee and Board.

Officers across the team undertook continual professional development building on qualifications recently obtained with 5 members of the Administration Team having completed the Foundation Degree in Pensions Administration and Management last year. There is also 1 member of the Chartered Institute of

Public Finance and Accountancy and 3 members Chartered Institute of Management Accountants.  Achieving qualifications is a core part of the development of our staff and succession planning.

With regards to passive investments, members of both the Pension Fund Committee and the RI Sub-Committee were satisfied with BlackRock and LGIM's approach to stewardship, recognising that while index-tracking does not permit managers to take active overweight or underweight positions in underlying securities, the managers are expected to use their voting and engagement to act in the Fund's best interests to enhance the long-term value and advocate for adherence to sound ESG practices, beginning in the boardroom but permeating every level of investee companies. The Pension Fund Committee recognised that these two managers are of sufficiently large scale to influence behaviours in the investee companies. BCPP also provide an additional layer of governance and responsible investment oversight of LGIM. See Pillar 2—Active Stewardship below for further discussion of recent developments in proxy voting for investors in BlackRock passive funds.

## Principle 3 Signatories' manage conflicts of interest to put the best interests of clients and beneficiaries first

### Context

Conflicts of interest, including those relating to matters of investment stewardship, are managed according to the relevant Local Authority to which the individual is associated. The codes are intended to promote transparency and maintain high standards of conduct by members and officers. The table below shows the policy that applies in each instance:

| | |
|---|---|
| Pension Fund Committee-Elected Members | Code of Conduct for their Local Authority<br>Independent Members – Bedford Borough Code of Conduct Policy<br>New: Code of Conduct & Conflict of Interest Policy |
| Local Pension Board Members | Bedfordshire Pension Board Code of Conduct |
| Fund Officers | Bedford Borough Council Officers Code of Conduct |

Members of the Pension Fund Committee and Board may have other roles, independently or within their respective local authority or scheme employer, that may give rise to a conflict. For example, a Pension Fund Committee member could be a governor of a school that was an LGPS employer and a contributor to the Fund, or an active, deferred or retired member of an LGPS scheme, and currently contributing into, or receiving payments from the Fund. All formal meetings of the Pension Fund Committee and the Board have disclosures of interest as a standing item of the agenda at the commencement of each meeting. Members are required to declare any local or pecuniary interest at the start of each meeting, or at any time during course of business, should a conflict subsequently become apparent. Members who declare a conflict of interest in relation to a particular matter may not participate in any discussions or vote on that matter.

The Fund expects its 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. The Fund utilises Bedford Borough Council's procurement strategy, which requires all bidders to have a conflicts policy in place. The Fund has clear conflicts of interest agreement in place with advisers.

Fund Officers are employed by Bedford Borough Council and are required to follow the Officers Code of Conduct in line with the terms and conditions in their contract of employment contract.

In September 2022, the Investment Consultant provided a conflicts of interest management plan setting out how any potential conflicts of interest would be managed.

## Training

All elected members undertake induction training on appointment by the relevant local authority, which includes conflicts of interest. Decisions made by the Pension Fund Committee should be made to benefit current and future scheme members and exclude political considerations and priorities. This message is reinforced throughout the year at Pension Fund Committee meetings when appropriate.

Local elections were held in May 2023, which has led to some change in the make-up of the Pension Fund Committee, the Panel and the RI Sub-Committee. A training day was held in June 2023 with Officers and advisers presenting to new and existing members on the Fund's governance, accounting, funding and investment arrangements. In addition, the Fund has signed up to an online training service offered through one of its advisers.

## Border to Coast Pension Partnership (BCPP)

Bedfordshire Pension Fund, through Bedford Borough Council, is a founding member and shareholder of the Border to Coast Pension Partnership (BCPP) investment management pool. The Fund recognised at the pool's inception that it was important to differentiate its role as a shareholder in BCPP the company, versus its role as an investment management client of BCPP, and stakeholder in, any collective investment vehicle managed by BCPP. The interests as a shareholder in the company ought to be aligned with the interests of the Administering Authority in its capacity as an investor in/customer of BCPP. From time to time conflicts of interest may arise over the interpretation of various statutes and guidelines, which can give rise to contradictory conclusions. For example, the overall mandate to pool local authority LGPS funds only addresses the investment assets, not their associated pension liabilities nor the ongoing cash flow management that is critical to proper administration of pension promises to members.

By its nature, a pool like BCPP is not directly involved in managing cash flows and seeks to ensure that over time its member LGPS funds transfer substantially all of their investment assets to the pool. On the other hand, the Fund must ensure ready access to sufficient liquid assets to meet pension payments which are projected in the normal course as well as transfers out as these arise. Thus, Bedford Borough Council, as a shareholder of a pool like BCPP must consider broader questions of asset-liability management and working capital *beyond* the strategic objective of pooling as many investment assets as possible. Conflicts of interest, or conflicts of interpretation, are inherent in all LGPS pool structures. Part of the role of the Pension Fund Committee is to navigate these tensions and take advice as appropriate to devise a satisfactory solution, which may require compromise.

Having different individuals to represent the local authority at BCPP company shareholders' meetings and on the BCPP Joint Committee is intended to reduce the potential for conflicts of interest between views as a shareholder and views as an investor/customer. This separation helps to retain clarity of the different governance functions being carried out simultaneously. In this case, Bedford Borough Council is the shareholder for BCPP, with duties delegated to the Fund Administrator. The Fund is one of 11 customers of BCPP and invests in a range of investment vehicles offered by BCPP. Decisions to approve (or not) investment in a BCPP vehicle are taken by the Pension Fund Committee, based on input from a variety of sources including but not limited to the Investment Consultant.

## Activity and Outcomes

All Members of the Pension Fund Committee and senior Fund Officers are required to declare any relationships or transactions with organisations that has a relationship with the Fund. Such declarations, including any directorships of companies held, are reported and published in the Annual Report and Accounts. A backlog in Local Authority auditing has led to delays in preparation and auditing of the Accounts. The draft 2022/2023 Accounts are expected to be approved by the Pension Fund Committee on 14 November 2023. The audited Annual Report and Accounts will be published on conclusion of the audit.

The Fund Administrator or the Chief Officer for Bedfordshire Pension Fund has attended all BCPP informal shareholder meetings and had the opportunity to participate and express views on shareholder matters ahead of the BCPP Annual General Meetings, the most recent of which was held on 18 July 2023. Bedford Borough Council voted on all BCPP shareholder resolutions.

The Fund's approach to managing conflicts has operated satisfactorily during the year. The Board and Pension Fund Committee noted the following potential conflicts of interest:

- A member of the Committee declared their status as Chair of LAPFF ahead of discussions on Investments.
- A member of the Committee declared their interest in the Office of the Police & Crime Commissioner as the Deputy Police & Crime Commissioner.
- Members of the Committee declared their interests in Fund employers and/or as a Governor/Director of an Academy ahead of discussions on the Fund Valuation.
- A member of the Board declared they provided training with CIPFA ahead of discussions on the Fund's training plan.
- A member of the Board disclosed a local interest in any matters concerning investment managers as their son was employed by Pimco Europe Ltd.
- A member of the Board disclosed an interest as a former Trustee and former Chair of a Fund employer ahead of discussions on that employer in the private part of the meeting.

Through the declarations made by the Pension Fund Committee and Board members and the actions taken, no actual conflicts of interest occurred during the year 2022/2023.

Following good governance and transparency, the Fund Administrator reported to Full Council the shareholder decisions taken during the year.

A number of Pension Fund Committee members declared relationships with parties potentially related to the Fund. These declarations are available in the Fund's Annual Report and Accounts in 2021/2022. Four elected members made declarations in 2022/2023 (not yet published).

The Action Plan within the stewardship Code submission in 2022 included the creation of a Fund-specific conflicts of interest policy. This new policy Code of Conduct & Conflict of Interest Policy was developed during the year and approved by the Pension Fund Committee in September 2023.

The Fund notes the plans to implement a single LGPS specific Conflicts of Interest Policy once the Scheme Advisory Board's Good Governance Review is published and intends to implement a single policy once the relevant guidance is available.

## Principle 4 Signatories’ identify and respond to market-wide and systemic risks to promote a well-functioning financial system

The Fund recognises the importance of these risks given the potential financial losses they could incur and the potential impact on the Fund if they are not well managed.

Officers, external managers, the Investment Consultant and Independent Advisor monitor global financial markets to ensure systemic risk and specific risks are properly considered, identified and managed. The Fund works with its Investment Consultants to provide advice on the investment strategy including the management of a range of risks, outlined in the ISS. The Fund considers the key strategy to mitigate against these risks is through a well-diversified portfolio of investments taking into consideration:

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics –The risk that longevity improves, and other demographic factors (especially the slower growth of LGPS membership) change, increasing the cost of Fund benefits.
- Systemic risk – The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial ‘contagion’, resulting in an increase in the cost of meeting the Fund’s liabilities.
- Climate risk - The impact on the Fund’s investments of the realignment of the economic system towards low-carbon, climate resilient or carbon positive solutions and the physical impacts of climate change such as rising temperatures, changing rainfall, flooding and extreme weather.
- Biodiversity risk – The impact on the Fund’s investments from behaviour or practices that are (possibly retrospectively) determined to undermine biodiversity of local environments, and may give rise to future liabilities, reputational risk and/or render current business activities uneconomic.

The Pension Fund Committee discusses investment and funding risks quarterly with reference to the Investment Market Review Papers provided by the Fund’s Investment Consultant. Future risks/issues and barriers to delivering required returns are discussed with the investment managers at each performance review.

The Fund has also adopted Bedford Borough Council’s Risk Management Strategy as the basis for managing risk, which is in accordance with the guidance issued by the Chartered Institute of Public Finance (CIPFA).

The Fund operates an embedded continuous system approach that identifies the risk and mitigations surrounding the Fund’s past, present and future activities, which includes market-wide and systemic risks, in addition to Fund-specific risks including the governance and administration of the scheme.

Key risks are recorded in the dedicated Pension Fund Risk Register (the “Risk Register”), which is reviewed at each quarterly Pension Fund Committee meeting.

The risks recorded with the highest probability and impact in the Risk Register are

- Funding shortfall – that future investments are insufficient to meet the liabilities
- Climate Change – impact of climate change on the long-term investment performance reduces the Fund's ability to deliver sustainable returns.
- McCloud Regulations – this covers a number of areas including delays in the finalisation of the regulations; the impact on the staff to deliver the implementation of the McCloud solution and the potential of data not being available from scheme employers.
- Cyber Security – loss of pension records/data due to a cyber-attack or unauthorised access leading to an inability to provide a service to the Scheme members.
- Staff Recruitment and Retention – the need to ensure robust succession planning is in place to ensure a resilient and fit for purpose establishment.

The Board scrutinises the risks identified in the Risk Register, the scoring of risks and the mitigating actions undertaken by the Fund to manage risks where appropriate. The Board makes recommendations to the Pension Fund Committee on proposed changes to the Risk Register and provides assurance to the Pension Fund Committee on its findings.

## Activity and Outcomes

A key aspect for the Fund is that the chairman of the Fund (Cllr Doug McMurdo) is also the Chairman of the Local Authority Pension Fund Forum (LAPFF) which, amongst other roles, brings together large local authority funds for the specific identification and management of market wide and systemic risks and engagement with investment managers on these points. The Chairman therefore brings his own wider knowledge, to bear for the benefit of the Fund.

Alongside the support of the Chairman, in order to identify and respond to market wide and systemic risks, the Fund also undertakes:

- Regular training of the Committee members and officers on these issues;
- In depth triennial Asset/Liability modelling following Fund valuations focussing on the risks outlined in the ISS;
- Quarterly monitoring of markets, managers and the Pool provider BCPP to ensure early identification of emerging issues of this nature.
- Regular engagement with investment managers on investment and market risks;
- Membership of collaborative working parties such as LAPFF (discussed further in principle 10);
- Engagement of professional advisers to advise on market-wide and systemic risks.

In terms of selected examples of activity:

The Fund undertook a review of its investment strategy in August/September 2023 and confirmed the exposure to risk was appropriate for the given appetite and Fund exposure.

During the year, the Pension Fund Committee met with 3 investment managers plus BCPP to review their performance and stewardship of the Fund. A number of meetings were held with BCPP reflecting the range of BCPP-managed vehicles in which the Fund is invested as well as proposed new vehicles. In most cases, the Pension Fund Committee was satisfied with the responses provided by BCPP, though in one case, following close scrutiny and investigation, the Pension Committee declined to shift a passive holding in UK equities to active UK equity strategies offered by BCPP. In another case, the Pension Committee, reflecting concerns of the Panel and advisors, declined to approve a new BCPP offering relating to global property and instead asked BCPP to improve specific aspects of the investment strategy that related to sustainability, environmental impacts and "stranded asset" risk.

In Q1 2022 the Fund recognised that the war in Ukraine would have an impact on the Fund's investments and reported to the Pension Fund Committee the funds that held investments in Russia, Belarus and the Ukraine and the value of assets held. Due to the managers' risk systems and the Fund's portfolio allocations, the Fund had minimal exposure to Russia, Belarus or the Ukraine (less than 1% of the total Fund asset value). Investment managers confirmed that they were operating within the restrictions and sanctions proscribed by the UK Government. The Fund continues to monitor the positions with its investment managers.

As long-term investors Fund Officers reflect on emerging news to decide if it impacts the long-term fundamentals of our investment approach. The situation in Israel and Gaza is serious and fluid. As events in the Middle East unfold, Fund Officers, together with advisors, will continue to monitor and consider any investment implications for Fund assets, including the impact of a possible spike in energy prices that could drive UK inflation higher. At this stage we do not intend on making any immediate changes to the Fund's portfolios.

A strategic review of the risk register was undertaken during the year following recommendations and discussions with the Committee to establish a thematic approach to risk management e.g. Financial, Governance, Environmental etc. to provide a clearer picture of risks facing the Fund. In addition there was a process to streamline risks to allow the Pension Fund Committee and Board to challenge whether the conclusions from the risk register were correct.

The Fund recognises that it does not have the capacity to cover all areas of risk; therefore it partners with other bodies to influence the market, particularly in relation to responsible investment. The Fund has been an active member of LAPFF for eleven years, and is also a member of the Institutional Investors Group on Climate Change (IIGCC), and the Carbon Disclosure Project (CDP). Examples of specific engagements undertaken by these partners is discussed in Principle 10. Below are summarised aims of the various external bodies with which the Fund partners.

- IIGCC's mission, which is aligned with and therefore supports the Fund's mission, is to support and enable the investment community to drive significant, real progress towards a net zero and resilient future by 2030. In IIGCC's view, this real progress towards decarbonisation will be achieved through capital allocation decisions, stewardship and successful engagement with companies, policy makers and fellow investors.

- LAPFF[7] carried out a number of engagements on behalf of the Fund in relation to market-wide and systemic risks. LAPFF has focussed on failures in the audit and accounting regimes of large listed companies. LAPFF has engaged with the FRC to create a more transparent and effective regulatory environment, which would facilitate holding companies to account
- The Fund seeks to influence companies to measure and disclose information on climate risks through collaboration with the CDP. The Fund has been a member of CDP since 2013 acting as a co-signatory to support the work of CDP in encouraging companies to set ambitious targets to accelerate action towards a low carbon economy. CDP represents over 740 investors with combined assets of US$136 trillion and 340+ major purchasers with over US$6.4 trillion in procurement spend[8]. The Fund was again a co-signatory on engagements letters relating to all the carbon disclosure, forestry and water security campaigns as well as the Science Based Targets (SBT) project.

## Shift to Tightening Monetary Policy and Fund's Response to Market Volatility

The outbreak of inflation in 2021/2022, which has continued in the UK and most large economies around the globe, has led the Federal Reserve Bank, European Central Bank and Bank of England to raise interest rates with unprecedented swiftness between late 2021 and August 2023, while also reversing open market purchases of government and corporate bonds. For example, 30-year Gilt yields[9] rose by +3.8% between December 2021, from 0.95% to 4.74% by end of September 2023. Part of this rise occurred dramatically in two months, between August and October 2022, following the mini-budget, when long Gilt yields rose by +1.5%, causing prices of longer maturity Gilts and index-linked bonds to fall sharply. The difficulties this caused for many closed defined benefit pension funds were well documented in the press in Q4 2022.

Relatedly, currency valuations have proven volatile: GBPUSD started 2022 at around 1.35, but declined to a low of 1.12 in October in response to the mini-budget. Subsequently, GBPUSD rebounded strongly to 1.31 in July, but has subsequently fallen back to c1.21 at time of writing.

Both interest rate and currency volatility impact Fund returns and its funding ratio. As a long-term investor that is expected to remain invested (rather than trade tactically), the Fund cannot shield itself from these effects. Nonetheless, the Fund can take steps to understand its potential sensitivity to large shifts in rates, currencies or other macroeconomic factors, and identify ways to mitigate the impacts of volatility and unwanted correlation between investments when they are falling in value. Diversification is often the most natural and "cheapest" solution, but diversification needs to be understood in a more granular way, beyond the broad asset categories like equities, fixed income, infrastructure, credit, property, etc.

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[7] LAPFF | The leading voice for local authority pension funds across the UK (lapfforum.org)

[8] https://www.cdp.net/en

[9] Source: Uk Debt Management Office https://www.dmo.gov.uk/data

In other instances, the Fund may (i) take short-term decisions to capitalise on market conditions which may be favourable near-term but are not expected to persist, and hence are not incorporated into the SAA; or (ii) make allocations outside of its stated policy of pooling its investments, when opportunities are presented that are diversifying, offer a robust reward-risk proposition and are consistent with the Fund's RI and/or local investment priorities, but are not offered by the pool or have been turned down for reasons of size, not investment merit.

By rethinking "received wisdom" and remaining agile, the Fund has maintained its value at c£3 billion over 2022/23 despite extreme volatility in equity, rates and currency markets.

Specific examples are:

- The Fund sold its portfolio of long-dated Gilts and index-linked Gilts (6.9% of portfolio) in Q4 2021 because they offered a very low current return and exposed the Fund to significant duration risk.
- The Fund amended the mandate on its remaining fixed income strategy with Insight Investment Management to reduce duration exposure on corporate and government bonds. The replacement investments gave exposure to shorter-duration high grade credit with an explicit ESG focus. This strategy was hedged to GBP and sits alongside another global credit and bonds allocation within the Treasury and Volatility Management allocation (PIMCO Diversified Income Fund) that remains in USD. These two funds, one in GBP and one in USD, with different benchmarks *together* provide diversification with respect to currencies and duration exposure. The combined effect is less volatile than continuing to hold Gilts and Inflation-linked bonds.
- The Fund has held additional levels of cash over and above the cashflow policy during the past year to manage the volatility in the equity market.
- In September 2023, the Fund liquidated its Pyrford multi-asset allocation (4.3% of assets) owing to poor performance and the fact that, in the current interest rate environment, money market funds can generate returns of c5% without the fees (which were among the highest of all the Fund's managers). In this instance, beyond responding defensively to market-wide and systemic risks, the Fund also responded opportunistically to take advantage of unusual pricing relationships when short-term yields approached those available on long-term instruments.

## Addressing other Market Failures

In May 2023, consistent with its RI beliefs, the Fund committed £50m to the Gresham House British Sustainable Investment Fund 2 (BSIF 2). This private markets infrastructure investment gives the Fund exposure to start-up businesses in the UK which have potential to be early-movers in more sustainable methods for agriculture, waste-to-energy, biodiversity restoration and renewable energy generation and storage. Other investments in BSIF 2 will help to accelerate the roll-out of broadband in remote, rural areas, or will make reliable childcare more widely available, thereby helping parents return to work. While not generally posing a "systemic" risk, small companies find it increasingly difficult to access the capital they need to develop their businesses and products, some of which may prove necessary to shift industries towards new, more environmentally friendly products and manufacturing processes that are consistent with the Net Zero transition, the circular economy and more sustainable lifestyles. Having recognised the urgent need to address climate change in all aspects of our society and across industries, the scarcity of capital for entrepreneurial approaches could be considered a market failure.

The commitment to BSIF 2 represents <2% of Fund assets but c15% of that vehicle's total capital commitments. The BSIF 2 investment aligns with the Fund's RI beliefs, and is expected to generate a higher return for providing early-stage capital to the portfolio of businesses that Gresham House have identified and are developing in a very hands-on manner. The BSIF 2 investment provides some diversification to the Fund because it reduces public market risk exposure and also diversifies away from the larger (multi-billion) funds that BCPP commits to in its pooled infrastructure funds. BSIF 2 investments are expected to support certain of the government's levelling-up goals, while contributing to the UK's Net Zero transition and expanding digital connectivity. By helping to fund the extension of broadband to rural areas, the Fund's capital will help to address another market failure, namely the productivity deficit in rural areas, which has been exacerbated by the unequal digital roll-out between denser urban areas and rural areas, particularly in remote regions. See further discussion under Principle 7.

## Avoiding popular, yet inappropriate investment themes

At this point, the UK's DB pension market consists almost entirely of closed schemes in run-off, hence are not looking for growth beyond what is needed to meet inflation-linkage on benefit payments. The LDI crisis was arguably exacerbated by the fact that the concentration of invested pension portfolios in the same narrow group of securities (primarily long-dated Gilts and index-linked Gilts plus some far less liquid assets which proved difficult to sell) and used a small number of counterparties and even smaller number of custodians.

Unlike closed DB schemes, open DB schemes like the LGPS must continue to grow assets relative to liabilities because of three fundamental risks lying at the heart of their business model:

1. Inflation linkage on the liability side which compounds and requires offsetting compounded growth on the asset side.
2. Adverse demographics: over time, increases in longevity mean that the number of pensioners will overtake the number of active members, barring a steep rise in the retirement age.
3. Negative cash flows at some LGPS funds, though not yet at the Bedfordshire Pension Fund. If employer and employee contributions are less than the benefits paid out (ignoring transfers in/out), then an LGPS fund is "cash flow negative".

A popular notion is that LGPS funds should de-risk and target current cash returns (for example from infrastructure, property, private credit or bonds) as a way to bridge the negative cash flow problem (#3). This thinking ignores the fact that negative cash flows only increase year-on-year because of inflation (#1) and the growing imbalance between pensioners and active members (#2). Absent a similarly growing portfolio, current cash flows would soon become insufficient, requiring the fund to liquidate assets to pay pensions and/or continuously raise contributions from current employers and employees.

Instead, LGPS fund Officers and advisors must remain focused on ensuring that LGPS fund capital continues to grow relative to liabilities to counteract the three risks listed above. Only strong growth that is sustained over the longer term will keep LGPS funds affordable for members and employers alike for the foreseeable future. Consequently, instead of de-risking, diversifying return sources will remain important along with managing liquidity to allow investments in less liquid private markets strategies while also maintaining sufficient cash flow/accessible investments to pay pension liabilities and fund capital calls as they fall due. This strategic aim is articulated in the Fund's ISS and FSS.

## Areas for future development

The Fund recognises the impact of practices that undermine biodiversity of local environments may impact on the Fund's investments, and may give rise to future liabilities, reputational risk and/or render current business activities uneconomic. The Fund identified this as area for future development in the 2021/2022 submission, but only very recently did a new ESG reporting service enable the Fund to start developing reporting on this subject matter. The Fund will continue to develop its reporting on biodiversity loss / restoration along with reporting on emissions with ever more rigorous capture of Scope 1, 2 and 3 emissions. In addition, the Fund may consider additional allocations to forestry and other natural capital investments which are likely to feature increasingly in the Net Zero plans of many institutional investors.

Other areas for future consideration, which contain aspects of risk mitigation as well as opportunism, will be investigated by the Fund. Examples could be dislocations in the private credit markets or more active ways of managing the Fund's currency mis-match between assets and liabilities. Both topics may present opportunities to generate additional portfolio returns while improving the Fund's overall return-risk balance and/or asset-liability match.

## Principle 5 Signatories' review their policies, assure their processes and assess the effectiveness of their activities.

The Fund recognises that it is important to have clear policies to guide the governance of the Fund and to review them regularly to keep them up to date.

### Activity and Outcomes

The Fund's ISS and related Funding Strategy Statement (FSS) set out the Fund's overarching strategy, which is underpinned by the other Fund policies. Along with the ISS and FSS, major policies like the Governance Policy and Board Terms of Reference are reviewed annually to ensure they remain fit for purpose, reflect the current market environment and continue to meet regulatory requirements. In 2021 Fund Officers established a timetable for review of Fund policies to ensure all are regularly reviewed and updated. The Pension Fund Committee considers the policies due for review in line with this timetable, the outcomes of which are further outlined in the table below. Where appropriate, the Board will scrutinise the Fund's policies ahead of the Pension Fund Committee to provide an additional layer of challenge and garner the views of employer and employee representatives on the policy.

In addition, the Pension Fund Committee reviews policies whenever appropriate to accommodate situations that arise. For example, following a 2020 change in regulations[10] the Pension Fund Committee approved an update to the Fund's policies governing deferred debt arrangements. The updated policy was utilised in 2022 when an admitted body employer applied to end its membership in the Fund through a deferred debt agreement. Unforeseen events like the mini-budget sell off that drove up Gilt yields allowed this employer to reduce the Cessation cost of exiting the Fund when the present value of liabilities discounted by a higher Gilt-based rate fell. For this reason, the calculation of the termination value was changed in the FSS to a minimum risk basis that includes a prudence factor designed to increase the probability that the Fund would be able to meet all of the accrued liabilities of an employer leaving the scheme without putting other employers at greater risk. This change was approved by the Pension Fund Committee in June 2023.

In September 2023, the Pension Fund Committee approved a new Code of Practice and Conflict of Interest policy for the Fund, as discussed above in Principle 3.

In January 2023, the Fund transferred its assets to the new custodian Caceis, appointed in 2022. One of the many reasons for appointing this new entrant to the LGPS custody market was Caceis' enhanced ability to gather data across the Fund's holdings and report it more robustly and systematically across the entire portfolio. Fund Officers were impressed by Caceis' technology resources and partnership with an external analytics provider called Clarity AI. (See further discussion under Principle 8).

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[10] The Local Pension Scheme (Amendment) (No. 2) Regulations 2020

The Committee takes input and advice from the Fund's Investment Consultant and Independent Advisor on best practice approaches to stewardship and to benchmark their policies against wider industry approaches to ensure they are fair and balanced.  The Fund also participates in two RI groups, one hosted by BCPP and one formed by the BCPP partner funds, which provide opportunities to review RI policies and processes.  The Investment Consultant, Independent Advisor and Fund Officers work collaboratively to hold to account external managers, including BCPP, if they have questions around performance or perceive that proposed new offerings do not align with the Fund's RI policies.  The Fund focuses particularly on how relevant RI policies will be translated appropriately into specific asset classes and investment strategies.  The philosophy of the Fund Officers, Pension Fund Committee and advisors is always to be at the forefront of best practice that can be delivered and measured based on meaningful data rather than delegate responsibility by simply "following the pack", or else making commitments that are unrealistic or undeliverable.

Communication of the Fund's approach to stewardship is important, too.  One of the principal ways the Fund ensures that its stewardship reporting is fair, balanced and as accurate as possible is by hiring the best external partners (Caceis and Clarity AI).  In the rapidly evolving arena of TCFD and other stewardship reporting metrics, our intention is that the information gathered today will be of the highest quality available, and that the extent, accuracy and comparability of such information will improve dramatically over the coming years.  That means the Fund and its advisors and service providers will focus as much on the trend in metrics year-over-year as on the actual metrics available today.

All Fund documents and policies are overseen by the Board, then discussed at relevant meetings of the RI Sub-Committee, Panel and Pension Fund Committee, and of course beforehand among the working team of Fund Officers, the Investment Consultant and Independent Advisor.  The Panel reviewed a draft of this report in October 2023 and were invited to provide their comments and thoughts. The Reports reflects the combined drafting and input of Fund Officers, members of the client team from the Investment Consultant and the Independent Advisor. Working together in a transparent and cooperative manner, all parties strive to ensure that the Fund's stewardship reporting is fair, balanced, comprehensive and understandable.  We want to give readers insight into concrete actions or the reasoning behind decisions taken on behalf of the Fund.  We want readers to see how RI beliefs and Fund policies translate into actions that are intended to strengthen the Fund's long-term performance and keep the LGPS pension affordable for employers and employees alike.

In the past year, the review of current policies has led to their improvement and the outcomes as outlined in the table overleaf.

| Policy | Outcome |
|---|---|
| Investment Strategy Statement | The Fund's updated responsible investment beliefs are to be included in the annual update to the strategy which will be approved by Pension Fund Committee in November 2023. |
| Administration Strategy | The Pension Administration Strategy sets out a framework by outlining policies and expected performance standards, which will enable provision of a cost effective and high quality pension administration service. |

| Policy | Outcome |
| --- | --- |
| Funding Strategy Statement | Updated in September 2023 to include a more prudent basis for determining the discount rate for employers that represent a greater level of risk to the Fund or that want to leave the Fund. The Fund consulted with all employers and held a workshop for employers directly impacted by the changes. |
| Border to Coast Responsible Investment Policy and Voting Guidelines | The Pension Fund Committee considered BCPP's new engagement themes adopted in 2022. The Pension Fund Committee subsequently confirmed that BCPP's updated RI Policy (January 2023) was consistent with the Fund's RI beliefs. |
| Communication Policy Statement | Several small changes were made, mainly to the format to ensure the documents meets the new Accessibly legislation. |
| Admission and Termination Policy | Updated the basis for cessation valuation calculations for employers that represent a greater level of risk to the Fund. |
| Service and Data Improvement Plan | The updated plan addresses all the areas of improvement that have been identified and also updates the different ways in which members can communicate with the Fund. |
| Code of Conduct and Conflict of Interest Policy | As members of a publicly funded body with a responsibility to discharge public business, members the Bedfordshire Pension Fund Committee should have the highest standards of conduct. Therefore new Fund-specific Code of Conduct & Conflict of Interest Policy was developed and approved for members of the Pension Fund Committee. |

The RI Sub-Committee approved a new Stewardship Policy in 2022/2023 which details the arrangements for stewardship with its investment managers together with engagement themes based on the agreed RI beliefs.

## Principle 6 Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

### Context

As noted earlier, the Bedfordshire Pension Fund is part of the Local Government Pension Scheme. It is a defined benefit scheme responsible for the pensions of 78,279[11] members and across 238 employer bodies.  Members currently in receipt of their pensions reached 20,841 with an average age of 71.4 years.  The average annual pension benefit received by a retiree in the 2022/23 year was £5,498; the median pension received would be lower, reflecting some pensioners who were lower paid and/or did not work full-time.  Of the members not yet in receipt of their pension, 23,717 are active members with an average of 45.3 years, with a further 33,271 deferred members with an average age of 46.7 year.  The maximum years of funded retirement benefits was 100 years as at the last triennial actuarial valuation.

The LGPS is a "defined benefit" scheme, with employees' pensions and benefits determined in accordance with statute and regulation.  Full details of benefits payable are explained in the scheme booklet, "A Guide to the Local Government Pension Scheme".

The Fund is open to all eligible employees of the Borough and Unitary Councils within Bedfordshire (excluding teaching staff, police officers and firefighters who have their own pension schemes).

A number of other bodies also participate in the Fund by right (scheduled bodies) or are admitted to the Fund following application for membership (admitted bodies). Employees are automatically entered into the Fund if they have a contract of more than three months.  Membership in LGPS Schemes is not compulsory: employees can choose to opt out of the Fund, can elect a 50/50 option (which offers 50% of the LGPS benefits for 50% of the salary deductions) or else make their own private pension arrangements.

The majority of the employer bodies whose staff are members of the Fund have strong covenants due to their status as public sector bodies. This means that the Fund is able to take a long-term view when making investment decisions (which is considered to be 20+ years), helping the Fund to achieve its investment aims.  These aims include managing employers' liabilities to achieve long-term solvency by ensuring that 100% of liabilities can be met over the long term, but without creating volatility in primary contribution rates for employers (and therefore indirectly taxpayers) or taking excessive investment risk outside of reasonable risk parameters.

The Fund's investment strategy is described in the ISS.  As at 31 March 2023, the Fund's total assets were c£3.0bn, with investments spread across a number of asset classes and geographies as set out in the table below.

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[11] All membership numbers are as of 31 March 2023.  Source: Bedfordshire Pension Fund Annual Report, to be published November 2023.

| Asset class | Geography | Allocation at 31 March 2023 | Pooled through BCPP | Passive Pooled |
|---|---|---|---|---|
| LGIM equities | Global | 18.7% | | Yes |
| LGIM equities | UK | 7.8% | | Yes |
| BlackRock equities | Global | 19.0% | | Yes |
| BCPP equities | Global | 7.5% | Yes | |
| abrdn private equity | Global | 1.9% | | |
| BCPP private equity | Global | 0.0% | Yes | |
| CBRE property | UK | 6.3% | | |
| Newton absolute return | Global | 4.6% | | |
| Pyrford absolute return | Global | 4.4% | | |
| Pantheon infrastructure | Global | 0.7% | | |
| BCPP infrastructure | Global | 6.4% | Yes | |
| BCPP climate opportunities | Global | 0.1% | | |
| BCPP private debt | Global | 2.2% | Yes | |
| BCPP multi-asset credit | Global | 6.4% | Yes | |
| Insight liquid credit | Global | 5.1% | | |
| PIMCO diversified income | Global | 4.6% | | |
| Cash | UK | 4.2% | | |
| Total | | 100.0% | | |

Note: Total may not sum to 100% due to rounding.

## Activity and Outcomes

The Fund's Communications Policy Statement sets out how the Fund communicates with members, prospective members, employers, representatives of members and other interested parties including elected members of the Pension Fund Committee, the Board, union representatives and Fund Officers and staff (both internally and at other pension funds).

The Fund communicates with members and employers in a variety of way, including:

- The Fund website has information for members and employers including contact details to allow members and employers to ask questions and provide feedback.
- Copies of the Fund's governance and key policy documents are published on the website, including the investment strategy statement and other governance documents.
- An annual member newsletter.
- The website has a dedicated area for employers, which contains information for employers.
- Employers receive email updates about the Fund, including changes in legislation and consultations.
- Employers are invited to attend the annual general meeting, which is a formal seminar-style event with a number of speakers covering topical LGPS issues.
- Individual meetings with members and employers are available on request.
- Presentations about the LGPS, which are usually arranged through Fund employers.
- The Fund publishes an Annual Report, which includes a summary of the stewardship activities undertaken.
- All Pension Fund Committee and Board meetings are open to the public and streamed online. Papers available to the public are published in advance and available for review on Bedford Borough Council's website.

Membership of the Pension Fund Committee and Board includes employer and member representatives. At Pension Fund Committee and Board meetings, these representatives, along with other members of the public, have an opportunity to comment on the Fund's approach to stewardship. For example, representatives of the group Divest UK (who were not members of the Fund but resided in the local area) attended the June 2022 Pension Fund Committee and requested that the Fund divest all of its holdings in fossil fuel companies and reinvest them in renewable energy companies. An outcome of this discussion was a review of the Fund's policy of divestment versus engagement and the Committee reiterated its desire to reduce its exposure to 'bad' companies in these areas, but to continue to engage with those it felt were on an appropriate journey.

The Fund provides a newsletter for active and deferred scheme members. The topics included in the 2022/2023 Newsletters included information on avoiding scams, the McCloud underpin, help with rising cost of living, changes to the annual allowance and lifetime allowance, pensions dashboards and accessing My Pension Online. My Pension Online is an online platform that allows scheme members to update their address, nomination and other information as well as obtain an estimate of their benefits under different scenarios.

Following feedback and review, the Fund's website was refreshed during 2021 to provide a more accessible and user-friendly platform for Scheme members and employers that meets the national accessibility requirements.  The Board regularly monitors activity on the website. The Fund has received compliments on how easy it is to find the Fund documents on its website.

As noted above, the Fund has received a limited number of questions regarding its investments including on holdings in controversial weapons and divestment from fossil fuels.  The Fund has provided details of changes (completed and proposed) to the Fund's investments to reduce the carbon emissions and the approach taken to integrate environmental, social and governance factors into the selection and monitoring of the Fund's investment managers.

The Pension Fund Committee recognises it is important to report publicly on the progress made to reduce not only the Fund's reported carbon footprint, but most importantly that of the "real world" (i.e. the Fund believes it should address the issue rather than transfer the problem by selling assets to others). The Fund undertook a carbon footprint exercise in 2017 and will soon undertake a further exercise now that new allocations to low carbon and other ESG-focused strategies have been made along with allocations to BCPP which has its own RI policy and net zero strategy.  The collaborative work with the new custodian, Caceis together with Clarity AI, will enhance the Fund's ability to generate meaningful measures across the portfolio.

This measurement is expected to show a material reduction in the Fund's carbon footprint as a result of the investment decisions taken by the Pension Fund Committee.  Members of the Pension Fund Committee and RI Sub-Committee are aware of the limitations of current measurements of scope 1 and 2 emissions and the lack of reliable scope 3 emissions data and will continue to seek improvements in these areas and monitor progress using data quality metrics.  The Pension Fund Committee is committed to adopting Taskforce for Climate-related Financial Disclosure ("TCFD") and similar types of disclosure, despite their current limitations, because they represent an important discipline within the investment process.  The broader the adoption becomes, the stronger the support will be to make reporting measures ever more robust and meaningful in themselves.  Results of these will be published for the benefit of beneficiaries when available.

In addition to ESG and RI matters, the Fund seeks to ensure that LGPS pensions remain as affordable as possible for employers.  One group of employers, Academies, represents 111 admitted bodies whose employee profiles and funding levels can vary widely.  Changes in non-teaching staff, whether via transfers or staff turn-over, can cause employer contributions of an individual academy to vary, sometimes widely.  To bring greater stability to academy finances while also improving the overall creditworthiness across this group of employers, the Fund established an Academies pool, whereby all of the LGPS members associated with Academies will be combined into one large group.  Over time, the employer contributions will be adjusted so that they converge over 5 years. Fund Officers consulted with Academy employers in the Fund in February 2022 and the Pension Fund Committee approved the concept in June 2022.  The proposed Academies pool is being implemented as of the 2023-24 fiscal year.  Fund Officers and advisers believe that, following the contribution adjustment period, the Academy pool will provide greater predictability in forecasting LGPS pension costs for academies' non-teaching staff members, since all academies will benefit from the law of larger numbers.  An Academy pool should also reduce the likelihood of a single academy trust (or small multi-academy trust) being burdened with unusually high pension contributions relating to what is likely to be a small share of its overall staffing budget.

At the forefront of the Fund's considerations of member needs is the timely payment of pensions. The investment stewardship of the Fund ensures that payments are made in a timely manner, including lump sums and ongoing payments. The Fund sets high standards to pay all types of benefits within 10 days. During 2022/2023, 89% of all retirement related payments were made within 10 days, and 85% of all death grants were paid within 10 days. 100% of payments, both retirement related and death grants, achieved the Pension Regulator targets of 30 days and 60 days respectively.

On behalf of the Fund, officers record all engagement from employers and Scheme members on RI matters. During 2022/2023 the Fund received one enquiry from a Scheme employer regarding the divestment of fossil fuels. The Fund responded to this enquiry setting out the Fund's approach and actions in relation to RI.

## Further Action

As mentioned above, the Fund is also working towards reporting against the TCFD criteria and has agreed the metrics that will be monitored. The Pension Fund Panel has recently agreed a net zero target date of 2050 or sooner, which will be approved by Pension Fund Committee in November 2023. Interim targets for reducing emissions will be developed, once the pathway and implications are fully understood by all, and Pension Fund Committee members can be confident that such targets will be deliverable rather than a slogan. Members of the Pension Fund Committee recognise there are no simple solutions to getting to net zero: in the short term, the path to net zero may actually increase emissions as more steel, concrete and other materials are required to build renewable energy installations, and more mining of minerals is needed for an electrified future. Scheme member and employer views will be sought on the approaches to net zero, the short and long-term implications and proposed target date, including the use of member newsletters and consulting with scheme employers at the AGM.

The Pension Fund Committee agreed to three additional posts to create a Communications Team in the Fund structure which was implemented during 2022/2023. Changes currently being implemented in the Finance Team structure will now provide a clear pathway for career progression and improve recruitment and retention. Additional resource in the Finance Team will also allow for greater resource to be allocated to responsible investment, TCFD, ESG analysis and reporting. Finally, a dedicated Governance Officer focussing on compliance, policy development and risk management will ensure the Pension Fund Committee and Local Pensions Board can effectively and efficiently fulfil their regulatory roles. Recruitment to these roles is expected by March 2024.

The Fund will use the Annual Report for 2023 which features coverage of RI as another means to seek feedback and input from members.

## Principle 7 Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

### Context

The Pension Fund Committee recognises that ESG factors influence long-term investment performance and the ability to achieve long-term sustainable returns and therefore support and implement their systemic integration. As discussed above in Principle 1, the Pension Fund Committee established an RI Sub-Committee in 2020, which considers RI questions in detail, reviews priorities and policies, and makes recommendations to the Pension Fund Committee for changes in approach to implementation.

The Fund's investment beliefs were agreed a number of years ago and have been reviewed annually since. They are listed in the ISS and guide the Fund's approach to assessing investments and evaluating third-party investment managers. At a high level they are:

- A long term approach and strong covenant means risk can be taken in order to generate growth;
- Diversification is a key risk management tool;
- Active and passive management have a place; and
- RI and ESG matters should be integrated.

RI is a constantly evolving topic, and the RI Sub-Committee receives ongoing training from its consultants and external parties. RI is central to the thinking and activities of the RI Sub-Committee members, and this extends well beyond meetings of that group. For example, Sub-Committee members and their advisors regularly attend conferences or other events; on occasion as presenters or panel participants for events attended by the investment management community, regulators, the Scheme Advisory Board and/or elected officials. On occasion, they lead on-site engagements with companies and industry groups. The Fund, its Investment Consultant and Independent Advisor each submitted responses to the recent consultation by the Department for Levelling Up, Housing and Communities (DLUHC) regarding "Local Government Pension Scheme (England and Wales): Next Steps on Investment". From their various perspectives, each addressed what more LGPS funds (especially the Fund) could do to accelerate the UK's transition towards a more sustainable economy based on renewable energy as well as the need to target investments that can deliver acceptable returns while having a positive impact on those at risk of being left behind (the "just transition"). Finally, the Fund's Independent Advisor, who participates on the RI Sub-Committee, publishes articles on Room 151 (an online platform serving the local government and LGPS audience) and participates regularly as a panellist at round table discussions of topics like affordable housing. In April 2023, she published an article[12] advocating for single LGPS funds (like the Fund) to continue investing directly in assets critical to

[12] Carey: 'small is beautiful and a sound way to allocate LGPS capital' - Room 151

the UK's energy transition or supporting other objectives consistent with the Levelling Up agenda.  Often these assets are to be found in investment vehicles well below £1bn in size, making them too small for LGPS pools and other large investors.  When paired with experienced specialist manager, LGPS funds can be a critical capital source for early stage investments that underpin the UK's energy transition and Net Zero goals.  In the Investment Advisor's view, LGPS funds have an important role to play in funding such early-stage operators when their enterprise value is below the size that would attract managers of multi-billion pound investment vehicles.   Larger managers typically look to invest hundreds of millions of GBP in each opportunity rather than tens of millions (or less) at an earlier (venture) stage.

One case in point is the £334m Gresham House BSIF 2 fund (discussed above in Principle 4).  We note that Gresham House was an early signatory to the Stewardship Code.  The Fund committed £50m to BSIF 2.  Fund Officers, the Independent Advisor and Investment Consultant all believed that BSIF 2 aligned with many of the Fund's RI principles and the Pension Fund Committee agreed, approving the investment in May 2023.  The net target returns of BSIF 2 are expected to be above the net returns on infrastructure sub-funds offered through BCPP.  BSIF 2 offers a complementary (i.e. diversifying) exposure to those available via the Fund's BCPP infrastructure commitments.  Moreover, BSIF 2 directly addresses the issue of "Local" (i.e. UK-focused) investing through its focus in emerging sustainable industries in the UK.

In parallel with making direct ESG-targeted investments, Fund Officers have communicated the Fund's RI beliefs to BCPP.  The Fund has worked with BCPP and the 10 other partner funds to formulate a pool-wide approach to RI that is generally aligned to their collective policies.  A certain degree of compromise is required to get 11 partner funds plus BCPP to agree a unified approach to RI and formulate specific priorities for BCPP's engagement focus.

Building on the work of the RI Sub-Committee, the Pension Fund Committee has articulated Fund's overall approach to RI and investment stewardship which is published on the Fund's RI pages on the website.  For the Fund, effective stewardship means prioritising active ownership over divestment; using its voting rights in an active and strategic manner to make its vote count; engaging with investee companies (often in collaboration with other investors or through industry groups like BCPP, LAPFF, IIGCC, CDP and others); and where appropriate, influencing regulators and policy makers, all with the aim of improving long-term performance and sustainability of investment returns.

The Pension Fund Committee puts its RI beliefs into practice most clearly in the selection and oversight of the Fund's investments.  This RI discipline rests on 3 pillars:

- Selection – RI issues are integrated into the decision-making process when selecting a new investment strategy or investment manager.
- Active stewardship – the Pension Fund Committee believes that engagement is a more effective strategy than divestment and the Fund seeks to influence behaviour at investee companies through active engagement on specific issues.  The Fund (often working with others) communicates clearly its expectation of the direction and/or rate of improvement in corporate behaviour.
- Reporting & Disclosure – the Fund's investment managers and BCPP report to the Pension Fund Committee at regular intervals on progress made in stewardship topics as well as financial performance.

While the Pension Fund Committee is seeking positive change across a broad range of environmental, social and governance factors, it recognises the need to prioritise and focus on key areas the Fund considers important.  The Pension Fund Committee has identified 6 priority areas under the following themes:

1. Climate change & Biodiversity
2. Diversity & Inclusion
3. Progress against the United Nations Sustainable Development Goals

Further details are set out in the Fund's Stewardship Policy including the rationale for prioritising these areas.  The priorities are reviewed at least annually to ensure they remain appropriate, with a fundamental review being carried out following the next review of the Fund's RI beliefs.

The Fund also monitors BCPP to ensure RI goes beyond words and is integrated throughout its stewardship activities.  Fund Officers and advisors, along with their counterparts from the 10 other partner Funds, are heavily involved in the development of new BCPP funds, from the design stage through to the appointment process and the due diligence undertaken.

As mentioned above (in Principle 4), the Pension Fund Committee, reflecting concerns of the Panel and advisors, declined to approve a new BCPP offering relating to global property and instead asked BCPP to improve specific aspects of the investment strategy.  In particular, Pension Fund Committee asked for more detail on the offering's approach to sustainability, energy-efficiency, local /social impact, embedded carbon and other (mostly environmental) factors in maintaining the value of property and avoiding stranded asset risk.  BCPP responded constructively and subsequently disclosed to the 11 partner funds the work that had been done on environmental and broader ESG aspects of global property investing.  With reassurance from BCPP that ESG was at the core of its global property strategy, the Fund committed £130m to the Global Value-Add property offering.  One of the reasons for opting for Value-Add over Core property is that the Value-Add strategy is more likely to undertake sustainability-driven improvements in existing property in order to capitalise on the expected valuation uplift from improved environmental performance.

The Fund continues to review and input into the design of the UK property funds due to be launched by BCPP later this year and in 2024.  While the current focus is on the risk and return profile of the funds and the associated investment management fees, the Fund continues to contribute to discussions on the RI characteristics of the funds.  If ESG and sustainability aspects are not adequately prioritised in the design of the UK property strategy, advisers to the Fund, together with Fund Officers, will not hesitate to challenge BCPP.

The decision to invest UK equities in LGIM's low carbon and ESG-tilted passive UK strategy was similarly underpinned by the Fund's RI priorities.  Following an initial presentation from LGIM on the fund and its objectives, a follow up meeting was arranged between the RI Sub-Committee and LGIM's Stewardship Team.  The purpose of this was to understand in detail LGIM's approach to voting and engagement, particularly in the UK market, which has a relatively large exposure to oil and gas companies.

## Activity

### Pillar 1 – Selection

The RI approach of all managers is reviewed as part of the Fund's due diligence before selection, and on an ongoing basis thereafter. Some specific examples of how this is implemented are set out below:

### Index-tracking UK equities

This is an example of how the Fund takes account of different styles of active management in its RI implementation by selecting an appropriate benchmark index for passive management versus appropriate guidelines where assets are actively managed.

Index-tracking (passive) equity funds represent approximately 47% of the Fund's assets. The Pension Fund Committee reviewed these investments in 2020/2021 and selected replacements to align the passive holdings more closely with the Fund's RI beliefs. The selection and implementation of this allocation was implemented in this Stewardship Code year and aligned with the priority of 'Climate Change & Biodiversity'.

The Pension Fund Committee agreed to consolidate the Fund's global and regional index-tracking equity allocations (other than UK and emerging markets) into two global equity funds – the BlackRock World Low Carbon fund and the LGIM Future World Global Equity fund. The outcome was a c60% reduction in carbon emissions (relative to the global equity benchmark) in funds that are better aligned with the Fund's RI beliefs.

The Fund's UK and emerging markets index-tracking equity funds were not consolidated as part of this exercise. The Pension Fund Committee decided to investigate the possibility of investing these allocations in actively managed funds through BCPP, subject to due diligence and an assessment of costs.

During 2022/23, the Pension Fund Committee has progressed its review of the Fund's UK equity (c8% of total Fund assets) and emerging markets equity (c3% of total Fund assets) allocations.

For UK equities, the Pension Fund Committee reviewed the actively managed funds offered by BCPP alongside a low carbon and ESG-tilted fund offered by LGIM. Given concentration in the UK market and the exposure to oil and gas companies in particular, the Panel considered whether actively managed options offered by BCPP would better align with the Fund's RI priorities. In particular, the Pension Fund Committee wanted to ensure that exposures to materials and energy (two large sectors in the UK equity market) were selective, and where extensive engagement with company management indicated that an issuer was on the right path (Paris or other) rather than continue with a passive "buy the market" approach.

The sub-funds offered by BCPP are broadly aligned with the Fund's RI priorities, as expected for funds offered through a pool where the Fund has agreed its RI policy (as mentioned above). Nonetheless, following consideration of a number of broader factors, the Pension Fund Committee decided to invest the UK equity allocation in a low carbon and ESG-tilted passive fund with LGIM rather than in one of BCPP's two active UK equity strategies. As part of this review, the RI Sub-Committee met with LGIM's Stewardship Team to understand how the weightings within their UK passive fund are determined, the alignment with the

Fund's own RI priorities, their approach to voting and engagement as well as the options for offering unbundled voting. This latter aspect is discussed in more detail below under Pillar 2 – Active stewardship.

The outcome of this is to achieve a c50% reduction in carbon emissions (relative to the UK equity benchmark) in funds that are better aligned with the Fund's RI beliefs.

With respect to Emerging Markets, the Pension Fund Committee decided that active management would be more appropriate than a passive approach. Fund Officers and the Pension Fund Committee are continuing to monitor the development of the sub-funds offered by BCPP. Active portfolio managers can integrate ESG factors into their investment decisions, whereas this is much more difficult to do currently in emerging markets passive strategies owing to lack of reliable data and different value placed in ESG issues in regions outside Western capital markets. In regions where many investors do not (yet) factor in ESG considerations, or engage to any significant degree on ESG topics, selectivity allows active managers to direct capital in a manner more consistent with the RI beliefs of the Fund and/or BCPP.

## Private markets, infrastructure and property

The Fund is building up its allocation to the private markets (i.e., unlisted equity and credit), infrastructure and property investments to improve levels of diversification (a key risk management tool), whilst maintaining expected return levels. The total amount invested in these areas was under c18% of the Fund at 31 March 2023, but the strategic asset allocation for these categories is just under 30% of Fund assets. Investments in these areas are expected to build up over time, largely through commitments to a series of sub-funds offered through BCPP. Creating new private markets, infrastructure or property offerings, and then deploying capital, takes time. The Fund, with input from its advisors, actively contributes to discussions with BCPP at the design stage of each new strategy potentially of interest to the Fund. Officers and advisors review BCPP proposals, covering all aspects of the proposed investment, including the degree to which RI can be included in the investment processes and how this may differ across asset classes or across different geographies.

On completion of due diligence of both the investment and the ESG approach by the Fund's Investment Consultant and Independent Advisor to ensure independent checks and balances that the managers approach aligned with the Committee expectations, the Fund made further commitments to BCPP private markets sub-funds during the year. As well as adding to existing investments in private debt and infrastructure, the Fund has made an allocation to the BCPP Climate Opportunities fund. This fund will invest globally to support the energy transition and move towards a low carbon economy, consistent with the Fund's RI priorities.

Working with the Investment Consultant, the Pension Fund Committee has also taken the opportunity to review BCPP's approach to its private markets strategy, given that some sub-funds have been up and running for a few years now. While the conclusion of this review was positive, it did highlight the proliferation of underlying managers and vehicles; concerns were expressed about BCPP's capacity to monitor this number of underlying manager strategies given its current staffing and the number of experienced staff working in its alternative investments area.

The Pension Fund Committee continues to monitor the development of BCPP's global property proposition and has met with BCPP regularly during the year to input into the design of the funds, including discussions on their RI credentials of the property team and its advisors, risk and return profiles, and the associated costs.  Due diligence on BCPP's global property proposition has recently been completed.

### Sustainable infrastructure

During the year, the Pension Fund Committee approved a commitment to a UK sustainable infrastructure fund from Gresham House, equivalent to c1.7% of Fund assets. (See previous discussion under Principle 4.)  This opportunity was identified by the Independent Advisor as a way of making a valuable contribution towards meeting the Fund's RI priorities.  Importantly, it also allows the Fund to make a positive impact locally within the UK.

As an example, one of the underlying investments is in a hydroponic farming business, Fischer Farms.  Evidence indicates that agricultural land in the UK has only 60 years of useful life left as a result of over farming. Hydroponic farming is an alternative – and commercially attractive – way of growing food. Furthermore, one of their farms is located a relatively short distance from Bedford in Burton-on-Trent and members of the Pension Fund Committee visited the farm to better understand how it operates and the value it is adding to the local economy.

This commitment is now completely drawn so the investment is already being put to work and the Pension Fund Committee will monitor its development with interest.

We note that Gresham House is the currently subject of a takeover bid from a US-based investment company, Searchlight, and Gresham House have recommended that its shareholder accept the offer. The Pension Fund Committee will continue to monitor developments.

### Pillar 2 – Active Stewardship

The Fund acknowledges that stewardship activities must be tailored to each type of investment held, taking into account the characteristics of the asset class, the investment structure, and how many layers of intermediaries there are between the Fund and the underlying investments.

All of the Fund's assets are currently invested in pooled funds, where the assets are held alongside those of other investors within the same account.  The Pension Fund Committee seeks to influence the stewardship activities of its managers including BCPP through direct contacts (e.g., in meetings) as well as communication of the Fund's RI beliefs and priorities.  The Pension Fund Committee has sought to influence the evolution of BCPP's RI policy to ensure, as far as possible, that this is aligned with the Fund's own RI beliefs and priorities.

It should be noted that BCPP continue to improve their own process of ESG integration (in discussion and with guidance from the partner funds including Bedfordshire) and investment stewardship, and have further developed their RI policies including a commitment on net zero.  More details can be found in the BCPP Responsible Investment Stewardship Report for 2022-23.

Arguably the greatest influence that an investor like the Fund can have in investment vehicles created by its pool company is *before* they are created. Fund Officers and advisors regularly engage with BCPP staff in virtual meetings where Fund requirements are set out and the parameters of new strategies to meet those requirements are discussed.

The pooling of property is challenging because it involves holdings of a wide variety of type and formats that range from buildings held outright by some partner funds to units in listed property trusts to interest in property fund of funds. Developing BCPP's property strategy, comprising separate UK and global property offerings, illustrates the degree to which representatives of LGPS Funds need to engage robustly with officers of their LGPS pool, both in the initial development stages of an investment strategy and as part of ongoing due diligence. Set out below are engagements where Fund Officers and advisers have directly led or participated in on behalf of the Fund:

- **Complexity, volatility and uncertainty**: The UK property sub-fund has complexity because many partner funds hold existing property positions in various forms, ranging from direct ownership of buildings to holdings in listed property funds and fund-of-funds. Combining these existing positions alongside new cash-funded investments is a complex undertaking, which is one of the reasons why the BCPP UK property project is taking a number of years to come to market. Headwinds to the process have been uncertainties such as market volatility, fundamental changes in outlook for some sectors (for example physical retail and offices) and the impact of rising interest rates on property valuations. In nearly all sectors, operators are confronting rapidly changing conditions for commercial properties owing to spiking energy process, longer-term shifts in demand from tenants who prefer to occupy greener, more sustainable properties; and the prospect of more demanding regulations regarding energy efficiency, fire safety and quality of construction materials in light of the RAAC problems that have emerged in buildings constructed in the second half of the 20th century. Discussions are continuing regarding the UK sub-fund structure.

- **Governance challenges**: Executing such a complex operation among 12-parties (11 partner funds plus BCPP) has been challenging on many fronts. Committees at each partner fund will need to approve the final arrangements including transfer pricing of assets. From an RI perspective, it is possible that some of the potential properties to be sold into a common sub-fund may require significant environmental remediation or upgrades. Pricing some of these uncertainties in a manner that strikes all parties as "fair" (as confirmed by outside expert opinions) may raise further challenges or create potential conflicts of interest between those partner funds that are sellers (or transferors) of assets vs. those that are effectively buyers (or transferees) in this pooled solution. Given the ongoing uncertainty about real selling prices for commercial property, as reflected by the number of listed funds that are suspending or eliminating redemption features in their funds, it may be some time yet before accurate, arm's length prices can be established for properties, and now even fund holdings, that might eventually be transferred to the BCPP UK property strategy. Fund Officers and advisors are closely engaged with BCPP throughout the process to ensure that the solution is fit for purpose, can be approved by the Pension Fund Committee and represents a fair proposition for Fund members and employers. To resolve these governance challenges, which arise from the macroeconomic environment rather than BCPP or the partner funds, we would not be surprised to see further evolutions of the UK property strategy, for example reversing the order of things so that first new cash is deployed, and waiting until more market stability prevails before attempting to establish trading prices and “fair” valuations on properties and holdings in third-party funds. Above all, we will advocate for pragmatism and realism so that BCPP’s UK RE strategy, when rolled out, is the most appropriate given the current market environment and offers a fair deal for all partner funds.

- **Formal due diligence:** In contrast, BCPP’s global property offering has been simpler because there were no legacy properties to transfer. BCPP launched its two global property funds in September 2023, seeking commitments from partner funds. As discussed above, the Committee undertook formal due diligence of the core and value-add global property offerings, assisted by the Fund’s advisers. This review identified five areas – investment strategy, model portfolios, ESG/sustainability, investment processes and resourcing – where improvements could be made and clarification sought from BCPP. The Pension Fund Committee met regularly with BCPP throughout this process and the additional details provided by BCPP provided the assurance needed to proceed with a formal commitment. Consistent with the Fund’s strategic objectives, and in part for ESG/sustainability reasons cited above, the Committee decided to invest its 4% target allocation (c£130m) to global property in BCPP’s value-add offering.

## Active Stewardship with managers outside of BCPP

With respect to investment managers outside of BCPP, the Fund’s relationship regarding RI issues is critical yet collaborative. The Pension Fund Committee, Fund Officers and advisers seek to engage managers on the Fund’s priorities and influence their approach. Many leading investment managers have invested heavily in their own RI capabilities, including proprietary models and methodologies which are increasingly integrated into the day-to-day securities analysis discipline of their investment teams. Members of the Pension Fund Committee, along with advisors, engage with the Fund’s investment managers to understand how each manager’s methodology and approach works; how consistently it is applied across asset classes (for example listed equities vs. government bonds vs. private markets assets); where it may differ from that of other firms or index providers (such as Sustainalytics or MSCI); what their priority issues are; and how investment managers work collectively across the industry to achieve common RI objectives.

The scope for individual investors to exercise their voting rights within a pooled fund is an evolving area. The Pension Fund Committee regularly reviews the options available to exercise the Fund’s voting rights in the most effective way. Recently the Pension Fund Committee considered the new voting options offered by BlackRock for its passive equity funds, which will allow investors to determine whether BlackRock continues to vote investors’ shares according to its voting policies, or alternatively, whether investors choose to align with an alternative proxy voting policy developed by a third party, International Shareholder Services (ISS) or Glass Lewis. Given that around one-sixth of Fund assets are managed by BlackRock, and that BlackRock was the first manager to devolve voting in passive funds this way, the RI Sub-Committee and Pension Fund Committee have engaged closely with BlackRock, delving into the philosophical, technical and financial nuances of the various proxy voting arrangements. The RI Sub-Committee met with BlackRock and ISS in October 2022 to learn more about the voting policies offered, their key areas of focus and any nuances, plus the ongoing support offered by the two companies.

Before making a final decision, the RI Sub-Committee decided to ask LGIM whether they offer a similar service and the options offered, with a view to possibly aligning the Fund’s voting and engagement principles across the nearly half of the Fund assets (and c85% of the Fund’s listed equities) that are managed by BlackRock and LGIM.

LGIM confirmed that they are working with their voting and engagement partner, Tumelo, to investigate ways in which they can accommodate the growing demand from investors, like the Fund, to express their own views rather than following LGIM's policy vote. Their aim is to deliver a solution later in 2024 and the Pension Fund Committee will follow this with interest. We note Tumelo's recent announcement[13] relating to another LGPS fund, and this topic will be discussed in more detail at the future RI Sub-Committee meetings.

At its August 2023 meeting, the RI Sub-Committee formally considered the voting options being made available by BlackRock in relation to the Fund's investment in the BlackRock World Low Carbon Fund (c16% of total assets). The menu of choice was broad and consisted of 7 options from ISS, a further 7 from Glass Lewis plus of course BlackRock's own Investment Stewardship voting policies. From among these 15 options the RI Sub-Committee recommended the ISS Sustainability Proxy Voting Policy Guidelines which has an enhanced focus on ESG considerations as well as climate change risk mitigation factors. The Policy was selected so that votes cast are better aligned with the Fund's RI priorities. The decision was ratified by the Pension Fund Committee in September 2023.

## Pillar 3 – Reporting & Disclosure

The Pension Fund Committee has shared its RI priorities and policies with all investment managers and meets the Fund's investment managers and BCPP on a regular basis to discuss investment performance and evaluate the scope and effectiveness of stewardship activities undertaken. During 2022/23 the Pension Fund Committee met with 4 managers, covering 73% of the Fund's assets. In addition, Fund Officers met with 2 managers covering 15% of Fund assets during the period.

Questions are sent to the managers and BCPP in advance to give presenters time to prepare answers that are of greatest interest to the Pension Fund Committee. Sample RI-related questions are provided below, noting that some of these questions need to be tailored to reflect the characteristics of the particular investment vehicle or asset class.

- How do you embed RI into your investment decisions?
- How has your investment process evolved to ensure that proper consideration is being given to climate risk and other ESG factors?
- What are your RI priorities for the next 1-3 years?
- What steps are you taking to ensure that the quality of the data that you use to inform decision making is reliable and are you able to improve disclosures?
- Please provide examples of how your voting and engagement activity is done, the outcome of this activity, and where ESG factors have had a meaningful impact on your voting /engagement activity or investment decisions.

[13] Tumelo powers new landmark pass-through voting solution for £2bn Camden Pension Fund

- What dialogue have you had with investee companies to highlight ESG concerns or to influence change?
- What is your net zero timeline for this strategy, including short, medium and long-term targets?
- What plans do you have to consider net zero requirements in the management of this strategy and do you have any concrete targets in place?
- What requirements do you place on companies to publish their own net zero strategies, including assessment of resilience to key risk factors, prior to making investment?
- For banks and financial institutions, how do you integrate climate change into your lending practices and counterparty assessments?
- Where financial institutions are investee companies of this strategy, what requirements do you place on them to integrate climate change in their lending or insurance practices?
- How are you addressing gender pay gaps and female representation on Boards and Executive Teams within the companies you invest in?
- What actions are you taking to monitor actions being taken to address the UN SDGs?

Fund Officers review the voting and engagement activities undertaken by the Fund's investment managers and report to the RI Sub-Committee on an exceptions basis. In such cases, the RI Sub-Committee will assess whether the stewardship activities undertaken by the manager in question were consistent with the Fund's priorities, as well assessing the manager's overall approach to RI within the context of the specific strategy.

The RI Sub-Committee is assisted in this role by the Fund's Investment Consultant who provides RI ratings for each of the investment managers based on their governance criteria – culture, integration, stewardship and transparency. Where an RI rating has declined or is deemed unsatisfactory, the Investment Consultant will provide an explanation and escalate any concerns with the manager.

A summary of the stewardship activities undertaken by the investment managers is included in the annual Stewardship Code submission, which is published on the Fund's website.

## Outcomes

The outcomes from the activities noted above are as follows:

- The Fund's RI beliefs have been used to inform the selection of new passive UK equity funds (and previously global equity funds). The products selected better align with the Fund's RI beliefs and the UK equity index selected (the LGIM Future World UK Equity) is expected to deliver a c50% reduction in carbon emissions relative to a "vanilla" UK equity benchmark.

- Due diligence undertaken on BCPP's private equity, private debt, infrastructure and climate opportunities strategies also included an assessment of BCPP's approach to RI and how they will monitor the underlying managers.
- The Fund completed its due diligence on BCPP's global property offerings, and in September 2023 the Pension Fund Committee agreed to commit £130m to BCPP's value-add global property sub-fund.
- Partner funds' input to the design of BCPP's property funds is continuing, including development of the RI approach to be adopted for the UK and global property funds.
- The Fund's RI beliefs and priorities have been communicated to the Fund's investment managers and to BCPP. The Pension Fund Committee has had input to BCPP's own RI policy and confirmed that it is consistent with the Fund own beliefs.
- The Fund monitors the engagement activities of the investment managers and BCPP, including face-to-face meetings where the managers and BCPP report on stewardship activities and respond to questions that are tailored to the Fund's own RI priorities and ensure the priorities are being addressed by managers.
- Most importantly, the Fund is building up its own ESG reporting capability through its new collaboration with Caceis and a powerful new service provider Clarity AI, that will provide the Fund with far more comprehensive and comparable ESG based scores, TCFD reporting and insights into progress towards UN SDGs. This latest "own reporting" by the Fund is the most exciting element because it will combine all of the efforts by Fund Officers, the Pension Fund Committee and managers into metrics that, over time, will provide an increasingly robust measure of how the Fund, working through its myriad of investment managers and service providers, is putting its money where its mouth is with respect to RI beliefs. These, too, may evolve over time, so our metrics can and will change accordingly.

## Principle 8 Signatories monitor and hold to account managers and/or service providers

A key function of the Fund is to monitor managers and service providers against clear expectations set for them and hold them to account, as these determine much of the Fund's success in achieving its objectives. This is achieved through reporting from and engagement with managers and service providers.

## Activity and Outcomes

The Fund monitors its investment managers and service providers, holding them to account in the following ways:

- All appointments have clear and documented service levels/expectations against which providers can be measured. The approach to assessment is set out below.
- The Fund has also escalated issues directly with its providers, including the Fund's former custodian in 2021/2022. As these were not addressed satisfactorily after a number of engagements with progressively more senior individuals, the custodian contract was terminated and transitioned to a new provider in January 2023
- The Global Custody Services contract was retendered during 2022 as the previous contract was coming to an end. The Fund utilised the National LGPS Framework Agreement to let the contract, which was awarded to Caceis Investor Services. Although Caceis was new to the LGPS custodian role, pricing and quality of service scored highly in the evaluation, and the Pension Fund Committee was reassured by Caceis' solid ownership (by Banco Santander and the Crédit Agricole group) and deep experience in the Continental European market. The appointment of Caceis is expected to lead to a better overall service and transparency (Fund Officers can now "see" movements in the Fund's holdings in real time through the Caceis platform), a greater range of services offered (which has led to the implementation of the enhanced ESG reporting service) and efficiency improvements in cash management across a broader range of currencies.
- Investment managers and the Fund's Investment Consultant provide quarterly investment performance reports on market and manager performance which covers any key trends. These reports are reviewed by Fund Officers and reported to the Pension Fund Committee to determine whether managers are achieving objectives and any concerning trends so that they can be addressed in a timely fashion. The Investment Advisor adds comments to these reports, and the Pension Fund Committee gets the benefit of all inputs in a cohesive, one-stop manner.
- The Fund's Investment Consultant and Independent Advisor work collaboratively together, but also challenge each other in a constructive manner intended to produce the best possible result for the Fund. These external advisors provide their views on, and raise concerns regarding the Fund's investment managers, including BCPP. Where concerns are raised, the manager is asked to provide further information and may be asked to attend the next Panel meeting for further in-person queries. From time to time, the Independent Advisor suggests new strategies that other LGPS funds are investing in, which might be of interest for Fund Officers and the Pension Fund Committee to consider for the Fund.

- The Pension Fund Committee meets the Fund's investment managers on a regular basis. Managers are provided with questions in advance so they can prepare answers and reporting that is tailored to the Fund's requirements and its RI priorities. Sample questions relating to RI are set out above in Principle 7. Where responses are not considered satisfactory, the Fund continues to engage with the manager until the matter is resolved.

- Fund officers, along with the Fund's investment Consultant and Independent Advisor, meet with BCPP (either virtually or in person) on a frequent basis, which provides an opportunity to review BCPP's policies and actions and provide feedback. BCPP consider the proposals put forward by the Fund in conjunction with the other partner funds.

- The Pension Fund Committee has set separate strategic objectives for the Investment Consultant and Independent Advisor, in compliance with the requirements of the Competition and Markets Authority ("CMA"). Performance against these objectives is monitored annually.

- The RI Sub-Committee assesses whether the stewardship activities undertaken by investment managers - or in some cases, proposed changes in investment parameters of an index fund - are consistent with the Fund's RI priorities. The Fund officers, advisors and members of the Pension Fund Committee provide direct feedback, and challenge, to investment managers where appropriate. With respect to the BlackRock World Low Carbon Tracker passive fund (c16% of Fund assets), the Pension Fund Committee was pleased to note in September 2023 that proposed changes and additions had been limited to lowering the carbon-related metrics of the customised index yet further and tightening up key sustainability criteria. Having previously met with resistance from investors like the Fund, BlackRock had abandoned its prior plans to add many exclusions designed to appeal to investors prioritising other themes beyond carbon reduction, sustainability and the environment. The Pension Fund Committee's previous engagement on the topic of proposed changes had been successful.

- The Fund's Investment Consultant provides RI ratings for each manager on a quarterly basis. Where a rating has declined or is judged unsatisfactory, the Investment Consultant will provide an explanation and escalate concerns with the manager. The Committee will then consider whether the manager's ongoing appointment remains appropriate.

In the case of one investment manager, the Investment Consultant's RI ratings highlighted that it was rated as "Weak" on RI. This fund manager had also been underperforming its target, although more recently the manager has been able to preserve capital at a time when other asset classes, notably bonds, have been falling in value. The Committee decided in September 2023 to terminate this manager's mandate and the Fund's allocation to this manager is being withdrawn to fund new investments in private markets. The pace at which the funds are withdrawn has been kept under review by the Pension Fund Committee, dependent on the pace at which the private markets commitments build up and the availability of other suitable investment options. However, following a meeting with the fund manager in August 2023 and supported by further advice from the Fund's advisers, the Pension Fund Committee decided to redeem the holding and reinvest the proceeds in money markets for reasons outlined above in Principle 4.

All manager, custodian and adviser mandates are subject to regular review and retender to ensure the Fund is receiving best value. As noted above, the Fund has recently appointed Caceis as its new custodian, who will also provide investment performance report.

For other managers, to date the Fund has received satisfactory responses that confirm they are acting in accordance with the Fund's RI beliefs and priorities, and the Pension Fund Committee is therefore satisfied with the continued appointment. Consequently, no exceptions have been reported to the RI Sub-Committee.

The Fund's Investment Consultant has recently updated its RI ratings framework against evolving best practice. The updated framework is more demanding of change, with refined views on best and acceptable practices. The framework considers culture, stewardship and climate change, with views and commentary being reported in a consistent manner between both managers and clients.

In December 2022, the Pension Fund Committee carried out a formal review of the Fund's Investment Consultants and Independent Advisor against the objectives set and were satisfied with the service provided. The review of objectives covered the areas appropriate to the service delivered:

- Develop clear policies, objectives and beliefs
- Strategic advice
- Compliance
- Efficient implementation
- Research and reporting

The objectives for 2023 were updated to give greater emphasis to RI and TCFD reporting in subsequent performance reviews as well as evolution to the Investment Strategy to include a private equity allocation. Performance against objectives will be evaluated in November 2023.

The level and quality of reporting provided by the managers is improving constantly and is expected to provide the Pension Fund Committee with a better understanding of the ESG risks inherent in the Fund's investment portfolio and how these risks are managed. As reporting of risks related to climate improves, the Pension Fund Committee intends to be better prepared to challenge the rationale of any investments it deems high risk. The RI Sub-Committee, the Pension Fund Committee and Fund Officers do not want to rely entirely on RI and TCFD information provided by managers (including BCPP). For this reason, and as noted earlier, the Fund has also appointed Clarity AI to provide enhanced, independent reporting on ESG and climate metrics across the Fund's entire portfolio, hence across all managers.

## Principle 9 Signatories engage with issuers to maintain or enhance the value of assets

The Fund recognises engagement is key to getting their priorities recognised and addressed.

### Activity

The Committee has set clear expectations for investment managers and BCPP on engagement activity:

- to invest in line with the Fund's RI beliefs and to demonstrate how these beliefs are met;
- to incorporate ESG factors into the reporting provided to Fund Officers and advisors, and when applicable, the Pension Fund Committee;
- for BCPP to provide leadership on the ESG principles for the investments within the pool and to develop the reporting on the key principles with its appointed investment managers;
- to participate in collective initiatives working in collaboration with other investors, notably LAPFF (of which the Pension Fund Chairman is Chairman);
- Investment managers are expected to be signatories to and comply with the Financial Reporting Council's Stewardship Code 2020 and United Nations Principles of Responsible Investment ("UNPRI").

As discussed in principle 7, the Pension Fund Committee expects managers to engage on a broad range of environmental, social and governance factors. The Pension Fund Committee recognises, however, the importance of identifying a shorter list of the Fund's RI priority areas to provide greater focus for stewardship activities and increase the likelihood of substantive outcomes. The Pension Fund Committee has communicated the following 6 priority areas to managers and BCPP for stewardship activities undertaken on its behalf.

| Theme | Priority area | Rationale |
|---|---|---|
| Climate change & Biodiversity | 1. Companies to publish net zero strategies including assessment of resilience to key risk factors, in own business and across supply chain and the impact on biodiversity. | Supported by TCFD, proper disclosure will allow investors to make informed decisions on where to invest their capital. It also pressures company management (i) to calculate their company's emissions as well as that up and down the value change and (ii) to consider the risk climate change presents to their business and outline their strategy and timeframe for addressing this risk. |

| Theme | Priority area | Rationale |
|---|---|---|
| | 2. Insist that all banks and financial institutions integrate climate change into lending practices and counterparty assessments (e.g. with non-listed clients/counterparties). Set an ambitious yet realistic time-scale for this shift in practice. | Integrating climate change into lending practices is expected to incentivise companies seeking finance to build in resilience to climate change as a core part of business planning. It will also accelerate banks and financial institutions (including insurers) factoring in the credit and other risks of adverse climate events. Finally, banks and insurers will be held more accountable for the emissions that their provision of capital (or insurance) enables and pressure clients to find new, lower emissions ways of working (to the extent possible) to retain access to the banking system and Western financial markets. |
| | 3. Companies to contribute actively to a Fair and Just Transition to a low carbon economy | A Fair and Just Transition seeks to ensure than the benefits of the transition to a low carbon economy are shared widely, whilst also supporting those who stand to lose economically – be they countries, religions, communities, workers or consumers.<br><br>The shift towards renewable energy and Net Zero agenda is likely to create some employment uncertainty or other disruption of peoples' lives and needs to be expressly factored into any manager's "Fair and Just Transition" plans. Prospectively, LGPS funds will likely be required to track their investments that align with the government's Levelling Up agenda, which encompasses the just transition for communities in the UK or industries that may be under threat from the shift towards renewable energy and away from fossil fuel-based energy sources. |
| Diversity & Inclusion | 4. Companies to establish targets for equalising pay gaps between socio-demographic groups (including but not limited to gender) and implementing fair pay practices | The equalisation of pay gaps and fair pay practices will create a fairer society based on merit and use of ones' skills and talents. Broadening the skilled workforce will create advantages to employers and employees alike, |

| Theme | Priority area | Rationale |
|---|---|---|
| | | which have an important social multiplier effect beyond those individuals hired. |
| | 5. Companies to achieve a minimum of 30% female representation on Boards and Executive Teams, or publish strategies for achieving these targets | Improve diversity within company boards, and looking beyond gender to other characteristics and/or background factors that may create barriers to people thriving in an industry. |
| Progress against the United Nations Sustainable Development Goals | 6. Companies to report on the actions they are taking to address those Sustainable Development Goals set by the United Nations that are most relevant to their business, area or customer base. | While this is a broad outcome, it will encourage companies to recognise the importance of the Sustainable Development Goals and explain what actions they are taking within their business to address certain of these goals that align most closely with their business processes. Companies that are able to report on the actions they are taking may be expected to score more highly on ESG metrics, all else being equal.<br><br>Furthermore, goals like the UN SDGs are contained in the UK government's Levelling Up agenda, for there are areas within the UK that lack high quality jobs, broadband infrastructure, adequate housing that is affordable, or clean water and air. |

The RI Sub-Committee has received training on the options that are now being made available to institutional investors to exercise their voting rights within pooled funds. It is expected that the Fund's selected proxy voting policy will be rolled out to cover all index-tracking equity funds which will allow votes cast on company resolutions to be better aligned with the Fund's RI priorities. See discussion above in Principle 7, "Active Stewardship with managers outside of BCPP" discussion.

## Outcomes

Examples of the outcomes from manager engagement with investee companies are set out below to demonstrate how integrating ESG into investment decisions and ongoing monitoring can achieve positive benefits for the Fund and for members and employers.

**Example 1 – Imperial Oil (Pyrford Global Total Return, 2022)**

**Reason for engagement:** Imperial Oil is an integrated Canadian oil company. A majority of Imperial's production comes from oil sands mining projects, which have a large detrimental environmental footprint. Oil sands are water intensive, are high in $CO_2$ and other emissions (such as $SO_2$ and $NO_x$). They also produce significant quantities of tailings that have high concentrations of heavy metals and other compounds that can potentially be toxic. The objective of the engagement was to discuss Imperial's current level of GHG and other emissions and what their plans are for reducing these going forward.

**Summary of engagement:** The manager has have been engaging with Imperial on an on-going basis given emissions is an ongoing issue for them. The first written engagement dates from 2020 but this is a matter [BCPP] have been discussing with them over a number of years. Whilst Imperial has had emission reduction targets for a number of years, they were short term in nature and somewhat unspecific. The manager has been asking for the company to provide longer term goals and also for more detail on exactly how these goals will be achieved. Most of the current focus of emissions reduction is on the E&P side. Targets for the refining and chemicals division are also needed.

During October 2022, the manager engaged with a number of Imperial Oil's employees. The first meeting was with Brad Corson (CEO) and David Hughes (IR). This was followed up with a call with the VP of Policy & Advocacy, and the VP of Commercial & Corporate Development. This follows a similar pattern of engagement over recent years. It is worth noting that the visibility and willingness of Imperial Oil to have meetings solely on ESG issues has increased considerably over the last few years.

**Outcome of engagement:** Given the current goals culminate in net-zero by 2050 this engagement will be on-going. The manager will continue to monitor Imperial Oil's progress on meeting their stated objectives and also look forward to updated goals being shared with the investment community.

**Example 2 – LAPFF engagement with McDonald's[14] (listed equity, 2022)**

**Reason for engagement:** LAPFF has been pushing for McDonald's to publicly disclose the findings of a water risk assessment and physical risk scenario analysis undertaken by the company in 2020. In order for investors to fully understand the water-related risks facing the company, the disclosure should provide information relating to how the findings inform timebound and quantifiable mitigation efforts for key commodities and regions.

**Achieved:** LAPFF met with McDonald's as part of a coalition of investors to discuss the company's approach to managing environmental risks across its agricultural supply chain. The 2020 water risk assessment used the WRI Aqueduct Water Risk tool to identify high risk areas, but the company has, to date, failed to release the results. LAPFF requested that the company disclose the findings to facilitate a better understanding of the material risks. McDonald's was also questioned about updating its emissions reduction targets, following the release of the Science Based Target initiative's (SBTi) FLAG guidance. The company has committed to reducing greenhouse gas emissions (GHG) by 36% by 2030 from a 2015 base. This is an absolute target that covers Scopes 1, 2 and 3 emissions, the latter including upstream emissions from operational waste and downstream emissions from delivery-related waste and franchisee operations. To achieve SBTi verification, the new FLAG guidance requires a commitment to eliminate deforestation from agricultural supply chains by 2025, which would require an acceleration of existing commitments.

**In Progress:** McDonald's has been identified by the Valuing Water Finance Initiative as a company with significant exposure to water-related risks and therefore included the company in the 203 VWFI benchmark. This benchmark will be used by LAPFF to measure company performance and the extent to which disclosure on the issue improves.

Examples of stewardship activities that have been reported to the Committee are set out below.

- LAPFF – (of which the Fund is an active contributing member) during the first quarter of 2023, LAPFF engaged with 397 companies, while in the same quarter in 2022 it engaged with 50 companies (discussed in Principle 10). The significant increase is the result of 368 letters sent to FTSE All-Share companies (excluding investment trusts) on presenting a climate transition plan to shareholders for approval at the AGMs. The outcomes of these engagements are recorded in LAPFF's report. For example, LAPFF met with the Chair of Rio Tinto regarding the action the company intends to take on climate change. Rio Tinto's commitment to making climate change a strategic objective was welcomed although further work on Scope 3 emissions is required and LAPFF is keen to learn more from the company on its plans for a Just Transition. The Fund will be following up on progress against this in its next RI Report.
- BCPP – the quarterly stewardship report indicates that BCPP carried out 802 company engagements over the first quarter of 2023 (327 in same period, 2022) and cast votes on 1,702 agenda items (1,298 in same period, 2022). For example, BCPP voted against re-election of the chair of the nomination committee at Costco, as there was no positive momentum or progress towards improving diversity in leadership positions. The re-election of the chair

[14] Pyford Environmental Social and Governance Report
LAPFF Quarterly Engagement Report (January –March 2023)

of the nomination committee saw a vote against management of over 18%, highlighting increasing investor focus on gender diversity amongst the senior leadership.

- LGIM – LGIM are responsible for managing approximately 27% of the Fund's assets, with most of this held in LGIM's Future World Global Equity Fund. LGIM publish an active ownership report annually, which sets out the stewardship activities they have undertaken. Fund Officers and the Pension Fund Committee have pushed LGIM to go faster in rolling out its unbundled investor voting, along the lines of what Blackrock has recently done.
- BlackRock – BlackRock are responsible for managing just under 20% of the Fund's assets, with most of this held in BlackRock World Low Carbon fund. BlackRock publish an Investment stewardship report annually, which sets out the stewardship activities they have undertaken.

Having identified six priority areas for voting and engagement activity, the Pension Fund Committee is better placed to challenge the managers on the actions they are taking in these areas, with a clear focus on outcomes.

The RI Sub-Committee has a clear understanding of the options available to institutional investors to exercise their voting rights for the index-tracking funds held with BlackRock. As noted in Principle 7, the Pension Fund Committee agreed to adopt the ISS Sustainability Proxy Voting Guidelines so that votes cast are better aligned with the Fund's RI priorities.

As noted in Principle 7, the RI Sub-Committee has also asked LGIM whether it is able to offer similar optionality for its pooled investors. LGIM's aim is to deliver a solution later in 2023 or by early 2024. The Pension Fund Committee will follow this development with interest. This topic will be discussed in more detail at the December 2023 RI Sub-Committee meeting.

## Principle 10 Signatories, where necessary, participate in collaborative engagement to influence issuers

The Pension Fund Committee believes that working collaboratively is essential to delivering the Fund's objectives given the weight of influence that can be brought to bear on issues when investors work together.

## Activity and Outcomes

The Pension Fund Committee monitors its investment manager's engagement activities and welcomes instances where the Fund's investment managers and BCPP collaborate with other investors to bring about positive change.  A significant part of the Fund's stewardship activity is implemented through the Fund's investment managers and partnerships including the LAPFF), BCPP and its partner funds.

### LAPFF

The Forum currently has 87 member funds and 7 LGPS pools with assets of more than £350 billion and directly engages with company chairs and boards to affect change at investee companies.  During 2022, LAPFF engaged with 159 companies covering a range of different topics including climate change and human rights and sent 385 letters to FTSE All-Share companies on putting a climate transition plan to shareholders for approval at the AGM. Further details can be found in LAPFF's 2022 annual report.

The engagements were encouraged by the Fund (through the shared chairmanship) and directly aligned with the Fund's policies.

### BCPP and managers

BCPP is one of the largest pension pools in the UK.  Collectively, its partner funds have pooled c£40bn of assets (31 March 2023). With input, leadership and influence from Fund Officers and members of the Pension Fund Committee, BCPP have brought together partner funds' interests into a single RI policy and developed voting engagement guidelines which inform the stewardship activities undertaken on utilising the weight of the combined partner fund assets. BCPP also collaborates with other investor groups (e.g. Climate Action 100+, 30% Club Investor Group) on behalf of the partner funds to increase their influence.

Robeco is BCPP's voting and engagement partner and directly advises BCPP on behalf of the Fund and the 10 other partner funds.  Robeco engage on BCPP's behalf (and with the guidance of BCPP RI policies and priorities) with companies the Fund owns globally across several ESG themes. This allows BCPP to better fulfil its stewardship objectives to its partner funds as an active shareholder.

BCPP (and the Fund) are members of LAPFF, the UK's largest collaborative shareholder engagement forum.   The Chair of LAPFF is also Chair of the Bedfordshire Pension Fund, which gives the Fund greater influence than a £3bn LGPS fund might otherwise have.

With encouragement of the Fund, many of the Fund's investment managers also collaborate with the same (and other) collective action groups, of which a few examples are provided below.

- Climate Action 100+ opened public consultation on its net zero company benchmark for its next phase, and following this, released an updated benchmark (2.0) to embed a stronger focus on emissions reductions, alignments with 1.5ºC pathways and the robustness of transition plans. In line with their voting guidelines (as directed by the Fund and other partner funds), BCPP will vote against company Chairs in high emitting sectors where the climate change policy does not meet BCPP's minimum standards. Where a company covered by the initiative fails the first four indicators of the Benchmark[15], BCPP will also vote against the Chair of the board.
- Securities and Exchange Commission (SEC) Climate Disclosure Rulemaking – LAPFF (and therefore the Fund, as a member of LAPFF) joined with other investors in writing to the SEC in co-ordination with the US 'As You Sow' organisation. LAPFF's correspondence underscored the importance of requiring verified Scope 1 through 3 value chain carbon emissions-reporting with an emphasis on Scope 3 verified reporting.
- BCPP prioritise engagement activity based on investment risk, the materiality of the issue and the probability of being able to make a successful intervention. One current engagement theme "Human Rights Due Diligence for Conflict Affected and High-Risk Areas" being conducted by Robeco specifically covers companies operating in Israel, Palestine and the Occupied Palestine territories (OPT). Companies were selected for the engagement using the UN database which classifies the involvement of 112 companies in the OPT. In addition to this, the Local Authority Pension Fund Forum (LAPFF) on behalf of BCPP and its partner funds, engaged with 17 companies in 2021 who were identified as having "potentially problematic operations in or related to the OPT". LAPFF continues to ask a number of companies to undertake human rights impact assessments on their operations in the OPT. Recent escalation of hostilities and the widespread suffering of civilian populations make this engagement even more critical and timely.

[15] https://www.climateaction100.org/net-zero-company-benchmark/questions/
First four indicators are: ambition to be net zero by 2050 or sooner; long-term reduction targets set; medium-term reduction targets set; short-term reduction targets set.

## Principle 11 Signatories, where necessary, escalate stewardship activities to influence issuers

The Fund recognises escalation is key to having its RI priorities addressed where progress has not been satisfactory.

### Activity and Outcomes

The Fund expects both its investment managers and BCPP to take the appropriate action when engaging in stewardship activities on its behalf. Operating on the Fund's behalf can mean escalating the approach, where appropriate, and carrying out consequences using an issuer's stocks and bonds. The Fund monitors and engages with managers on these escalations and sets out expectations for progress, including specific time-lines.

The Fund's RI beliefs and Stewardship Policy have been provided and communicated to its investment managers and BCPP to clearly set expectations for parties that escalate stewardship activities on the Fund's behalf.

BCPP (with input/approval from partner funds) have developed an escalation strategy should engagement not lead to the desired result. A lack of responsiveness by the company may be addressed by conducting collaborative engagement with other institutional shareholders, registering concern by voting on related agenda items at shareholder meetings, or 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 (and/or bonds) The Fund is in regular communication with BCPP and the Fund is satisfied that thus far BCPP's approach to escalation aligns with the Fund's own objectives and priorities.

The following examples are taken from stewardship reports published by BCPP[16], which has a defined escalation strategy and engagement priorities (low carbon transition, waste & water, social inclusion through labour management, and diversity of thought).

**Example 1 – "Say on Climate" collaboration (LAPFF, BCPP)**

Over 2023, LAPFF collaborated with other investors in requesting that Chairs of all FTSE listed companies provide an opportunity for shareholders to vote on company strategies for reducing greenhouse gas emissions. The aim was to promote transparency and accountability regarding a key engagement theme. The letter recognised that some Boards have done so to date through resolution on the ballot paper. The letter urged all companies to disclose plans for transitioning to 1.5$^{o}$C net zero alignment. Companies were encouraged to allow a vote on these plans and associated capital expenditure requirements. The outcome of this engagement will be monitored over the 2023 AGM season.

[16] Border-to-Coast-Responsible-Investment-Stewardship-Report-22_23

**Example 2 – Votes against slavery initiative (BCPP)**

Modern slavery is a widespread, criminal activity which involves approximately 40.3 million people in some form of slavery (such as forced labour or sexual slavery).

The UK government introduced the Modern Slavery Act in 2015, in which Section 54 (s54) requires companies to publish a statement setting out their approach to ensuring that modern slavery is not taking place in their business or supply chains. However, it lacks enforcement powers and standards of disclosure are generally low.

In January 2023, BCPP joined the 'Votes Against Slavery' initiative led by Rathbones and co-ordinated through the PRI Collaboration Platform. The aim is for radical improvement in supply chain transparency through s54. The mechanism of engagement is that failure to comply with s54 results in votes against the annual report and accounts. 38 companies from the FTSE 350 were identified as non-compliant and requiring engagement ahead of AGM season which, if not responsive would lead to collective votes against their annual report and accounts. Of these companies, BCPP invested in 12. Following engagement, 8 of the 12 companies owned by BCPP have acted to become compliant with s54.

**Example 3 – Global diversified mining company (LGIM)**

The manager has holdings in a global diversified mining company. They recognise that the work done by the company is central to decarbonisation efforts, but note that it has material exposure to thermal coal, which must be phased out to meet the company's own 1.5°C targets. LGIM noted concern about the lack of time-bound commitments to reduce or exit this business line over six engagements since 2020. The manager voted against the company's climate transition plan at its 2022 AGM due to concerns over thermal coal exposure. As part of its Climate Impact Pledge, LGIM also applied voting sanctions against the chair at the same AGM.

The manager pledged to increase pressure on companies that fail to put suitable ambitious and credible transition plans to a shareholder vote. This is done by filing shareholder resolutions. The manager has committed to co-filing a shareholder resolution at the firm's 2023 AGM, specifically requesting disclosure on how thermal coal exposure is aligned to climate goals.

## Principle 12 Signatories actively exercise their rights and responsibilities

The Pension Fund Committee believes that the Fund should be an active owner seeking to influence behaviour at investee companies and exercising ownership rights and responsibilities is fundamental to improving investment outcomes and aligning with RI priorities.

Although these rights extend primarily to shareholders (so within equity funds), they can be derived through other means such as seeking to influence the lending practices within debt investments.

When making an investment, the associated rights and responsibilities are clearly understood by the Fund and its investment managers from the outset.

The voting and engagement arrangements for each investment mandate are documented in the Fund's Stewardship Policy. The Pension Fund Committee have sought views on the Stewardship Policy in the following ways:

- Seeking views from the member representative who is invited to sit on the Committee in an observer role
- Publishing the Stewardship Policy on the Fund's website alongside the Fund's RI beliefs, with an explanatory note
- Inviting comments and feedback from members and employers, via the Fund website

The Stewardship Policy will be a "living document" with the ambition that it will be updated regularly and published on the Fund website to record the voting and engagement activity undertaken by the Fund's investment managers, including links to the voting records of the Fund's equity managers. The change in Finance Team structure referenced in Principle 6 will enable this to happen during 2024/2025.

## Activity and Outcomes

### Equity

All of the Fund's assets are currently invested in pooled funds, where the assets are held alongside those of other investors within the same account, and the investment managers are not bound by the Fund's own voting intentions (with one recently emerged exception[17]). However, the Committee reviews the managers approach at outset of the mandate (and regularly thereafter) and will not invest with managers whose approach is not aligned with that of the Fund.

Further, the Fund requires its investment managers and BCPP to make best use of voting rights for the benefit of the Fund, its members and employers and to evidence both this and their stewardship activities through regular reporting.

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[17] See discussion of BlackRock's new proxy voting arrangements in Principles 7 and 9.

BCPP works with the 11 partner funds, including the Fund, to review and update its voting policy in light of developing corporate governance standards and evolving best practice. The policy is also reviewed by BCPP's voting and engagement partner Robeco, using the International Corporate Governance Network Global Principles, the UK Stewardship Code 2020 and the UNPRI as benchmarks.

The Committee has reviewed BCPP's policy to ensure it is aligned with the Fund. Where small differences have been found (generally regarding the more granular detail of implementation by the Fund) the Fund has engaged with BCPP.

The Fund's voting guidelines are set out in the ISS along with how the Pension Fund Committee expects managers to approach supporting or opposing company management, depending on the subject of the vote. The Fund's ISS is shared with its investment managers and BCPP. All of the 11 partner funds share their ISS's with BCPP.

BCPP has an active stock lending programme (agreed in collaboration with the Fund and the other partner funds). BCPP operate a procedure to recall stock ahead of an AGM vote and restrict lending in certain circumstances including, but not limited to, if the resolution is contentious, the holding is of a size which could potentially influence the voting outcome, or if there is a co-filed a shareholder resolution.

The Pension Fund Committee recognises that where there is no option for client-directed or a range of third-party voting policies, the asset manager will vote in line with house views, and that unless a preference is stated, the manager will default to the house approach. Over 2022 this option was created by BlackRock and the Pension Fund Committee plans to reassess the voting solutions available and monitor developments across the industry.

The Fund's listed equities are invested across a number of funds. The most material listed equity investments held during 2022/23 were in LGIM's Future World Global Equity fund, BlackRock's World Low Carbon fund and BCPP's Global Equity Alpha fund. Taken together, these funds represent c45% of the Fund's total assets and 85% of the Fund's listed equity investments.

The voting records for these funds during 2022/23 are shown below. Totals may not sum due to rounding.

**LGIM Future World Global Equity[18] (5,067 votable meetings, 54,303 resolutions voted on)**

| Votes cast with or against management | Percentage of votes |
|---|---|
| With | 80% |
| Against | 19% |
| Total | 99% (1% of proposals abstained from) |

[18] https://fundcentres.lgim.com/srp/lit/NpKyoe/ESG-report_Future-World-Global-Equity-Index-Fund_31-03-2023_Multi-Audience

**BlackRock World Low Carbon[19] (963 votable meetings, 12,389 resolutions voted on)**

| Votes cast with or against management | Percentage of votes |
|---|---|
| With | 90% |
| Against | 5% |
| Total | 95% (5% of proposals not voted on) |

**BlackRock Emerging Markets[20] (2,780 votable meetings, 23,820 resolutions voted on)**

| Votes cast with or against management | Percentage of votes |
|---|---|
| With | 87% |
| Against | 12% |
| Total | 98% (2% of proposals not voted on) |

**BCPP Global Equity Alpha[21] (201 meetings; 2,750 agenda items)**

| Votes cast with or against management | Percentage of votes |
|---|---|
| With | 87% |
| Against | 13% |
| Total | 100% |

[19] Source: BlackRock.

[20] Source: BlackRock.

[21] https://www.bordertocoast.org.uk/wp-content/uploads/2023/07/Border-to-Coast-Responsible-Investment-Stewardship-Report-22_23

| Votes against by category | Percentage of votes cast against |
|---|---|
| Audit | 9% |
| Remuneration | 24% |
| Company statutes | 2% |
| Meeting administration | 1% |
| Political donations | 3% |
| Board | 45% |
| Capital management | 5% |
| Shareholder proposals | 10% |
| Other | 1% |
| Total | 100% |

**Active Ownership Example – Engagement with a professional consulting services company (BCPP Global Equity Alpha Fund, 2022/23)**

**Reason for engagement:** In line with the BCPP priority theme of 'Diversity of thought', an engagement was undertaken with the company to assess progress on gender equality and diversity more broadly. This followed the introduction of diversity and inclusion goals into the company's new growth model, announced to investors in April 2022.

**Objectives:** The objective was to hold the company to account against its own set targets on gender equality and diversity.

**Scope and process:** A meeting was held with the company, in which the steps it is taking to meet its stated goal of gender parity was outlined. The company defined a milestone towards this goal: for the percentage of female managing directors by a certain date (30% by 2025). An annual metric was defined to assess progress: what proportion of promoted employees each year is female.

**Outcome:** The company noted that over 2022, over 1,000 managing directors were promoted, of which 37% were female. This results in the proportion of female managing directors being 29%. The company is pursuing initiatives to improve diversity in the industry, including an apprenticeship program that does not require a degree. This has the aim of reducing barriers to employment. Engagement will continue with the company on developments and publication of interim progress.

**Active Ownership Example – Voting activity in relation to multinational Communications company Alphabet (BlackRock Low Carbon Fund, 2022/23)**

**Reason for engagement:** The company faced 17 management-opposed shareholder proposals focussing on a wide range of Environmental, Social and Governance issues, from lobbying to reporting to technology governance.

Several resolutions were particularly important to BlackRock and to the Fund as reflected the RI policy.

**Objectives:** The objective was to (i) hold the company to account against its own water management/usage given the significant volumes of water used to cool data centres which represent a material risk to the company, and to (ii) support the principle of a fair capitalisation plan (one share, one vote) allowing minority shareholders to have an equal voice.

**Scope and process:** A shareholder proposal requested the company to report quantitative water-related metrics and practices implemented to reduce climate-related water risk for each location, including for data centres. It was recognised that the company has provided some level of disclosure concerning its environmental initiatives but the disclosure fall short in many respects. Indicative is that the company does not disclose its water consumption for its individual data centres, only providing an aggregated operational water use figure. Not having more granular information in this regard could harm shareholders and stakeholders.

This year, one resolution that came back on the agenda was the shareholder proposal requesting the Board to initiate a recapitalisation plan ultimately leading to a "one share, one vote" share system. This would be done through a phase-out process in which the board would, within seven years, establish fair and appropriate mechanises through which proportionate rights of Class B shareholders could be eliminated. Effective voting rights are a fundamental right of share ownership and the "one vote, one share" is a guiding principle that supports effective corporate governance.

**Outcome:** The 7 year recapitalisation plan received 33% support from shareholders and the Water-Related metrics received 23% support from shareholders. Engagement will continue with the company on these issues.

BlackRock work with investee companies with a long-term view, work to protect minority shareholders and supported resolutions that would increase disclosures and help assess material risks within a business. These are efforts that are aligned with the interests and policies held by the Fund. While the resolutions did not pass, the Fund expects BlackRock to continue to work with the company to strengthen governance and disclosure for investors.

## Bonds

The Fund recognises as a bond holder it is not an 'owner' of the business. However, this does not reduce the Fund's expectations of adopting a responsible investment approach. In this vein, half of its credit allocation is invested in Insight's Responsible Horizons Fund, which uses a number of RI measures to allocate lending. Furthermore, the Committee invests in a Climate Opportunities fund, managed by BCPP, which includes bonds and fixed income instruments. The Committee believes this better aligns its bond mandates to its RI priorities.

Where mandates do not have an explicit RI or climate focus, the Committee still believes that fixed income managers should incorporate ESG metrics in credit analysis (given the overlap in horizon of climate risk and longer dated bonds) and should influence issuers in contractual terms and conditions, particularly at the point of refinancing existing debt.

## Property

Within property, the Fund's rights and responsibilities relate to the maintenance of properties and selection of tenant and the Fund engages regularly with its existing property manager (CBRE) regarding the energy efficiency of properties held and type of tenant, and the use of responsibly sourced materials. As discussed above in Principles 4 and 7, significant up front engagement is necessary in the case of property because it is less liquid than listed stocks and bonds. Before committing to a new investment in property (or any other private markets strategy), the Pension Fund Committee, Fund Officers and advisers must all be highly confident that the manager intends to pursue a strategy that aligns closely with the Fund's RI beliefs and the priorities listed in Principle 9. If the Fund is not satisfied that the manager is adequately integrating those concerns in its investment strategy, the Fund's biggest lever is not to re-commit for the next vintage (in closed end funds). For open-ended funds, the Fund (or BCPP on behalf of the Fund) could request redemption, but in current market conditions where liquidity is scarce, it could take many quarters or even years to receive a return of invested capital.

## Private Markets (Alternatives)

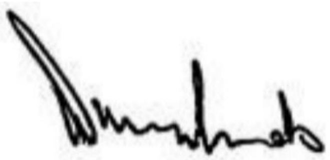
Similar to Property above, private equity, private credit and non-listed infrastructure most typically use investment vehicles that are closed-end. That means that once an investor has committed (or BCPP has committed on behalf of its partner funds), capital will be tied up for as long (or short) as it takes the manager to execute its investment strategy. Similar to property funds, in closed-end alternatives funds there are no regular shareholder votes and no normal mechanisms for redeeming early. A secondary market for LP interests exists but is not terribly efficient from a seller's standpoint. In a fund-of-funds structure like BCPP, permission from the manager (e.g., BCPP) to sell would be required, which seems hard to imagine especially given the bespoke legal investment structure that has been developed for the 11 partner funds.

So again, careful due diligence on the RI, ESG and sustainability underpinnings of a manager's strategy are crucial before any commitments are made to private markets investments. If the experience turns out to be a disappointment from either a financial or RI standpoint, the principal remedy is not to re-commit to subsequent funds marketed by the manager and instead find another manager whose word and deeds align more closely to the Fund's RI beliefs and ESG priorities.  The restricted options for existing investors to have their voices heard is one reason that the Fund, Fund Officers and advisors engaged in such detailed manner with BCPP on RI, ESG and sustainability issues before ever committing to BCPP’s global property offering.

Signed By:

Councillor Doug McMurdo

Chair of Bedfordshire Pension Fund



31 October 2023

## Appendix 1 – Action Plan

The table below sets out the original actions the Committee plans to take to review, develop and strengthen its stewardship activities during 2022/2023.

| Principle | Action | Target date | Commentary |
|---|---|---|---|
| Principle 1 | Follow up with single manager which is not a signatory to the Stewardship Code 2020.<br><br>Focus further efforts on ensuring managers evidence how the Fund's beliefs have been taken into account in their engagement and voting activities, and what outcomes have been achieved. | December 2022 | Complete<br>Dialogue with Pantheon to confirm that investment process aligned to the standards set out in the Stewardship Code – at this stage deemed satisfactory.<br><br>Ongoing<br>The Fund has incorporated consideration of sustainable benefits for society and the environment into the selection of all new mandates, including BCPP private markets funds (notably Climate Opportunities), BCPP global property and Gresham House BSIF 2. Furthermore, the Committee has agreed to invest in enhanced index-tracking equity funds which are tilted towards companies which are considered to better manage climate related risks, managed by BlackRock and LGIM. The latest of these is the investment in LGIM's Future World UK equity fund.<br><br>With a focus on long-term value for members, the Officers have also reviewed the Fund's allocation to Pyrford Absolute Return Fund. Considerations taken into account were returns net of fees returns, the manager's approach to Responsible Investment, and the opportunities available to invest this money elsewhere (including cash). The Committee agreed to redeem the allocation in September 2023.<br><br>The Fund has also assessed of the choice of voting guidelines, made available via BlackRock for its World Low Carbon Fund, with the aim of achieving better alignment with the Fund's own RI beliefs. This led to the selection of the ISS Sustainability Policy, which has an enhanced focus on ESG considerations and encouraging companies to adapt their investment strategies to adapt or mitigate climate change risk. It is anticipated that LGIM will be offering a similar approach, which the Officers will consider in Q4 2023. |

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| Principle 2 | Undertake a self-assessment of the Pension Fund Committee. | December 2023 | Planned for December 2023 |
| Principle 3 | Create Fund-specific conflicts of interest policy | June 2023 | Complete<br>Code of Conduct and Conflict of Interest Policy approved by the Pension fund Committee September 2023 following review by the RI Panel. |
| Principle 4 | The Fund will start reporting on the impact of practices that undermine biodiversity of local environments in the coming year. | March 2023 | Carry forward<br>Over the period, the Officers have appointed a new reporting service provider, Clarity AI. This provider is expected to give greater transparency of the Fund's investments in understanding how different ESG considerations affect the Fund's investments. These services will be assessed on an ongoing basis.<br><br>The Officers will monitor how TNFD reporting will be implemented by the asset management industry and will work with its appointed investment managers and Clarity AI to use the in-depth reporting facilities to better understand risks and opportunities in this space to benefit the local environment.<br><br>The Fund has appointed LGIM as one of its equity investment managers, who incorporate biodiversity in its assessment of environmental impact of each company, as part of its ESG scoring framework.<br><br>A new target date of December 2024 has been set. |
| Principle 6 | The Fund is also working towards reporting against the TCFD criteria and has agreed the metrics that will be monitored.<br><br>The Fund also intends to set a net zero target date. | September 2023 | Carry forward<br>As noted in Principle 2, the Local Elections were a focus for the reporting year which was a governance priority. The new reporting service provider will support TCFD reporting and the Fund will continue to work with the BCPP partner funds on a common approach to metrics.<br><br>Complete<br>The RI Sub-Committee discussed the Fund's net zero goals, and the Panel has agreed a goal of 2050 or sooner, which will be recommended to the Pension Fund Committee for approval in November 2023. Fund Officers will work with the appointed asset managers and investment consultants to work towards |

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| | The Communications Team will enable the Fund to undertake additional engagement with scheme members and employers including putting in place a mechanism for obtaining feedback on the quality of service provided by the Fund. | | net zero, including consideration of investment mandates that provide positive real-world outcomes. Interim target measures are expected to be considered in forthcoming reporting period.<br><br>Carry forward<br>This element of the action plan was not completed over the reporting period. Officers will prioritise these remaining stewardship actions over following reporting periods. |
| Principle 9 | It is expected that the RI Sub-Committee will recommend adopting one of the voting policies offered by BlackRock so that votes cast are better aligned with the Fund's RI priorities. | November 2022 | Complete<br>Following a review of proxy voting platforms, the ISS Sustainability Policy was selected as this menu option was most closely aligned with the Fund's RI priorities. |
| Principle 11 | Clarify escalation expectations in the Stewardship Policy | June 2023 | Carry forward<br>Although there are clear examples of escalating issues, the Fund's Stewardship Policy has not yet been updated. A new target date of March 2024 has been set. |

## Appendix 2 – Revised Action Plan

The table below sets out the actions the Committee plans to take to review, develop and strengthen its stewardship activities in 2023/2024.

| Principle | Action | Target date |
|---|---|---|
| Principle 1 | To conduct an annual improvement review of stewardship activities to include the Fund's overall approach and monitoring of managers activities and outcomes. | September 2024 |
| Principle 2 | Undertake a self-assessment of the Pension Fund Committee. | December 2023 |
| Principle 4 | The Fund will start reporting on the impact of practices that undermine biodiversity of local environments in the coming year. | December 2024 |

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| Principle 6 | The Fund is also working towards reporting against the TCFD criteria and has agreed the metrics that will be monitored.<br><br>The Fund also intends to set an interim target date for reducing emissions.<br><br>The Communications Team will enable the Fund to undertake additional engagement with scheme members and employers including putting in place a mechanism for obtaining feedback on the quality of service provided by the Fund. | December 2024<br><br>June 2024<br><br>September 2024 |
| Principle 9 | It is expected that following the announcement by LGIM in September 2023 the RI Sub-Committee will be able to consider the voting policies being made available through LGIM, to achieve better alignment with the Fund's RI priorities. | March 2024 |
| Principle 11 | Clarify escalation expectations in the Stewardship Policy | June 2024 |