

Stewardship Policy

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1. Introduction

The UK Stewardship Code 2020 definition of stewardship is “the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.”

This policy document sets out the approach taken by the Bedfordshire Pension Fund (“the Fund”) to Stewardship. This policy forms part of the Fund’s overall approach to the selection and management of the Fund’s investments and should be read in conjunction with the Fund’s [Investment Strategy Statement](#) and [Responsible Investment beliefs](#).

2. Governance and Oversight

As administering authority responsible for the Fund, Bedford Borough Council delegates the supervision of the overall arrangements of the Fund’s assets to the Pension Fund Committee (“the Committee”). The Committee consists of nominated elected members of Bedford Borough Council, Central Bedfordshire Council and Luton Borough Council.

A member representative, nominated by the trade unions, is invited to sit on the Committee in an observer role. An independent investment advisor sits on the Committee in an advisory role. The Committee also takes advice from Borough Council officers and from external professional investment advisors.

The Committee appoints external fund managers to manage the Fund's assets and monitors their performance. The key principle in the prudent management of the Fund's assets is maintaining the optimum balance between risk and return. The Committee seeks to achieve this by ensuring that its assets are spread over a variety of different asset classes, both in the UK and overseas and with different managers.

A Responsible Investment Sub-Committee (“the RI Sub-Committee”) has been established to review and develop the Fund’s approach to Responsible Investment. The RI Sub-Committee also takes advice from an independent advisor, Borough Council officers and external professional investment advisors, and makes recommendations to the Committee.

Officers will review the voting and engagement activities undertaken by the Fund's investment managers and report to the RI Sub-Committee on an exceptions basis. The RI Sub-Committee will assess whether the stewardship activities undertaken by each manager are consistent with the Fund's engagement priorities, as well as assessing the manager's overall approach to Responsible Investment.

3. Implementation

The implementation of the Fund's stewardship policy is built on 3 pillars – Selection, Active Stewardship, and Reporting & Disclosure, which are described below.

Selection

The Committee integrates Responsible Investment issues into the decision-making process when selecting a new investment or investment manager. As examples, this includes selecting managers that choose investments that help the Committee reduce the Fund's carbon emissions, and assessing the capabilities of managers to ensure they are embedding environmental, social and governance ("ESG") factors into their investment processes and throughout their organisation and culture.

The Committee agreed to join the Border to Coast Pensions Partnership ("BCPP") for a number of the Fund's actively managed allocations. The Fund has already transitioned a number of its allocations, or made new ones, to BCPP sub-funds. Investments held through BCPP are subject to its ESG policy and approach, which the Committee has broadly accepted. The Committee's ability to integrate ESG into its decision-making process is more limited where Fund holdings are through BCPP. Instead, the Committee monitors BCPP's ESG and stewardship policies and actively discusses with BCPP any proposed changes to these policies.

Active Stewardship

The Committee believes that engagement is a more effective strategy than divestment. Further, 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 and society. The Fund seeks to influence behaviour at investee companies through active stewardship.

The Fund increasingly works through pooled arrangements, whether they be BCPP, other managers or index-tracking funds managed by BlackRock or LGIM. The Committee's beliefs about engagement or exerting influence designed to change corporate behaviour must all be understood within the context of the Fund working with/through large managers or BCPP rather than working bi-laterally with underlying investee companies.

Reporting and Disclosure

Investment managers and BCPP are required to report to the Committee at regular intervals to allow the Committee to evaluate investment performance and the manager's stewardship activities.

Officers will review the voting and engagement activities undertaken by the Fund's investment managers and report to the RI Sub-Committee on an exceptions basis.

Further detail on the Fund's approach to Active Stewardship and Reporting & Disclosure is shown below.

4. Active Stewardship

Priorities

The RI Sub-Committee has identified priority areas for the Fund's stewardship activities. These priority areas are based around the following 3 key themes with further detail set out in Appendix 1:

- Climate change & Biodiversity
- Diversity & Inclusion
- Progress against the United Nations Sustainable Development Goals

The RI Sub-Committee reviews these priority areas at least annually to ensure they remain appropriate, with a fundamental review being carried out following the next review of the Fund's Responsible Investment beliefs.

Stewardship across the Fund's assets

Stewardship activities need to be tailored to each type of investment held, taking account the characteristics of the different asset classes and investment fund structures employed, as well as whether investments are held directly with the investment manager or through BCPP.

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. As with most pooled funds, the investment managers are not bound by the Fund's own voting intentions. The ability for individual investors to exercise their voting rights within a pooled fund is an evolving area and the Committee regularly reviews the options available to exercise the Fund's voting rights in the most effective way.

The Committee seeks to influence the stewardship activities by meeting with the managers directly and through BCPP. The Committee has contributed to the development of BCPP's Responsible Investment policy to ensure, as far as is possible, that this is aligned with the Fund's own Responsible Investment policy.

Appendix 2 shows how the Fund's assets are currently categorised in terms of voting and engagement activities.

Collaboration

The Committee believes that working collaboratively is essential to delivering the Fund's objectives. A significant part of the Fund's stewardship activities is implemented through partnerships including the Local Authority Pension Fund Forum (LAPFF), BCPP and its Partner Funds, and the Fund's investment managers.

5. Reporting and Disclosure

Each investment manager and BCPP is expected to report at regular intervals on the following:

- How Responsible Investment issues are integrated into investment processes and stewardship activities;
- How the manager is addressing climate risk within the fund and progress made towards any net zero targets;

- Outcomes arising from the manager’s stewardship activities with investee companies and how these outcomes align with the Fund’s own engagement priorities; and
- Metrics used to assess the risks within the portfolio relative to comparative benchmarks, such as carbon emissions and ESG ratings.

This reporting may be supplemented by metrics provided by the Fund’s investment consultants or BCPP.

Appendix 3 records the meetings held with the managers and the outcome of those meetings. The Fund will report on the outcome of its stewardship activities annually.

6. Escalation Policy

The Fund delegates responsibilities of handling day-to-day management of investments, includes stewardship activities, to its investment managers. This includes delegation of voting and engagement activities. In the case of one investment manager, the Fund delegated its voting activity to a third party (commonly called a proxy voting provider) after careful analysis and discussion of the alternatives on offer. The Fund recognises that its investment managers and proxy voting providers maintain their own escalation policies governing their activities.

The Fund assesses a manager’s policies in the context of its own RI beliefs, before deciding whether to invest in a new investment mandate. For existing managers and mandates, the Fund assesses the best way to express its RI views through the available voting mechanisms. The Fund monitors managers and other third parties on an ongoing basis, through regular meetings to discuss their investment performance and stewardship activity. This includes meetings with BCPP. Where the Fund’s expectations change or evolve over time, this is made clear to the managers. The Fund seeks to influence BCPP’s policies using its role as one of the eleven partner funds within this LGPS pool.

Where stewardship activity falls short of expectations, meaningful progress in key areas has not been achieved, or the Fund receives unsatisfactory responses to questions on ongoing stewardship activity, the Fund will escalate its concerns within the manager or relevant third party organisation (as applicable) in the first instance, seeking further clarification from relevant specialist teams (e.g. on Responsible Investment matters).

Where the manager or third party's activity remains unsatisfactory or concerns are not resolved, the Fund will consider what further steps to take. This may include replacing the manager with a proxy voting provider, who will cast votes on the Fund's behalf and more in line with the Fund's RI beliefs, while remaining invested in the same funds.

Primarily, and as noted in Section 2, the Fund seeks to establish and build on long term partnerships with the investment managers that it appoints, seeking to resolve any issues through active dialogue and engagement. However, should all avenues of engagement be exhausted, and no acceptable solutions (like proxy voting providers) be offered, the Fund may consider whole or partial divestment from the investment mandate, following professional advice.

Appendix 1 – Priority areas

The table below shows the priority areas identified by the Committee for the Fund’s stewardship activities. These are reviewed by the Committee on an annual basis, with a fundamental review following the next review of the Fund’s Responsible Investment beliefs.

Priority	Rationale
<p>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.</p>	<p>Supported by the Task Force on Climate-related Financial Disclosures (TCFD), proper disclosure will allow investors to make informed decisions on where to invest their capital. It also pressures company management to consider the risk that climate change presents to their business and outline their strategy and timeframe for addressing this risk.</p>
<p>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.</p>	<p>Integrating climate change into lending practices is expected to incentivise companies seeking access to finance to consider climate change as a core part of business planning.</p>
<p>3. Companies to contribute actively to a Fair and Just Transition to a low carbon economy</p>	<p>A Fair and Just Transition seeks to ensure that 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, regions, communities, workers or consumers.</p>
<p>4. Companies to establish targets for equalising pay gaps between socio-</p>	<p>The equalisation of pay gaps and fair pay practices will create a fairer</p>

Priority	Rationale
demographic groups (including gender) and implementing fair pay practices	society based on merit, while also building a broader and more vibrant local economy in jurisdictions where businesses operate.
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
6. Companies to report on the actions they are taking to address the Sustainable Development Goals set by the United Nations	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

Appendix 2 – Voting and engagement arrangements

The table below provides a high level summary of the voting and engagement arrangements currently in place.

Asset class	Investment manager	Arrangements
Equities (index-tracking)	BlackRock	Fund has selected proxy voting policy theme ISS Sustainability, which will be facilitated by the manager
Equities (index-tracking)	LGIM	Delegated to investment manager LGIM Investment Stewardship
Equities (actively managed)	Investment through BCPP pool	Undertaken by Robeco, BCPP's voting and engagement partner BCPP RI and stewardship approach
Private Equity	Investment through BCPP pool	BCPP integrates RI into manager selection, supported by ongoing annual reviews to assess areas for improvement
Private Equity	PATRIA	Delegated to investment manager Responsible Investments (patria.com)
Property	CBRE	Delegated to investment manager

Asset class	Investment manager	Arrangements
		Sustainability Policy
Multi-asset	Newton	Delegated to investment manager Responsible Investment Policies and Principles
Private debt	Investment through BCPP pool	BCPP integrates RI into manager selection, supported by ongoing annual reviews to assess areas for improvement
Infrastructure	Investment through BCPP pool	BCPP integrates RI into manager selection, supported by ongoing annual reviews to assess areas for improvement
Multi-asset credit	Investment through BCPP pool	Bondholders do not have voting rights as such but they have direct line of access to management as an important source of capital for issuers. Many large businesses access the debt markets more frequently than they do the equity markets, so remaining “investible” and attractive in all respects to fixed income portfolio managers is an important issuer priority. BCPP expects managers

Asset class	Investment manager	Arrangements
		to engage where ESG risks have been identified in portfolios. BCPP assess manager performance in this area initially and on an ongoing basis.
Liquid credit	PIMCO	Delegated to investment manager PIMCO ESG Investment Policy Statement
Liquid credit	Insight	Delegated to investment manager Responsible Investment Policy

Appendix 3 – Record of manager meetings and collaborations

Manager	Meeting date	Outcomes
BlackRock <i>Index-tracking equities</i>		
LGIM <i>Index-tracking equities</i>		
BCPP <i>Active equities</i>		
CBRE <i>Property</i>		
Newton <i>Multi-asset</i>		
BCPP <i>Private debt</i>		
BCPP <i>Infrastructure</i>		
BCPP <i>Multi-asset credit</i>		
PIMCO <i>Liquid credit</i>		
Insight <i>Liquid credit</i>		