



Investment Strategy Statement

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1. Introduction

1.1 Fund Details

- 1.1.1 The Investment Strategy Statement ("ISS") of the [Bedfordshire] Pension Fund ("the Fund"), is administered by Bedford Borough Council, ("the Administering Authority"). The ISS is made in accordance with Regulation 7 of the Local Government Pension Fund (Management and Investment of Funds) Regulations 2016.
- 1.1.2 The ISS has been prepared by the Bedfordshire Pension Fund Committee ("the Committee") having taken advice from the Fund's investment adviser, Hymans Robertson LLP, and Independent Advisor. The Committee acts on the delegated authority of Bedford Borough Council as the Administering Authority.
- 1.1.3 The ISS, which was approved by the Committee on 14 November 2023, is subject to an annual review and full review every three years in line with the Triennial Valuation, and without delay after any significant change in investment policy. The previous review took place in 2022 and was approved by Committee on 21 June 2022.
- 1.1.4 The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy Statement (dated September 2023).
- 1.1.5 Administration of the Fund is the responsibility of Bedford Borough Council, which also has overall responsibility for the investment of the Fund's assets. Day to day administration of the Fund is delegated to the Assistant Chief Executive (Finance)- (the Fund Administrator) supported by the Council's Pension Fund Panel (the Panel).
- 1.1.6 In preparing this document, the Committee has consulted with such persons it considers appropriate, including the Fund's Local Pension Board.
- 1.1.7 The Fund has chosen to opt up and be classified as a Professional client as defined in the Markets in Financial Instruments Directive II.
- 1.1.8 In December 2021, in line with the Competition and Market Authority's Order, the Committee agreed a set of objectives with Hymans Robertson LLP and the Independent Investment Advisor. These objectives are reviewed on an annual basis.

2. Investment Strategy

2.1 The suitability of particular investments and types of investments

- 2.1.1 The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis. This funding position is fully updated at each triennial actuarial valuation, and available on a regular basis updated for economic assumptions between valuations.
- 2.1.2 The Committee manages the Fund in such a manner that, in normal market conditions, the aim is for all accrued benefits to be fully covered by the value of the Fund's assets when they fall due and accordingly an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.
- 2.1.3 To support coherent decision making, the Committee has developed a set of fundamental investment beliefs. The beliefs set out in Appendix 2 are reviewed annually and shape the Investment Strategy.
- 2.1.4 The Committee takes environmental, social and corporate governance ("ESG") matters and stewardship extremely seriously with climate change identified as being a key risk to the Fund's investments. A Responsible Investment (RI) Sub-Committee has been established to take forward this agenda. The Committee has agreed a set of Responsible Investment Beliefs which inform the Investment Strategy. Each year the Fund conducts a review of its policies in this area and its investment managers' approach to ESG.
- 2.1.5 The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments, whilst taking account of market volatility and various risks as well as the nature of the Fund's liabilities.
- 2.1.6 The investment strategy is reviewed on an annual basis, with a full refresh following each actuarial valuation of the Fund. This approach helps to ensure that the investment strategy takes account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or

deficit (relative to the funding bases used).

2.1.7 At each Valuation the Fund takes into consideration the Government Actuary's Department's s13 Report, and the Fund's funding position on a standardised basis, taking into account any recommendations arising.

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

- Suitability given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns
- Changes in market conditions

2.1.9 The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation. The strategic benchmark weights have ranges around them. If there is any rebalancing, then the most underweight asset allocation area will be the recipient of that rebalancing (assuming it is investible). This will be repeated for any additional cash available for investing subject to market conditions or other factors providing compelling reasons not to do so. Occasionally the Committee may agree to change the target allocation level where it believes such a change may help the Fund improve its risk adjusted returns, in keeping with its overall strategy of funding sufficiency.

2.1.10 The Committee has the following long-term assumptions (as at 31 March 2022) about investment.

Table 1: Asset Classes

Asset class	Expected return % p.a.	Expected Volatility % p.a.
Listed Equities	6.3	20
Private Equity	10.0	31
Property	5.0	15
Listed Infrastructure (equity)	5.6	18
Private Credit	6.8	12

Asset class	Expected return % p.a.	Expected Volatility % p.a.
Multi-asset credit	4.4	7
Absolute Return Multi Asset	4.9	9
Liquid Credit	4.4	7
Cash	2.4	0

Source: Hymans Robertson

2.2 Investment of money in a wide variety of investments - Asset classes

- 2.2.1 The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property, infrastructure and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.
- 2.2.2 The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate training and advice is sought and considered to ensure it is suitable, consistent with the Committee's RI beliefs and provides diversification for the Fund.
- 2.2.3 The Fund's target investment strategy is set out below. The table shows the long-term target. It will take time to transition from the current allocation to the new mandates. The table also includes the maximum percentage of total Fund value to be invested in these asset classes (as defined by the upper range levels).
- 2.2.4 In line with the regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(e).

Table 2: Fund Allocation

Asset class	Long-term Target Allocation %	Allocation Range %
Listed Equities	50.0%	40%-60%
Private Equity	4.5%	0%-5%
Growth assets sub total	54.5%	
Property	10%	5%-15%
Infrastructure (equity)	10%	0%-15%
Private Credit	5.0%	0%-10%
Multi-asset credit	7.5%	5%-12.5%
Absolute Return Multi Asset	3.0%	0%-3%
Income sub total	35.5%	
Liquid credit	10.0%	5%-15%
Cash	<1.0%	0-2%
Volatility and Treasury Management sub total	10%	
Total	100%	

Source: Hymans Robertson

- 2.2.5 The Fund has invested in private markets that take time to deploy capital. These investments are expected to be funded from the existing multi asset funds. The Committee has agreed that over time the Fund's strategic allocation to absolute return multi-asset will be reduced. The proceeds from this mandate will be used to fund allocations to asset classes such as infrastructure, private credit and private equity. However, the Committee is aware that private market investments take time to deploy capital, with money committed but not drawn down immediately. This investment phase can take several years. During this investment period the Fund will retain an overweight allocation to absolute return multi-asset which will be monitored and reassessed as part of future reviews.

The cost of carrying out the investment management function, which includes both the fees paid to the Investment Managers and the internal costs of the Borough Council, are benchmarked against annual data derived by the Department for Levelling Up, Housing and Communities (DLUHC) from the

Pension Funds' Accounts return competed for all Local Government Pension Scheme Funds (Form SF3). The Fund also uses CEM Benchmarking to compare against the global Pension Funds.

- 2.2.6 For each asset class the Fund has set an appropriate benchmark (please see table 3 below). These benchmarks reflect the long-term target where changes to the tactical allocation have been agreed, but not yet enacted.

Table 3: Mandate benchmarks and targets

Asset class	Benchmark %	Target of Fund assets
UK Equities - Active	FTSE All Share	7%
Global Regional Equities	MSCI Emerging Markets	3%
Global Equities - Passive	MSCI World (BlackRock)	16%
Global Equities - Passive	Solactive L&G ESG Global Markets Index (LGIM)	17%
Global Equities - Active	MSCI All Country World	7%
Private equity	Absolute 10%	4.5%
Property	AREF/IPD UK QPFI All Balanced Property Fund Index	6%
	10% p.a. over rolling 10yrs	4%
Multi Asset	SONIA 30 Day Compounded + 4%	3%
Private credit	Absolute 6%	5.0%
Infrastructure	Absolute 8%	10%
Multi-asset credit	SONIA + 3-4%	7.5%
Liquid credit (a)	1/3 Bloomberg Barclays Global Aggregate Credit ex-Emerging Markets 1/3 Bank of America Merrill Lynch BB-B Rated Developed Markets High Yield Constrained and 1/3 JP Morgan EMBI Global	5.0%
Liquid credit (b)	SONIA + 4%	5.0%

2.3 Restrictions on investment

- 2.3.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 have removed the previous restrictions that applied to the 2009 Regulations. The Fund has agreed a number of its own restrictions as set out in the table below. All other investment restrictions will be negotiated with fund managers or the Border to Coast Pension Partnership Pool (BCPP), subject to the Fund receiving appropriate investment and/or legal advice.

Table 4: Investment Restrictions

Type of investment	Maximum investment by the Fund % of assets
1. Contributions invested in any single partnership	5%
2. Contributions invested in partnerships	30%
3. Cash deposits	10%
4. Investment with any single active manager strategy either directly or via BCPP	15%
5. Total investment in illiquid assets ¹	30%

- 2.3.2 These limits are monitored by the Fund monthly, and reported to the Pension Fund Committee on a quarterly basis. Any breach of the 2016 Regulations would be reported to the Pensions Regulator in line with the Fund's Breaches of the Law Policy, that is available on the Fund's website www.bedsensionfund.org.

2.4 Managers

- 2.4.1 The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.
- 2.4.2 The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are

¹ Private Equity, Infrastructure, Private Credit and Property Unit Trusts classified as illiquid

consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The managers of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

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

- 2.5.1 The Committee recognises that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the Committee's overarching beliefs is to take only as much investment risk as is necessary.
- 2.5.2 Risk is considered at each review of the Investment Strategy in relation to advice from the Fund's Actuary including the liabilities of the Fund to ensure that the projected level of investment risk undertaken is appropriate.
- 2.5.3 The principal risks affecting the Fund are set out below, we also discuss the Fund's approach to managing these risks and the contingency plans that are in place:
- 2.5.4 Funding risks
- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
 - Changing demographics – The risk that longevity improves, and other demographic factors change, increasing the cost of Fund benefits.
 - Systemic risk – The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.
 - 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.

- Bio diversity 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.

2.5.5 The Committee measures and manages financial risk in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on both the probability of success and the level of downside risk. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

2.5.6 The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

2.5.7 The Committee uses passive (market cap) investments where it does not believe active management can add value. Additionally, in relation to climate and broader ESG risks the LGIM and BlackRock global equity passive funds use 'ESG' aligned indices reflecting the Committees commitment and desire to actively manage such risk factors.

2.5.8 The Committee seeks to mitigate systemic risk through a diversified portfolio, but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

2.5.9 The Committee seeks to address climate and broader ESG risks within its investment holdings in a proactive manner. It is committed to carrying out regular carbon and ESG monitoring with the initial baseline exercise to be completed in 2022. The Committee have set a net zero target date of 2050 or sooner, which is consistent with the Border to Coast ambition. Interim target measures will be established during 2024.

2.5.10 Asset risks

- Concentration - The risk that a significant allocation to any single asset

category and its underperformance relative to expectation, would result in difficulties in achieving funding objectives;

- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets;
- Currency risk – The risk that the currency of the Fund’s assets underperforms relative to Sterling (i.e. the currency of the liabilities);
- Environmental, social and governance – The risk that ESG related factors reduce the Fund’s ability to generate the long-term returns.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

2.5.11 The Committee measure and manage asset risks as follows.

- The Fund’s strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund’s “actual allocation” does not deviate substantially from its target. However as private markets are invested over time, in the early stages it is likely that there will be a shortfall between the benchmark and actual assets held. Further, the Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund’s asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as property, the Committee has recognised the need for access to liquidity in the short term.
- The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assess the Fund’s currency risk during their risk analysis.
- The Committee consider the risk of underperformance by any single investment manager and manage this risk by appointing a number of managers and having a sizeable proportion of the Fund’s assets managed on a passive basis. The Committee assess the performance of the Fund’s managers on a regular basis, and will take steps, including potentially replacing managers, if underperformance persists or the Committee believes that the Manager is not capable of achieving its performance objectives in the future. The

Committee, as part of their decision making, may also take into account other factors/changes such as changes to the structure of the Fund, the Manager's company status or changes to key personnel in the investment team).

- The Committee has developed an RI policy highlighting its beliefs and priorities in this area. This policy is reviewed periodically and shared with all managers. Additionally, the Committee regularly engages with managers to ensure ESG factors are fully incorporated into the investment decision making process (or manager appointment process in respect of Border to Coast) in a manner that reflects the Committee's beliefs and priorities where possible. More specifically, the Fund invests in passive 'ESG' focussed strategies as part of its wider growth allocation to better capture and manage relevant opportunities and risks respectively.

2.5.12 Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets between managers. When carrying out significant transitions, the Committee will seek suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or being traded;
- Credit default - The possibility of default by a counterparty which could impair its ability to meet its obligations to the Fund.
- Stock-lending – The possibility of default and loss of economic or voting rights to Fund assets.

2.5.13 The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund. Where appropriate the Committee has delegated such monitoring and management of risk to the appointed investment managers (e.g. custody risk in relation to pooled funds). The Committee retains the right to replace a provider should serious concerns exist in relation to these matters.

2.5.14 A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

3 Investment pooling

3.1 Border to Coast

3.1.1 In order to satisfy the requirements of the Local Government Pension Scheme: Investment Reform and Guidance issued by the then Department for Communities and Local Government (DCLG) in November 2015, the Administering Authority has elected to become a shareholder in Border to Coast Pension Partnership Limited (BCPP).

3.1.2 The partner Funds submitted their proposal to Government on 15 July 2016 and have received written confirmation from the Secretary of State to confirm that the proposal meets the criteria laid down in the guidance issued in November 2015 and set out below:

- a) Asset pool(s) that achieve the benefits of scale;
- b) Strong governance and decision making;
- c) Reduced costs and excellent value for money; and
- d) An improved capacity to invest in infrastructure.

3.1.3 BCPP was created in 2017 as a wholly owned private limited company registered in England and Wales, authorised and regulated by the Financial Conduct Authority (FCA) as an alternative investment fund manager (AIFM). BCPP currently has 11 equal shareholders who comprise of the following Funds:

Bedfordshire Pension Fund
Cumbria Pension Fund
Durham Pension Fund
East Riding Pension Fund
Lincolnshire Pension Fund
North Yorkshire Pension Fund
South Yorkshire Pension Fund
Surrey Pension Fund
Teesside Pension Fund
Tyne and Wear Pension Fund
Warwickshire Pension Fund

3.2 Structure and governance of BCPP Ltd

3.2.1 The eleven Partner Funds and BCPP work collaboratively to build the investment capabilities required to ensure that the Partner Funds are able to efficiently and effectively deliver their Strategic Asset Allocations in line with the following guiding principles:

- Meeting central Government's aims for governance, responsible investing, infrastructure and value for money
- One fund, one vote
- Funds retaining governance role and ownership of asset allocation
- Generating improved net-of-fees risk adjusted performance
- Border to Coast internal management capability
- Improved resilience and capacity over existing structures
- A shared team in one location

3.2.2 In order to hold BCPP to account, and to meet FCA requirements for a regulated asset manager, the Partner Funds stand at arms-length to Border to Coast during implementation and ongoing management of the sub-funds.

3.2.3 The investment performance and capability of BCPP is overseen on a day-to-day basis by senior officers at each partner fund, and more formally on a quarterly basis by the Joint Committee, which is constituted of elected members from each partner fund. BCPP's performance as a company is overseen by shareholder representatives from the eleven administering authorities both on an ongoing basis and formally once a year at its AGM

3.2.4 The governance structure of BCPP is as follows: The following groups support the governance of BCPP:

Joint Committee

The Joint Committee is constituted from the eleven Pension Fund Chairs who meet quarterly. It is the collaborative vehicle through which the individual Partner Funds provide collective oversight of the performance and direction of BCPP. Its remit includes oversight of progress towards the pooling of Partner Fund assets as a whole.

Officer Groups

The Joint Committee is supported by the respective Authority s151 and Monitoring Officers and the Officer Operations Group (OOG), constituted from officers of the eleven Funds. These groups meet to discuss issues and give input to both Elected Members and BCPP. The OOG meets bi-monthly with part of the meeting being attended by Border to Coast, and part in closed session. The OOG work collaboratively to ensure that due diligence over BCPP investment capabilities is carried out effectively on behalf of Pension Committees.

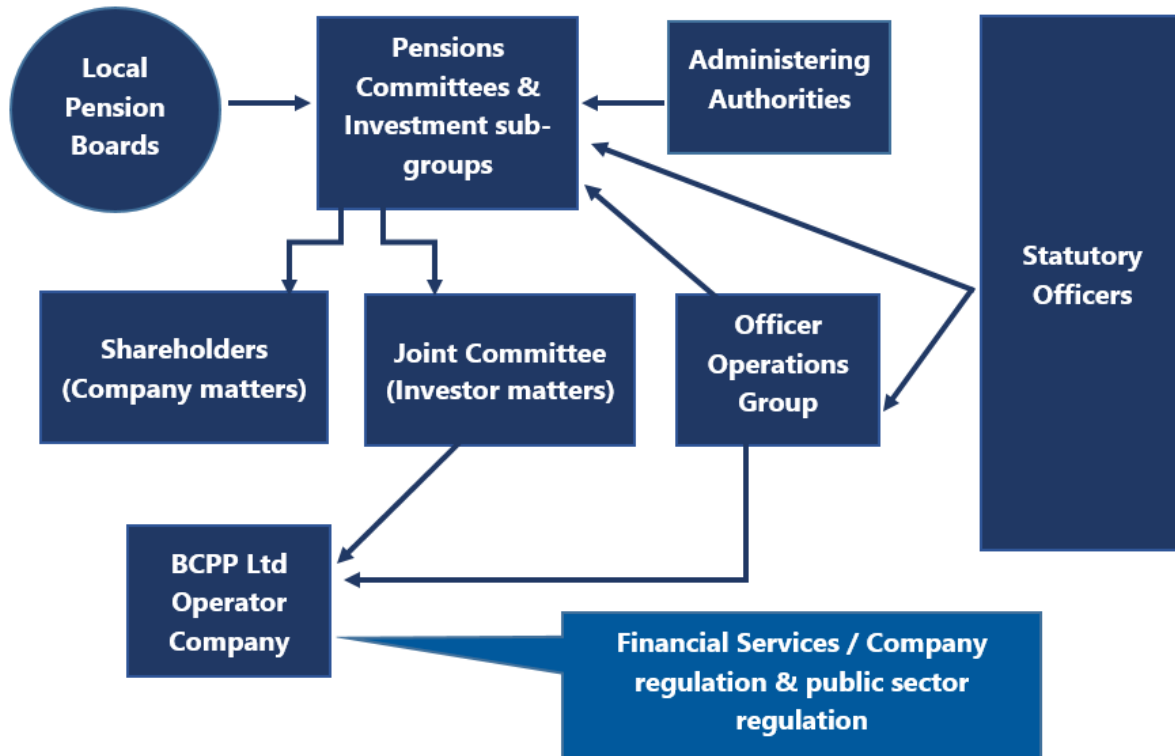
Local Pension Boards

In line with their role in other administrative and governance matters, the local pension boards provide support and challenge to the Pension Fund Committee's decisions and decision-making process in relevant investment areas, and look to ensure appropriate governance is in place to provide effective monitoring.

Advisers

Regulations require that Pension Funds take professional advice in respect of any investment decisions. This is generally provided through Funds' Investment Consultants and/or Independent Advisors who work with the Pension Fund Committee and Officers to ensure that the strategic asset allocation can be effectively implemented through the use of the sub-funds available at BCPP.

BCPP Governance Structure



3.3 Assets to be invested in BCPP Ltd

3.3.1 The Pension Fund's intention is to invest its assets via BCPP Ltd as and when suitable sub-funds become available. An indicative timetable for participating Funds to invest through BCPP Ltd was set out in the July 2016 submission to Government and this has been updated as progress has been made. For reasons of commercial sensitivity, the Governance Calendar has not been replicated in the Investment Strategy Statement.

3.3.2 At the time of preparing this statement, the Fund has made commitments to the following funds, which is incorporated into the Asset Allocation in Section 2.

- Global Equities
- Infrastructure
- Climate Opportunities Fund
- Private Credit
- Private Equity
- Multi Asset Credit

- Global Real Estate

3.3.3 BPF has previously determined that all asset allocation and investment decisions should be made primarily on a financial assessment of risk and return. The Fund's Equity Allocations that sit within Life Funds are not at the current time expected to transfer to BCPP as the cost would be prohibitive and there would be no expected longer-term cost savings.

3.3.4 Therefore, along with the majority of Funds in BCPP, it is not proposed that BPF makes an application to request a dispensation from pooling in this regard.

4. Approach to environment, social or corporate governance

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

4.1.1 It is recognised that ESG factors influence long term investment performance and the ability to achieve long term sustainable returns. The Committee considers the Fund's approach to responsible investment in two key areas:

- **Sustainable investment / ESG factors** – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
- **Stewardship and governance** – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management via Fund managers as part of the investment process.

4.1.2 The Committee takes ESG matters very seriously and has established a Responsible Investment Sub-Committee to take forward this important agenda. The Committee has established their RI Beliefs and guiding principles which are set out in Appendix 3. These beliefs alongside the wider RI policy are shared with each investment manager for completeness. Furthermore, each year the Pension Fund Committee conducts a review of its policies in this area and the approach of its investment managers to ESG.

4.1.3 At the present time the Committee does not make investments purely on non-financial factors, however it may take into account non-financial factors such as environmental, social and governance (ESG) issues when selecting, retaining, or realising its investments.

4.1.4 To date, the Fund's approach to Social Investments has largely been to delegate this to their underlying investment managers as part of their overall ESG duties. The Fund's managers report on this matter as part of the Fund's annual ESG review.

4.1.5 The Fund does not currently hold any assets which it deems to be Social Investments.

4.2 Voting rights

- 4.2.1 The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Committee monitors the voting decisions made by all its investment managers on a regular basis.

4.3 Stewardship

- 4.3.1 The Committee has agreed to adhere to the UK Stewardship Code as published by the Financial Reporting Council (FRC). The FRC has revised the Stewardship Code for 2020 which requires asset owners and asset managers to achieve higher standards stewardship through twelve apply and explain principles. The Fund was recognised as a signatory to the Code in 2022/2023. As part of this process the Committee drafted a new voting and engagement policy that will note key engagement themes to share with managers and to inform relevant voting guidelines. The Pension Fund Committee expects both the BCPP Pool and any directly appointed fund managers to be signatories to the UK Stewardship Code 2020.
- 4.3.2 As part of its compliance with the UK Stewardship Code, the Fund has adopted a set of Voting Intention Guidelines (See Appendix 1). The Committee publishes an annual report of voting activity as part of the Fund's annual report. The Fund believes in collective engagement and is a member of the Local Authority Pension Fund Forum (LAPFF), through which it collectively exercises a voice across a range of corporate governance issues. The Fund is also a member of the Institutional Investors Group on Climate Change (IIGCC) and the Carbon Disclosure Project (CDP). BPF is also a signatory to the Paris Pledge for Action 2015 and the letter to G20 leaders setting out recommendations for achieving the Paris Agreement's goals.

Voting Intention Guidelines

Voting Policy Directors' Contracts

Guideline	Subject of Vote	Voting Intention
1.	Combination of Chairman and Chief Executive posts	Vote Against
2.	No requirement for subsequent re-election	Vote Against
3.	Rolling contracts up to 1 year	Vote For
4.	Rolling contracts longer than one year	Vote Against
5.	Fixed contracts up to 2 years	Vote For
6.	Fixed contracts over 2 years	Vote Against

Share Options or Incentive Schemes

Guideline	Subject of vote	Voting intention
7.	Where full disclosure of all emoluments received by Directors is not made	Vote Against reappointment of all Directors
8.	Where full and clear disclosure of the basis of performance related payments is not made	Vote against reappointment of Chairman of Remuneration Committee as a Director
9.	Share Options or Incentive schemes with no performance targets	Vote against
10.	Share Options with unclear or unambitious targets	Vote against

Internal Committees

Guideline	Subject of vote	Voting intention
11.	Where the Remuneration Committee is not composed solely of Independent Non Executive Directors	Vote Against all Executive Directors on Remuneration Committee
12.	Where there is no Audit Committee	Vote Against acceptance of Accounts
13.	Where the Audit Committee does not have a majority of Non Executive Directors	Vote Against acceptance of Accounts

Other Issues

Guideline	Subject of vote	Voting intention
14.	Issue of shares not consistent with pre-emption guidelines	Vote Against
15.	Material inadequacies in the Annual Report and accounts	Vote Against acceptance of Accounts
16.	Resolution to make party political donations	Vote Against

Remuneration

The Pension Fund Committee recognises that remuneration has become an emotive subject which, because of media focus, can cloud the real issues. It is considered that investee companies should have an approved remuneration policy in place which:

- regards performance related bonuses as an investment by the company to improve its performance. Any remuneration committee should satisfy itself that, as with any other investment, the returns justify the expenditure;
- should not be based upon performance reward criteria which encourage short-term thinking and disregard the long term interests of the company;
- rewards recipients for exceptional and not for average performance;
- awards bonuses in the form of shares (held in trust) thereby subjecting Directors to the same risks and interests as shareholders;
- requires any contractual compensation for loss of office to be paid annually and be dependent upon the individual not acquiring another comparable post.

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Investment Managers to the Fund will be expected to monitor companies' compliance with these guidelines and, in the event of any material variation, will vote against the reappointment of remuneration committee members.

The Committee also recognise that there are certain areas of Corporate Governance where it is more difficult to be prescriptive. In these circumstances it has asked the Investment Managers to the Fund to judge each issue on a case-by-case basis and vote the shares in the best long-term interests of the Fund. Issues which fall into this area are:

- 1 The Board shall consist of at least 3 Non-Executive Directors;
- 2 Insufficient biographical information on any Director;
- 3 Bundled resolutions at AGM;
- 4 Resolutions not supported by the Board.

Investment Beliefs

Beliefs are, by definition, unique to each pensions committee. They reflect the way in which committees (explicitly or implicitly) translate a fund's objectives into its actual investment arrangements.

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, market conditions and fiduciary duty.
2. Markets are dynamic and asset valuations fluctuate for a number of reasons, creating opportunities for investors.
3. Diversification, to an extent, reduces risk and improves stability of returns.
4. The use of illiquid assets can enhance returns through the 'illiquidity premium.
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.
6. Management fees can have a material impact on Fund performance.
7. The Fund's governance budget is not limitless and should be focussed on the areas that have the greatest impact on outcomes.
8. Environmental, social and governance ("ESG") factors can influence the Fund's future outcomes.

Responsible Investment Beliefs

Objective agreed:

To deliver a better, more sustainable investment return over the long-term consistent with funding plans.

Beliefs articulated:

The output of the meeting (to be ratified at the September Committee meeting) were the following set of beliefs.

Investment strategy

- 1 Having a responsible investment policy that is specific to the Fund should lead to better financial outcomes.
- 2 Having a responsible investment policy should lead to better outcomes for society.
- 3 Businesses with more sustainable practices and more effective management of ESG risks should outperform over the long term.
- 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.
- 5 Financial risks should take precedence, so ESG investing needs to seek to have a positive impact on long- term returns.
- 6 The Fund should consider avoiding exposure to securities where environmental or social aspects will be financially detrimental to the portfolio.

Engagement and voting

- 1 Engagement in a company is more effective than disinvesting from the company.
- 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.
- 3 Collaboration with other investors gives the Fund a stronger voice.

Managers

- 1 The Fund's investment managers should embed the consideration of ESG factors into their investment process and decision making.
- 2 ESG is one of many factors that plays a part in the investment decisions making process.
- 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.
- 4 The choice of benchmark for a passive manager is important as it defines the investment portfolio.
- 5 The key influence an investor has on a passive manager is the choice of benchmark and level and type of engagement.
- 6 The Fund should be an active owner seeking to influence behaviour in investee companies.
- 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.

Monitoring and Governance

- 1 The Fund needs to engage and challenge managers on integrating ESG issues in their investment process in line with the Fund's RI beliefs.
- 2 The Committee should expect its investment managers to provide investment solutions in line with its RI beliefs.
- 3 Given their resource and expertise the Pool (BCPP) have a responsibility to provide leadership on ESG issues.
- 4 The Committee should consider all stakeholders' views when developing its RI policy.
- 5 ESG factors should be incorporated into manager's standard reporting as part of wider transparency principle.

Priority for RI consideration and engagement

The Committee identified Company Stewardship, Climate and involvement in anti-social activities (e.g. weapons) as its priorities for RI consideration.