



Essex Pension Fund

Responsible Investment Report 2023

Essex Pension Fund Contents, Purpose and Background

Contents	
Essex Pension Fund Contents, Purpose and Background	
• Purpose of the Report	2
• About the Essex Pension Fund (EPF)	2
• Round up of Key Stewardship Activities	3
Section 1: Stewardship Activities and Investment Strategy Statement	4
Section 2: Responsible Investment (RI) Engagement & RI Priorities	5
Section 3: Exercising Rights and Responsibilities	7
Section 4: Taskforce on Climate Related Financial Disclosures (TCFD)	10
Section 5: Climate Transition Plan	12
Section 6: 2024 Net Zero Journey Plan	14

Purpose of the Report

Welcome to the Essex Pension Fund's (the Fund) **first Annual RI Report**. The purpose of this report is to communicate a summary of the main stewardship activities that the Fund has undertaken during 2023.

About the Essex Pension Fund

The **Essex Pension Fund** is one of 86 funds in the **Local Government Pension Scheme (LGPS)** in England and Wales, managed and administered by **Essex County Council (ECC)** on behalf of its stakeholders, scheme members and the employers participating in the Fund.

It is a contributory, defined benefit, multi-employer scheme, open to new membership. As a funded scheme all contributions paid in by scheme members are invested with the primary objective of providing pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, in accordance with the requirements set out in LGPS legislation.

The Fund, however recognises **that environmental, social and governance (ESG) factors (including those related to climate risk) can influence long term investment performance and the ability to achieve long term sustainable returns.**

EPF is one of **eleven** funds in the **ACCESS** Pool. The Pool was established in response to the **UK Government's LGPS: Investment Reform Criteria and Guidance (2015)**. The Fund intends to invest its assets via the Pool when suitable sub-funds are available. As at 31 December 2023, the Fund value was **£10.314bn** of which **£7.975bn (c77.3%)** of assets have been transferred to the Pool.



Essex Pension Fund Contents, Purpose and Background

Roundup of Key Stewardship Activities

- Adoption of the Fund's **Investment Engagement Policy** and **Stakeholder Strategy**
- Adoption of a **Strategic Implementation Framework, Strategic Implementation Tracker and RI Framework**
- Review of the Fund's **Investment Strategy Statement** including a full Stakeholder Consultation
- Implementation of the **2023/24 RI Project Plan**
- Gained signatory to **Financial Reporting Council's UK Stewardship Code** for the second year in succession
- **Specific training** on RI, Task Force on Climate related Financial Disclosures (TCFD), Transition Pathway Initiative, Net Zero Journey Plan and Impact Investing
- **12** dedicated monthly **RI/stewardship meetings** with the Fund's investment managers and bi-monthly **ACCESS investor meetings**
- Monitoring the Fund's **Engagement Log** with each investment manager
- The Fund's Equity and Bond investment managers undertook **585 engagement meetings** with companies they invest with on behalf of the Fund during 2023
- **Specific Environmental, Social and Governance (ESG) analytic reports** on the Fund's investment managers and portfolios
- Reaffirm of Fund's **RI Priorities** and agreed a **subset of RI Priorities** to monitor in 2023
- **2023** remeasurement of the Fund's **climate metrics** in line with TCFD against **2021 baseline**
- Cast **119,332** votes in regard to **11,947** company meetings
- Agreement to allocate **10% (£1bn)** of the Fund over the medium term to **impact investing solutions**, following on from **£100m** commitment to **Stafford Timberland's Carbon Offset Opportunities Fund** in 2022, **£100m** committed to **Partners Group LIFE II Impact Fund** in 2023
- Monitoring of the Fund's new ESG index tracking global equity mandate solution, **UBS Life Global Equities Sustainable Transition Fund** and **RAFI Low Carbon Fund** against its investment objective of **7%p.a.** reduction in carbon emissions
- Undertook a gap analysis around the Fund's **Climate Transition Plan**
- Agreement of the Fund's **2024 Net Zero Journey Plan**

Section 1: Stewardship Activities and Investment Strategy Stakeholder Consultation

Stewardship Activities

The Investment Steering Committee (ISC) at the start of the year agreed the stewardship activities to be undertaken, this was documented in its [Annual Responsible Investment \(RI\) Project Plan](#) and progress against each activity is reported and monitored at each meeting.

A key activity for the Fund was to maintain its signatory to the [Financial Reporting Council's \(FRC\) UK Stewardship Code](#). The Fund is pleased to report that in August 2023 it was notified that for the second consecutive year it had been successful in maintaining its signatory status to the Stewardship Code. A link to the [2023 Submission](#) can be found on the Fund's website.



Investment Strategy Statement (ISS) Stakeholder Consultation

A another key deliverable for the year was the review of the Fund's [Investment Strategy Statement](#) which was subject to a full [12 week Stakeholder Consultation](#) in summer of 2023. The Fund widely consulted with all of its active membership, employers and other key stakeholders.

Key Outcomes



- Over **59,000** Active Members and **770** Active Employers consulted
- **24** responses received which was a **50%** increase from the 2019 ISS Consultation
- **73%** respondents confirmed that were supportive of the direction the Fund was taking in evolving its Investment Strategy and RI Policy
- **83%** of the responses received were from active Scheme Members compared to **44%** as at the prior Consultation

Section 2: Responsible Investment (RI) Engagement and RI Priorities

RI Engagement

The Fund expects its investment managers to take account of **ESG** considerations in the selection, retention and realisation of investments as an integral part of the normal investment research and analysis process. The Fund also expects its investment managers to engage with companies held on all matters in regard to good stewardship. The Fund believes taking account of such considerations forms part of the investment managers' normal fiduciary duty. In addition, the Fund has developed an [Investment Engagement Strategy](#). This sets out a **Framework** outlining how Members of the ISC and the Fund engage with its investment managers and the companies they engage with on the Fund's behalf; and discharge their stewardship responsibilities

RI Priorities

The ISC has developed its [RI Policy](#) based on a set of RI beliefs. As part of this Policy, the Committee has identified the following **10 key RI Priorities** which were again revisited in 2023 which it expects the Fund's investment managers to engage with companies invested in on the Fund's behalf:

RI Priorities

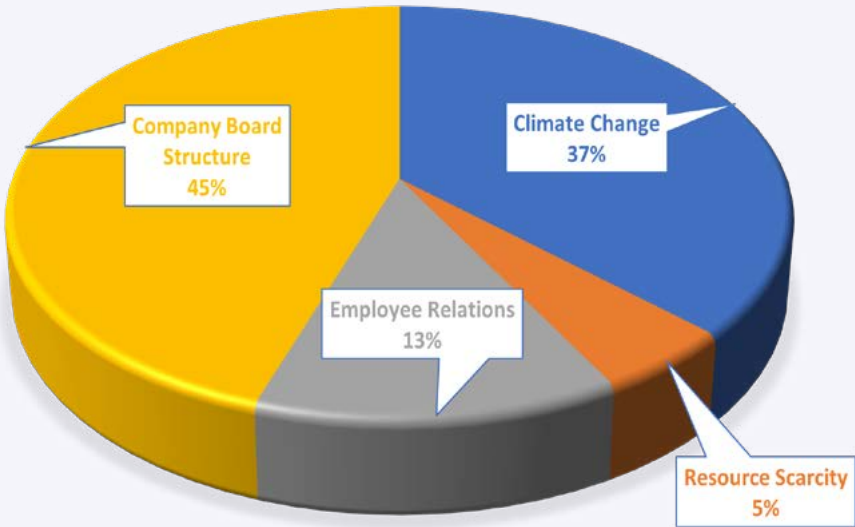
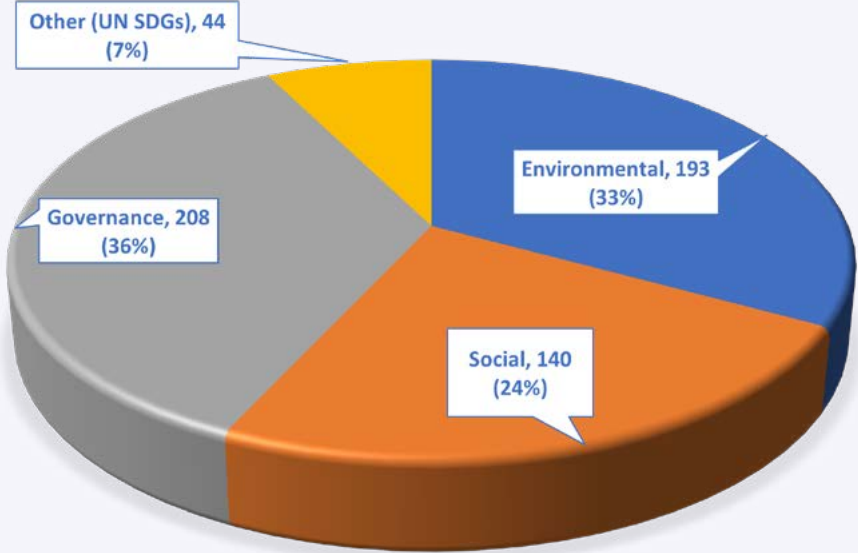


The Committee believes that these should not be viewed in isolation, but holistically, with no one priority being more important than the other. However, the ISC did recognise that in order to monitor meaningful progress that during 2023 it concentrate on a subset of these Priorities. The 2023 RI Priorities being: **Climate Change**; **Resource Scarcity**; **Employer Relations** and **Manager Board Structure**.

Section 2: Responsible Investment (RI) Engagement and RI Priorities

Key Outcomes

- Fund Officers and Advisers held **12 dedicated RI Engagement meetings** during 2023 with the Fund’s investment managers across all the Fund’s asset classes.
- Engagement meetings with the managers centred around four key engagement topics: **commitment to climate change**; **integration of ESG into investment processes**; **active ownership and engagement**; and **reporting**.
- The Fund’s equity and bond investment managers undertook **585 engagement meetings** with companies they invest with on behalf of the Fund during 2023.
- Of these engagements they were roughly split proportionally between **Environmental**, **Social** and **Governance matters**. See opposite.



- **439** of those engagements were aligned with the Fund’s 2023 subset of RI Priorities.
- Overwhelming **82%** of these engagements related to **Climate Change** and **Company Board Structure**. See opposite.

Section 3: Exercise Rights and Responsibilities

Voting

The Fund believes that exercising rights and responsibilities is fundamental to improving investment outcomes. Rights exist primarily through shareholdings, although they can be derived through other means.

The Fund's RI Policy includes its approach to exercising rights attached to investments. This includes the Fund's belief that if companies comply with the principles of the [UK Corporate Governance Code](#), this can be an important factor in helping them succeed. The Fund also accepts the need for a flexible approach in the long-term interests of stakeholders including shareholders, company employees and consumers, and that the principles accepted as best practice in the UK may differ to those globally. The Fund's investment managers should cast their votes for the Fund's long-term benefit, although the Fund recognises that individual managers may vote differently for very valid reasons, so would look to understand those reasons rather than constrain their approach.

The ACCESS pool has formulated [ACCESS Voting Guidelines](#) which it expects each of the underlying investment managers to operate within on a 'comply and explain' basis. These guidelines are currently in the process of being reviewed by [ACCESS's RI Adviser, PIRC](#).

The following provides a summary of the voting the Fund's investment managers have undertaken on the Fund's behalf during 2023:

Manager ¹	Number of Meetings	Votes Cast (no)				With/Against Management		
		For	Against	Abstain/Other	Total	With	Against	Other
UBS	11,478	98,351	19,200	-	117,551	83.7%	16.3%	-
Baillie Gifford	377	382	37	33	452	84.5%	8.2%	7.3%
Longview	30	236	229	45	510	46.3%	44.9%	8.8%
M&G	41	573	63	47	683	83.9%	9.2%	6.9%
Columbia Threadneedle	21	112	20	4	136	82.4%	14.7%	2.9%

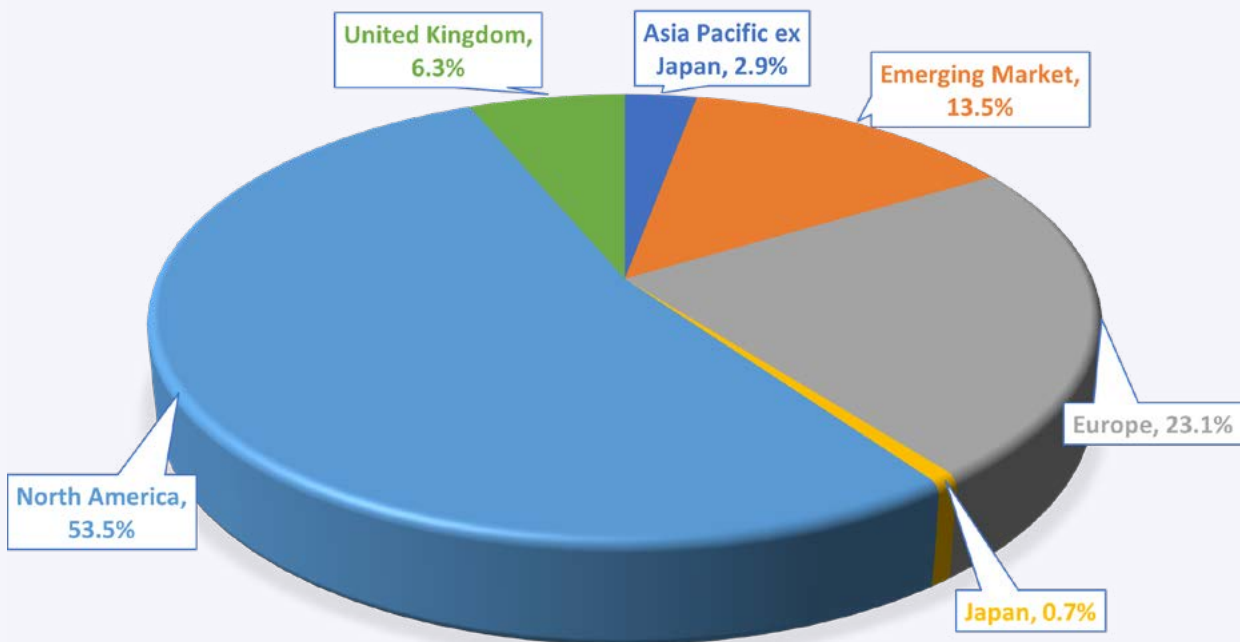
¹UBS run the index-tracking global equity mandates. Columbia Threadneedle run an emerging markets equity strategy and the other managers run global equity strategies.

Section 3: Exercise Rights and Responsibilities



The below chart analyses the number of votes undertaken by the Fund's active global and emerging market equity managers' for 2023 by geographical region:

% of 1,781 equity votes cast in 2023 by geographical regions

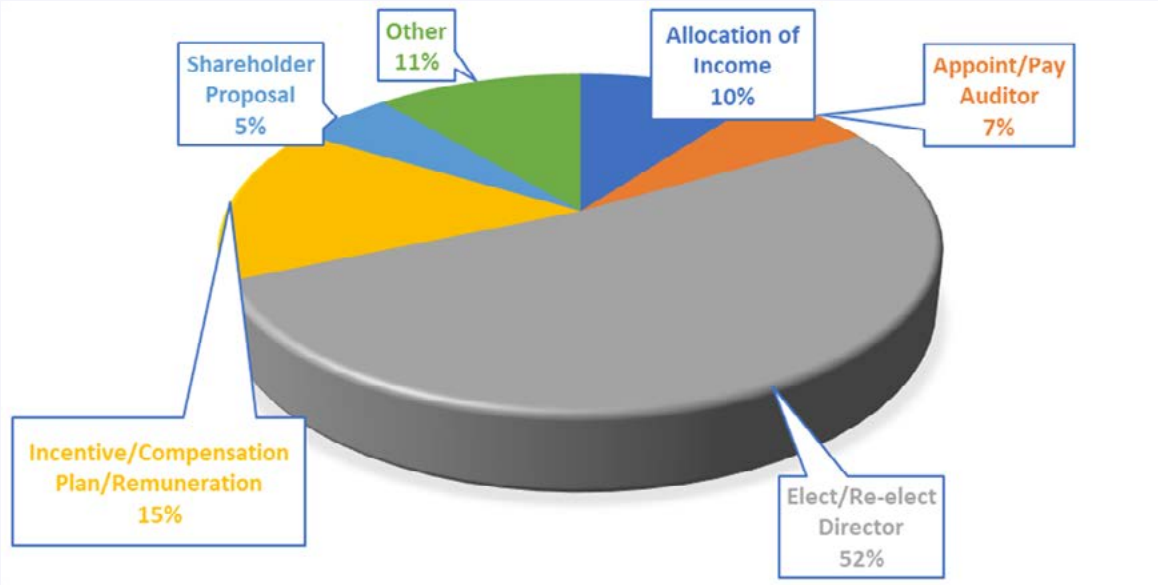


As shown in the chart, when drilling down into the ACCESS equity sub funds, over half of the votes were cast in relation to companies in North America

Section 3: Exercise Rights and Responsibilities

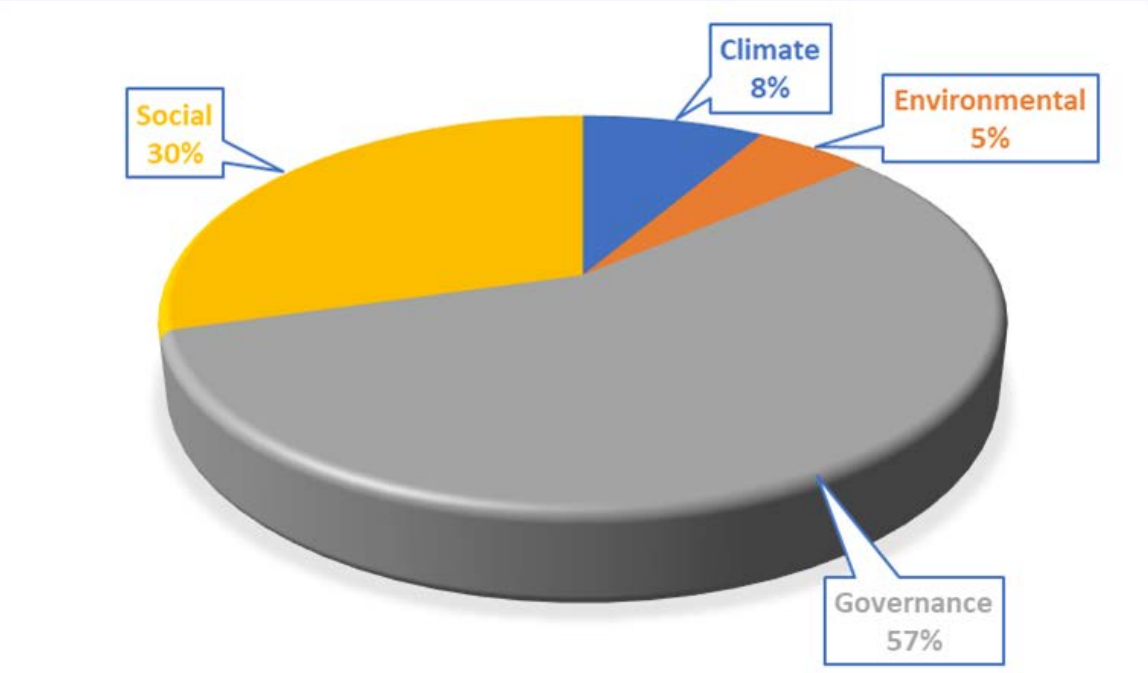
In addition, of the 1,781 company meeting proposals that were held in 2023, they can be categorised as follows:

Company Meeting Proposals by Type



and of the 95 Shareholder proposals they can be further categorised as:

Shareholder Meeting Proposals by Type



Section 4: Taskforce on Climate Related Financial Disclosures (TCFD)

2023 Remeasurement of Climate Metrics in line with TCFD

Although the Fund has no formal reporting requirement, it supports the aims of the TCFD and has set a number of climate metrics such as greenhouse gas emissions and carbon footprint that it will monitor and set targets against.

A baseline assessment of its managers and their portfolio against the Fund's agreed climate metrics was undertaken for the year of 2021 and was reported to the ISC at their 22 February 2023 meeting.

The Fund is also committed to aligning the portfolio to the Paris Agreement of being net zero by 2050. The Fund has agreed that the equity holdings, being the largest contributor to the Fund's overall emissions, will be the Fund's immediate focus in regard to its aspiration of reducing the Fund's footprint by 50% by 2030. The Fund continues to engage with its managers on their data quality, transparency and net zero commitments as part of the engagement programme.

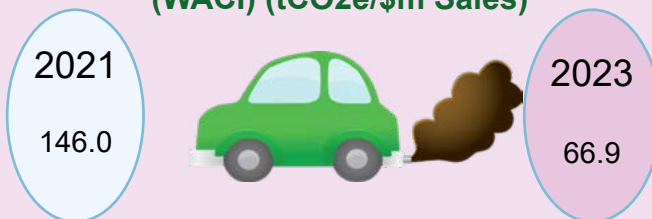
The outcome of the remeasurement versus 2021 baseline for the Fund's overall allocation in line with the same 'metrics and targets' pillar of TCFD for the calendar year 2023 are summarised below:

Key Outcomes

Total Carbon Intensity (tCO2E)



Weighted Average Carbon Intensity (WACI) (tCO2e/\$m Sales)



Carbon Footprint (tCO2e/£m invested)



Data Coverage for emissions metrics (% reported and estimated)



Section 4: Taskforce on Climate Related Financial Disclosures (TCFD)

The Fund has made substantial progress in decarbonising the Fund portfolio as compared to the 2021 Baseline with WACI and carbon footprint falling around c57% and c63% respectively. This progress was largely driven by the ISC’s decision to move to more sustainable/low carbon index tracking equity strategies and the replacement of its emerging market equity manager, with two ACCESS Pool emerging market strategies.

Data coverage has improved substantially through the year driven predominantly by the Bond and Alternative allocation.

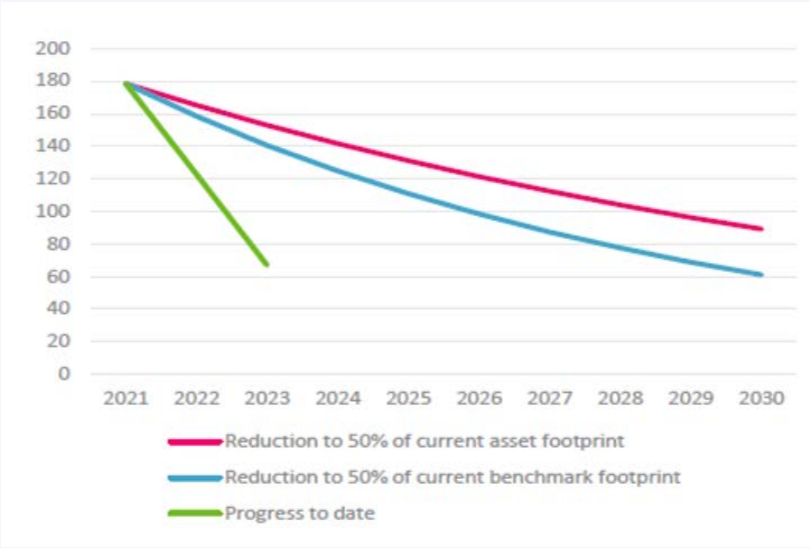
The Fund reached its 2030 target of 50% decarbonisation of its equity allocation compared to its 2021 Fund baseline and was just shy of reaching its target of 50% decarbonisation versus the 2021 baseline benchmark. The ISC will look to agree a revised target during 2024.

Key Outcomes

Progress against equity emission targets

	50% Decarbonisation of 2021 Baseline	50% Decarbonisation of 2021 Baseline Benchmark
2030 Carbon Footprint target	89.2	61.2
2023 Carbon Intensity	67.0	67.0
Required year-on-year decarbonisation	Target met	1.3%

Projected decarbonisation to reach 50% carbon footprint for equity emissions targets



Section 5: Climate Transition Plan

The ISC at their 18 September 2023 RI Training Day received a training session on how the Fund could build a **Net Zero Journey Plan** which commenced with undertaking a gap analysis which mapped the Fund's **Climate Transition Plan** against four pillars of **Portfolio emissions**; **Climate solutions**; **Alignment** and **Engagement** as detailed below:

Climate Transition Plan Element	Progress to Date	Potential Next Steps
PILLAR 1 Portfolio emissions	Targets: <ul style="list-style-type: none"> ◇ 2021 carbon baseline report ◇ 50% decarbonisation in listed equities by 2030 target ◇ Commitment to net zero by 2050 	Targets: <ul style="list-style-type: none"> ◇ Understand Scope 3 & 4 emissions ◇ Extend decarbonisation target to other asset classes ◇ Set alternative targets i.e. data coverage
	Actions: <ul style="list-style-type: none"> ◇ Movement to Low Carbon tracking solutions with UBS ◇ Further commitment to negative carbon emission asset classes 	Actions: <ul style="list-style-type: none"> ◇ Evolve portfolio emission monitoring to capture broader range of emissions ◇ Articulate journey in terms of reducing emitters
PILLAR 2 Climate Solutions	Targets: <ul style="list-style-type: none"> ◇ £1bn allocation to Impact Solutions 	Targets: <ul style="list-style-type: none"> ◇ Monitor net zero implications of dedicated impact solutions ◇ Consider specific areas of focus such i.e. biodiversity
	Actions: <ul style="list-style-type: none"> ◇ £200m of £1bn committed, £100m with Stafford Carbon Offset Opportunity Fund and Partners Group Life II Fund 	Actions: <ul style="list-style-type: none"> ◇ Explore Impact solutions in other asset classes via ACCESS ◇ Assess net zero implications

Section 5: Climate Transition Plan

Climate Transition Plan Element	Progress to Date	Potential Next Steps
<p>PILLAR 3</p> <p>Alignment</p>	<p>Targets:</p> <ul style="list-style-type: none"> ◇ No current targets 	<p>Targets:</p> <ul style="list-style-type: none"> ◇ Assess following completion of Net Zero Journey Plan
	<p>Actions:</p> <ul style="list-style-type: none"> ◇ No current targets 	<p>Actions:</p> <ul style="list-style-type: none"> ◇ Conduct Net Zero Journey Plan analysis on the Fund's listed assets ◇ Prioritise mandates by level of misalignment and their contribution to 2050 net zero commitment
<p>PILLAR 4</p> <p>Engagement</p>	<p>Targets:</p> <ul style="list-style-type: none"> ◇ No current targets 	<p>Targets:</p> <ul style="list-style-type: none"> ◇ Set specific targets for engagement, linked to other areas of the Climate Transition Plan
	<p>Actions:</p> <ul style="list-style-type: none"> ◇ Regular engagement with all investment managers ◇ Investment Engagement Strategy implemented ◇ RI Priority Themes set 	<p>Actions:</p> <ul style="list-style-type: none"> ◇ Build in explicit carbon reporting KPIs to engagement questions ◇ Consider targeting specific sectors for engagement

Section 6: 2024 Net Zero Journey Plan

Following this the ISC at their 29 November 2023 meeting agreed the Fund's **2024 Net Zero Journey Plan**.

2024 Net Zero Journey Plan

