



Bedfordshire Pension Fund

Stewardship Report 2021/2022

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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 below²:

Fund Membership Total membership 75,811 (31/3/2022) 22,826 Active Members 32,994 Deferred Members 19,991 Pensioners	Funding Levels and Employers Funding Level 92% (31/3/2022) 208 Employers (31/3/2021) 163 Scheduled bodies 44 Admitted bodies
Investments Investments £3.0bn (31/03/2022) £1.7bn Growth Portfolio £0.9bn Income Portfolio £0.4bn Volatility & Liquidity Management £0.6bn (18%) pooled with Border to Coast	Budget and Cashflow 2021/22 £12m Net Budget £11m Cashflow Positive £142m Contributions £120m Benefits Payable £11m 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 2022.

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. 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, as agreed with the Local Pensions Board (the Board) and 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), last updated in June 2022 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.

The ISS is prepared in accordance with the government guidance³ and is available on the Fund's website.⁴

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

⁴ https://www.bedsensionfund.org/Fund_information/fund_policies/fund_policies.aspx

Table 1: Investment Beliefs

Investment Beliefs
<p>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.</p> <p>Belief 2: Markets are dynamic and asset valuations fluctuate for a number of reasons, creating opportunities for investors.</p> <p>Belief 3: Diversification, to an extent, reduces risk and improves stability of returns</p> <p>Belief 4: An illiquidity premium enhances returns and can be of strategic benefit given the Fund's long-term investment horizon.</p> <p>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.</p> <p>Belief 6: Management fees can have a material impact on Fund performance.</p> <p>Belief 7: The Fund's governance budget is not limitless and should be focussed on the areas that have the greatest impact on outcomes.</p> <p>Belief 8: Environmental, social and governance (ESG) factors can influence the Fund's future outcomes</p>

Responsible Investment Beliefs

In addition to the investment beliefs, the Pension Fund Committee has undertaken research and training to develop a 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.

Table 2: Responsible Investment beliefs

Responsible Investment beliefs
<p>Investment strategy</p> <ol style="list-style-type: none"> 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.

Responsible Investment beliefs

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.

Activity and Outcomes

The Fund does not directly hold any assets, and as such does not buy and sell stocks and bonds, or have direct access with 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 overall 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. Initially, the RI Sub-Committee held four formal meetings during the year to ensure there was sufficient oversight of the investment managers and to provide additional challenge in setting investment strategy.

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 setting the policies and making 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 (RI); 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
- 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 ISS was updated to reflect the establishment of the RI Sub-Committee recognising the Fund's commitment to responsible investment. 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 2020 Stewardship Code.

The RI beliefs outlined above recognise the importance of investment benchmarks in setting the direction of the Fund. In 2021, the RI Sub-Committee undertook training on understanding a broader range of index-tracking benchmarks provided by 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 (47%) 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.

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, and the Custodian were approved signatories of the FRC's Stewardship Code in 2021. The Fund is following up with the final manager on its progress.

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.

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 action needs to be taken to ensure the assets are invested sustainably to deliver returns over this multi-decade time horizon. The Fund believes the actions taken to establish RI beliefs to help guide stewardship activities, together with the investment decisions taken, will deliver sustainable benefits to the economy, the environment and sustainable long-term investment 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 Pool (BCPP)⁵ As at 31 March 2022 the Fund held £552 million of assets (or 18.5%) in investment vehicles managed by its LGPS pool, BCPP. The Fund had an additional £287 million of undrawn commitments to BCPP, which the Fund expects to be invested over the new few years.

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

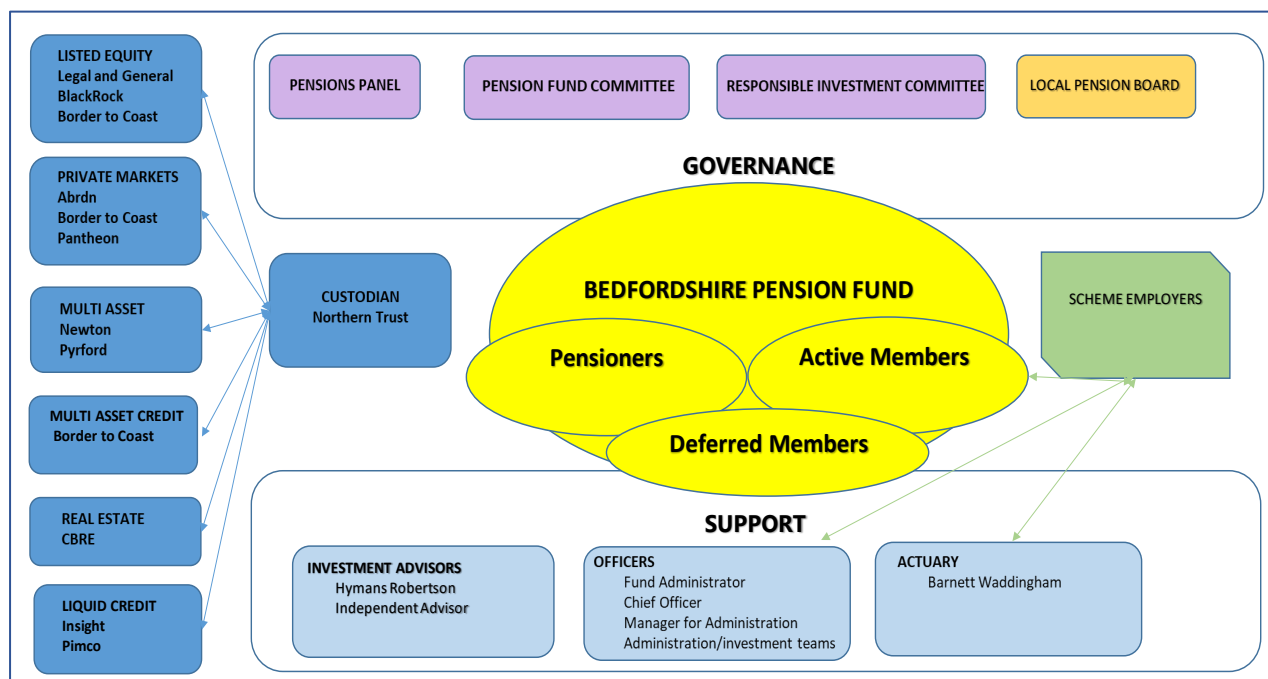
In addition to these employer members, a scheme member observer from a recognised trade union and a recently appointed Academy representative also sit on the Pension Fund Committee, which enables representation across all the major employers groups. The Pension Fund Committee is supported by: a Pensions Panel (Panel) constituted of the same members as the Pension Fund Committee; and external advisors. Hymans 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.

⁵ The Border to Coast Pension Pool (BCPP) was created by eleven likeminded funds, established in 2018 in response to the Government's LGPS: Investment Reform Criteria and Guidance (2015). Border to Coast'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.

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 Regulations⁶.

The diagram below summarises the governance structure for the Fund.



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, including those assets held with BCPP, and their stewardship arrangements.

The Panel meets with each investment manager, including BCPP, once per 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 its Fund officers have sufficient skills and capacity to deliver the objectives as set out in the business plan. The Fund Administrator is also supported by the Chief Officer for Bedfordshire Pension Fund and the Manager for Pensions Administration to provide sufficient senior management

⁶ Public Services Pensions Act 2013 (PSPA 2013)

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.

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 support 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. Training is delivered predominantly through detailed Pension Fund Committee agenda items, presentations from investment managers, and attendance at conferences. The training received covered a range of topics including effective investment stewardship, governance and ESG related matters, examples include:

- | | | |
|-----------------------------------|-----------|---------------|
| • Proxy Voting | Robeco | February 2022 |
| • Global Equities – systemic risk | BCPP | November 2021 |
| • Impact through Private Equity | BlackRock | October 2021 |

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.

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 the bidding organisations' own approach to ESG, and their fit to the Fund's responsible investment beliefs. For example the Fund would expect bidders to take action in relation to board representation, diversity and minimising their carbon footprint.

This approach was adopted with the tender process for the appointment of the Investment Consultant during 2021 and the Custody Contract in 2022.

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 the coming year.

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

The Pension Fund Committee reviewed and agreed a revised workforce structure to reflect the growing demands on Fund officers as a result of the increase in the number of scheme members and employers, and to reflect the increasing public sector pension regulations both in terms of investments and administration. The structure was increased by 2.5 FTEs to provide additional capacity.

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 six years, and was appointed Vice Chair in 2018, and has been Chair since 2019.

The changes made to the Governance Policy have resulted in the Pension Fund Committee arrangements being made more robust. No meetings have been inquorate since the changes were made enabling the Pension Fund Committee to make effective, well-informed and timely decisions.

The Board has overseen the governance of the Fund and reported assurances gained on governance matters and recommendations to the Pension Fund Committee, which in particular have enhanced the risk register and the associated actions to mitigate risk.

During 2021/2022 Members undertook 28 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 17 meetings of the Pension Fund Committee, Panel, RI Sub-Committee and Board.

Officers continued their professional qualifications with 5 members of the Administration Team having completed the Foundation Degree in Pensions Administration and Management. There are also 2 members of the Chartered Institute of Public Finance and Accountancy and 2 members Chartered Management Accountants. Achieving qualifications is a core part of the development of our staff and succession planning.

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:

3. Codes of conduct policies

Role	Policy
Pension Fund Committee - Elected Members	Code of Conduct for their Local Authority Independent Members – Bedford Borough Code of Conduct 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.

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.

Border to Coast Pension Partnership (BCPP)

Bedfordshire Pension Fund, through Bedford Borough Council, is a founding member 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, versus its role as a client of, and stakeholder in, a collective investment vehicle. 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 the 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 fund offerings by BCPP. Decisions to approve (or not) a BCPP fund offering 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. The draft Accounts were approved by the Pension Fund Committee on 21 June 2022. The audited Annual Report and Accounts will be published ahead of the 1 December 2022 deadline, later this year.

The Fund Administrator or the Chief Officer for Bedfordshire Pension Fund attended all BCPP informal shareholder meetings and had the opportunity to participate and express views on shareholder matters ahead of the BCPP Annual General Meeting. 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 Board declared they provided training with CIPFA ahead of discussions on the Fund's training plan.
- A member of the Pension Fund Committee declared an interest as a governor of an academy and did not participate in discussions or vote on the decisions whether to pool academy assets and liabilities across the Fund.

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 2021-22.

Following good governance and transparency, the Fund Administrator reported to the Pension Fund Committee and Administering Authority 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 2020/2021. Three elected members made declarations in 2021/2022 (not yet published).

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).

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 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.

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 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, and 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 these issues;
- Quarterly monitoring of markets, managers and the Pool provider to ensure early identification of emerging issues of this nature.
- Regular engagement with investment managers on these issues;
- 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 March 2022 and confirmed the exposure to risk was appropriate for the given appetite and Fund exposure.

Following the pandemic-driven market sell-off, the Pension Fund Committee met with 8 investment managers during 2021-22 to review their performance and stewardship of the Fund including in relation to market-wide and systemic risks presented by the Covid-19 pandemic. The Pension Fund Committee was satisfied with the responses of all but one manager where there were concerns regarding the responses in relation to the Covid-19 pandemic. Further discussions with the manager were held and additional scrutiny of the performance was undertaken, until the Pension Fund Committee were satisfied.

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 the Fund had minimal exposure (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.

In summer 2022, in light of the ongoing Russian aggression in Ukraine, the Panel and Pension Fund Committee considered the question of whether, and to what degree, the Fund could agree with exclusions of controversial weapons from the Low Carbon tracker fund (a sub-section of the Fund's equity mandate). The investment manager proposed to broaden the scope of that Low Carbon fund beyond its initial purpose of limiting exposure to CO₂ and fossil fuels. The Panel had a robust discussion about whether such further exclusions were consistent with good stewardship, especially when cast broadly and capturing a number of mainstream UK and international defence industry companies that were critical to building up Ukraine's defence capabilities. The Pension Fund Committee invited the passive manager proposing this change to its next meeting and debated this point, suggesting that threshold limitations (similar to limits on exposure to thermal coal, fracking and tar sands within the energy sector) might be more effective and not contrary to support for Ukraine. The Pension Fund Committee argued to the investment manager that engagement with defence industry companies around topics like cluster bombs, land mines, chemical/biological warfare was much more productive than exclusion, for it had a higher chance of changing corporate business models, while still preserving the majority of defence industry products that are needed for situations like Ukraine and more generally for deterrence. The investment firm agreed to give our proposals consideration and discuss them with other investors in its Low Carbon fund.

Following the market volatility and sharp sell-off in March 2022, Fund officers and advisors reconsidered the transition plans to move a proportion of its equities from a market capitalisation index to a Low Carbon index. Following discussion with the relevant passive fund manager about the systemic risk of selling assets during a market downturn, the Fund agreed

that there was minimal risk because the majority of the assets were being transferred in-specie, which reduced the potential for financial loss. The transition proceeded as planned in May 2022 with no significant impact on the value of the Fund.

The risk register format was updated during the year following recommendations and discussions with the Committee to include the unmitigated risk scores in addition to the current and mitigated scores to provide a clearer picture of the impact of the actions taken to mitigate risk to the Committee. This exercise provides more information to allow the Committee 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, and therefore partners with other bodies to influence the market, particularly in relation to responsible investment. The Fund has been an active member of the Local Authority Pension Fund Forum (LAPFF) for eleven years, and are also members of the Institutional Investors Group on Climate Change (IIGCC), and the Carbon Disclosure Project (CDP). Examples of engagements undertaken by these partners is discussed in Principle 10.

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

LAPFF⁷ 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 regime. LAPFF has engaged with the FRC to create a more transparent and effective regulatory environment.

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.

In 2021 CDP represented over 680 institutional investors with a combined assets of US\$130 trillion and 280+ major purchasers with over US\$6.4 trillion in procurement spend⁸. The Fund was 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.

The Fund held additional levels of cash over and above the cashflow policy during the year to manage the volatility in the equity market. As a result of this strategy and its diversified portfolio, the Fund has maintained its value at c. £3 billion over 2021-22.

⁷ [LAPFF| The leading voice for local authority pension funds across the UK \(lapffforum.org\)](https://lapffforum.org)

⁸ <https://www.cdp.net/en>

The bond mandate with Insight Investment Management was amended to have a specific RI focus and this was deemed more appropriate to manage expected future market wide risks.

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 will start reporting on this issue in the coming year.

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.

In addition, the Pension Fund Committee reviews policies whenever appropriate to accommodate situations that arise. For example, following a 2020 change in regulations⁹ 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. 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.

The Breaches of the Law Policy (the "Breaches Policy") was substantially reviewed by the Board in 2021 to make the process map for assessing breaches more robust and straightforward. The aim was to ensure clear procedures for identifying a reportable breach including detailed examples of items to assess for each case. The updated Breaches Policy provides greater clarity for Fund officers to assess whether a breach should be recorded and, if appropriate, reported to the Pensions Regulator. The updated Breaches Policy also provides a more robust framework for the Board to challenge the Fund on any decisions made.

The Committee takes input and advice from the Fund's Investment Advisors and Independent Advisor on best practice approaches to stewardship. 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 review of current policies has led to their improvement and the outcomes as outlined in the table overleaf.

⁹ The Local Government Pension Scheme (Amendment) (No. 2) Regulations 2020

4. Bedfordshire Pension Fund Policies

Policy	Outcome
Investment Strategy Statement	The Fund's responsible investment beliefs were included and the strategy was updated to reflect those beliefs and set out the approach to engaging with investment managers.
Funding Strategy Statement	Updated to reflect the latest regulations in relation to Debt Spreading Arrangements (DSA) and Deferred Debt Agreements (DDA).
Border to Coast Responsible Investment Policy and Voting Guidelines	The Pension Fund Committee considered BCPP's new engagement themes adopted in 2022 and requested further information on BCPP's diversity of thought theme. The Pension Fund Committee subsequently confirmed that BCPP's updated RI Policy was consistent with the Fund's RI beliefs.
Administering Authority Discretions	Remove the requirement to obtain a medical certificate for an Additional Pension Contribution (APC) to reduce the administrative burden on Scheme Members.
Admission and Termination Policy	Updated to reflect the latest regulations in relation to Debt Spreading Arrangements (DSA) and Deferred Debt Agreements (DDA).
Service and Data Improvement Plan	The current plan addresses all the areas of improvement that have been identified.
Cashflow Policy	Set maximum and minimum requirements for cash holdings based on risk assessment, enabling a smaller cash balance to improve risk adjusted returns. The establishment of a Volatility and Treasury Management category within the Fund's Strategic Asset Allocation ("SAA"), which specifies liquid investments that are readily accessible, provides an additional source of cash to meet short-term needs.
Board Conflicts policy	The policy provides a framework for managing actual and perceived conflicts of interest and Code of Conduct. The policy will be reviewed in 2022.
Business Continuity Plan	The Plan was updated in September 2022 to reflect the latest position in terms of accommodation and contacts.

The RISub-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 75,881¹⁰ members and across 208 employer bodies. Members currently in receipt of their pensions reached 19,991. The average annual pension benefit received by a retiree in the 2021/22 year was £5,513; 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, 22,826 are active members with a further 32,994 deferred members. 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.

¹⁰ All membership numbers are as of 31 March 2022. Source: Bedfordshire Pension Fund Annual Report, page 17.

The Fund's investment strategy is described in the ISS dated June 2022. As at 31 March 2022, 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.

Table 5: Bedfordshire Pension Fund Assets

Asset class	Geography	Allocation at 31 March 2022	Pooled through BCPP
LGIM equities	Global	18.9%	
LGIM equities	UK	7.9%	
BlackRock equities	Global	19.8%	
BCPP equities	Global	7.2%	Yes
abrdn private equity	Global	2.0%	
CBRE property	UK	8.0%	
Newton absolute return	Global	4.8%	
Pyrford absolute return	Global	5.7%	
Insight absolute return bonds	Global	6.8%	
Pantheon infrastructure	Global	0.9%	
BCPP infrastructure	Global	3.7%	Yes
BCPP private debt	Global	0.9%	Yes
BCPP multi-asset credit	Global	6.6%	Yes
PIMCO diversified income	Global	4.7%	
Cash	UK	2.1%	
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 2021/22 Newsletters included information on avoiding scams, the McCloud underpin, the Exit Cap 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 the transition of the listed equity portfolio to low carbon indices is complete to demonstrate the progress made. 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 RISub-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.

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 2021/2022, 94% of all retirement related payments were made within 10 days, and 90% of all death grants were paid within 10 days.

On behalf of the Fund, officers record all engagement from employers and Scheme members on RI matters. During 2021/2022 the Fund received two enquiries from Scheme employers regarding the divestment of fossil fuels. The Fund responded to these enquiries setting out the Fund's approach and actions in relation to RI.

An example of manager engagement during the year was Pantheon where the manager was failing to deliver to investment policies. The manager was invited to a Committee meeting and explain how this would be rectified. This was done to the Committee's satisfaction and monitoring continues of improvements implemented.

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 Fund also intends to set a net zero target date, once the pathway and implications are fully understood by all, and Pension Fund Committee members can be confident that the net zero target 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 has agreed to three additional posts to create a Communications Team in the Fund structure, to be implemented during 2022. These additional resources 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.

The Fund expanded the coverage of RI in its Annual Report for 2022 and will use this document 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 RISub-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 RISub-Committee receives ongoing training from its consultants and external parties. RI is central to the thinking and activities of the RISub-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 (see Example 3 below) or they attend global summits like COP 26. The Fund's Independent Advisor, who participates on the RISub-Committee, publishes articles on Room 151 (an online platform serving the local government and LGPS audience), on investment stewardship e.g. one advocating net zero commitments should amount to more than decarbonising LGPS investment portfolios (LGPS: Making net zero add up to something real) and the ESG ramifications for LGPS funds that rely on exclusions to align with UN SDGs (Lessons from Ukraine: are defence exclusions 'responsible?').

Fund Officers have communicated the Fund's RI beliefs to BCPP, and 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 BCP P's engagement focus.

Building on the work of the RISub-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 in 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 and 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 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 is integrated throughout its stewardship activities. Fund Officers and advisors, along with their counterparts from the ten 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. One of the most recent new fund launches was Climate Opportunities fund, launched in Spring 2022, which will invest globally to

support the energy transition and move towards a low carbon economy. The Fund made an allocation to this Fund as it strongly believes it aligns with both its investment and ESG priorities.

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 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'.

In considering replacement indices that were more ESG-aligned, it became clear that purveyors of passive ESG products use a wide range of benchmarks and standards. The data on percentage carbon reduction cannot be readily compared because they are made versus different starting points. Recognising this issue, the RI Sub-Committee examined the underlying numbers relating to carbon intensity, fossil fuel reserves and types of fossil fuel exposures, comparing all options vs the MSCI World Index to get an apples-to-apples comparison of actual carbon reduction. This direct comparison of carbon-related measures gave the RI Sub-Committee comfort in recommending to the Pension Fund Committee that the Fund transfer half of its passive equity allocation to BlackRock's World Low Carbon fund.

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.

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 managers are unable to take active positions in investment-decision making, the managers are expected to use voting and engagement to act in the Fund's best interests to enhance the long-term value and encourage sound ESG beginning in the boardroom. The Pension Fund Committee recognised that these two managers are of sufficiently large scale to influence behaviours in the investee companies. See Pillar 2—Active Stewardship below for further discussion of recent developments in proxy voting for investors in BlackRock passive funds.

The Fund's UK and emerging markets index-tracking equity funds were not consolidated as part of this exercise. The Pension Fund Committee decided that it would be preferable to invest these allocations in actively managed funds through BCPP, subject to due diligence and an assessment of costs. The Pension Fund Committee decided that active management would be more appropriate than a passive approach, especially for emerging markets. 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.

With respect to the UK equity portfolio, 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. These investment shifts are expected to take place during 2023.

Private markets, infrastructure and real estate

The Fund is building up its allocation to the private markets (i.e., unlisted equity and credit), infrastructure and real estate investments. The total amount invested in these areas was under 15% of the Fund at 31 March 2022, 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 through commitments to a series of funds offered through BCPP. Creating new private markets, infrastructure or real estate offerings takes time; the Fund, with input from its advisors, actively contribute 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.

One example currently in progress is BCPP's global real estate proposition. The approach of each potential manager to RI will be a central component of BCPP's fund selection and screening process, including analysis of key performance indicators such as BREEAM (Building Research Establishment Environment Assessment Method) or GRESB (formerly the Global Real Estate Sustainability Benchmark). A second level of pre-investment due diligence will be carried out on behalf of the Fund. Working collaboratively, the Investment Consultant and Independent Advisor assess all aspects of BCPP's global real estate offering including the approach to RI. For example, the Fund will examine what ESG (but especially "E") data BCPP expects to collect across the various managers and properties, how comparable such data is (or is not), what KPIs BCPP's underlying managers will set for improvements over time in such things as carbon footprint and resilience to climate change risks, and the robustness of oversight /independent checks in place to ensure that what happens at property level is being accurately reported. Finally, the Fund will consider how the metrics that BCPP proposes to monitor compares to the reporting that BCPP will produce across other real asset strategies such as infrastructure and UK real estate (when

created—see Pillar 2 below) and all the other asset classes BCPP offers now or in the future. Establishing metrics that are meaningful, comparable and can be aggregated will be key to effective reporting under TCFD by 2024.

Liquid credit

The Pension Fund Committee recognised the need to maintain a portion of its investments in readily accessible return-seeking funds that sit outside BCPP (which does not currently offer liquid, readily accessible funds). The Pension Fund Committee carried out a selection exercise from within its existing fixed income managers to determine which could offer the best liquid credit solution for the Fund. A central part of the evaluation process was an explanation of how each manager planned to integrate RI into its fixed income investment processes. The result of the selection exercise was that the Fund became the seed investor in a newly established liquid credit fund designed to profit from opportunities in bond markets by actively investing across a global, ESG-optimised universe.

This aligned with the priority of 'Progress against the United Nations Sustainable Development Goals'.

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 is 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 [BCPP's Responsible Investment and Stewardship Report for 2021/22](#)

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.

BCPP's UK real estate strategy illustrates the degree to which representatives of LGPS Funds need to engage robustly with LGPS pools in the initial development stages of an investment strategy. Set out below are engagements directly led or participated in by Bedfordshire:

- **Complexity, volatility and uncertainty:** The UK real estate sub-fund has complexity because many partner funds hold existing real estate positions (unlike the global real estate strategy which will have no pre-existing assets to transition) in various forms, ranging from direct ownership of buildings to holdings in real estate funds and fund-of-funds. Combining these existing positions alongside new cash-funded investments quickly is a complex undertaking, which explains why the BCPP UK real estate project is taking a number of years to come to market. Headwinds to the process have been uncertainties like the COVID pandemic and ensuing shut-downs (which raised questions about whether it was possible to establish fair values for properties based on actual transactions); recent market volatility and the impact of rising interest rates on real estate valuations; rapidly changing operating conditions for commercial properties owing to spiking energy prices plus longer-term shifts in demand from tenants; and the prospect of more demanding regulations regarding energy efficiency and fire safety. After some delay caused by changes in senior leadership of BCPP's real estate team, discussions have resumed regarding the UK RE 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. 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.

Active Stewardship with managers outside of BCPP

With respect to investment managers outside of BCPP, the Fund's relationship regarding RI issues is collaborative and looks 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 it may differ from that of other firms; what their priority issues are; and how investment managers work collectively across the industry to achieve common RI objectives.

The ability for individual investors to exercise their voting rights within a pooled fund is an evolving area and the Pension Fund Committee regularly reviews the options available to exercise the Fund's voting rights in the most effective way. The Pension Fund Committee is currently considering the new voting options offered by BlackRock for its index-tracking equity

funds, which will allow investors to determine whether BlackRock continue to vote their shares according to its voting policies, or align with an alternative proxy voting policy developed by a third party, ISS. Given that around one-sixth of Fund assets are managed by BlackRock, the RI Sub-Committee and Pension Fund Committee have engaged closely with BlackRock and ISS delving into the philosophical and technical nuances of the various proxy voting arrangements. A decision on which voting model to adopt is planned to be taken at the November 2022 Pension Fund Committee meeting.

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 2021/22 the Pension Fund Committee met with 8 managers, covering 65% of the Fund's assets. In addition, Fund officers met with the remaining two managers covering 35% 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 fund 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 have access to inform decision making is reliable and are you able to improve disclosures?
- Please provide examples of how you're voting and engagement activity, and the outcome of this activity, where ESG factors have had a meaningful impact on your investment decisions.
- What dialogue have you had with investee companies to highlight ESG concerns or to influence change?
- What is your net zero timeline for this fund, including short, medium and long-term targets?
- What plans do you have in place to consider net zero requirements in the management of this fund and do you have any 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?
- How do you integrate climate change into your lending practices and counterparty assessments?

- What requirements do you place on the financial institutions the fund invests in to integrate climate change in their own lending 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?

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 were consistent with the Fund's priorities, as well assessing the manager's overall approach to RI.

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 managers is published on the Fund's website as an appendix to the Stewardship Policy.

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 index-tracking equity funds and active equity mandates. The products selected better align with the Fund's RI beliefs and the global equity index-tracking funds deliver a c60% reduction in carbon emissions relative to the global equity benchmark.
- Due diligence undertaken on the BCPP's two active UK funds included an assessment of BCPP's approach to RI and how BCPP will monitor the underlying managers or investee companies, as appropriate. A similar assessment will be carried out on the Border to Coast Emerging Markets Equity fund.
- Due diligence undertaken on BCPP's private debt and infrastructure funds also included an assessment of BCPP's approach to RI and how they will monitor the underlying managers.
- Partner funds' input to the design of BCPP's real estate funds is continuing, including development of the RI approach to be adopted for the UK and global property funds.
- The Pension Fund Committee appointed two managers outside of BCPP for liquid credit in the Fund's Treasury and Volatility Management allocations. RI considerations were an integral part of the selection of the second manager. The first manager had previously been selected by BCPP and the Pension Fund Committee was satisfied that BCPP had considered RI as part of its overall review of the manager and strategy.

- The Fund's RI beliefs and priorities have been communicated to the Fund's investment managers and to BCPP. The Pension Fund Committee has also had input to BCPP's own RI policy and confirmed that it is consistent with the Fund own beliefs.
- A governance structure has been put in place to monitor the engagement activities of the Fund's 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.

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.
- Investment managers and the Fund's Investment Consultant provide quarterly investment performance reports on market and manager performance and any key trends, which 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 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.
- At times, advisors have queried whether an allocation still made sense from a Strategic Asset Allocation standpoint. For example, an advisor queried the rationale for holding long-dated Gilts and UK inflation-linked bonds, which exposed the Fund to significant duration (or interest rate) risk, within a "Protection" portfolio. The debate led to an exit from these holdings and creation of the Treasury and Volatility Management allocation within the Fund (see Principle 7 "Liquid Credit" discussion).
- 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 in Principle 7. Where responses are not considered satisfactory, the Fund continues to engage with the manager until such times as the matter is resolved.
- Fund officers, along with the Fund's investment Consultant and Investment 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 to provide feedback. BCPP

consider the proposals put forward by the Fund in conjunction with the other partner funds.

- The Pension Fund Committee has set strategic objectives for the Investment Consultant and Independent Advisor that complies 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, 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.
- 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 the relevant benchmark, and there seemed little prospect of imminent recovery. The Committee has decided to terminate this manager's mandate and the Fund's allocation to this manager is being withdrawn to fund new investments in private markets.

All manager, custodian and adviser mandates are subject to regular review and retender to ensure the Fund is receiving best value. The Fund is currently in the process of changing custodian following the latest review.

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

In December 2021, 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 objectives for 2022 were updated to give greater emphasis to RI and TCFD reporting in subsequent performance reviews.

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 will be better prepared to challenge the rationale of any investments it deems high risk.

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 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 also Chairman of LAPFF);
- 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.

Table 6: Responsible Investment Priority Areas

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 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 consider 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.
	3. Companies to contribute actively to a Fair and Just Transition to a low carbon economy	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.
Diversity & Inclusion	4. Companies to establish targets for equalising pay gaps between socio-demographic groups (including 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 one's skills and talents.
	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 industry.
Progress against the United Nations Sustainable Development Goals	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.

The RISub-Committee has received training on the options that are now being made available to institutional investors to exercise their voting rights within a pooled fund. The RISub-Committee is currently reviewing the range of proxy voting policies offered by BlackRock for their index-tracking equity funds, which is expected to 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 – Bayer AG (Newton Real Return, 2022)

Reason for engagement: following concerns raised previously by Newton relating to the alignment of executive pay with shareholders' interests, a feedback call was arranged to discuss the structure in more detail.

As previously raised with the company, Newton felt this was not justifiable as investors were effectively paying for underperformance. Bayer stood by its approach and noted it was not the only company that had adopted this practice. While Newton agreed that local peers' pay standards were similarly below expectation, they made clear their expectations for boards to set a higher bar.

Newton asked how the supervisory board balances share price impacts on investors against executive compensation outcomes. Bayer's approach has been to restrict any use of supervisory board discretion and, regardless, the company considered that any impact on share price would also affect executive pay through share incentives. Newton, however, felt that the board should have the possibility to apply discretion where it was meaningful and justifiable.

It further assured Newton that similar adjustments have been made in the past where compensation-related metrics outcomes were adjusted for incomes from divestment or patent-related income.

Example 2 – LAPFF engagement with Rio Tinto¹¹ (listed equity, 2022)

Reason for engagement: LAPFF attended Rio Tinto's AGM to push the company on recognising the financial impacts of its social challenges. Cllr McMurdo (Chair of the Fund's Pension Fund Committee and also the Fund's RISub-Committee) met Rio Tinto's Chief Financial Officer, Peter Cunningham, to discuss this issue further.

https://lapfforum.org/wp-content/uploads/2021/10/LAPFF_QER03_2021_04.pdf

Achieved: It appears that Mr Cunningham understands and agrees with the proposition that social impacts affect financial materiality at companies. One area where Rio Tinto has improved substantially is in its willingness to engage with LAPFF. After the destruction of the Juukan Gorge rock shelters, LAPFF tried in vain to obtain meetings with the Chair to discuss what had happened but did not manage to do so for over six months after the shelters were destroyed.

This year, LAPFF has met not only with Peter Cunningham but also with CEO Jakob Stausholm and Chair Simon Thompson.

Rio Tinto continues to offer meetings with various specialist staff and affected community members with which the company engages. LAPFF recognises that engagement is not progress. It also recognises that the staff and community members put forward by Rio Tinto probably have a particular bias or perspective on Rio Tinto's activities, especially since LAPFF continues to hear contradictory information from affected community representatives. However, engagement with all affected parties is useful for LAPFF to understand what questions to ask the various parties involved.

In progress: LAPFF is continuing to liaise with other interested investors, Rio Tinto, and affected communities and their representatives in Australia, the US, Papua New Guinea, and elsewhere. This triangulated communication helps to paint a more complete picture for LAPFF of Rio Tinto's progress from an environmental, social, and financial perspective. As a follow-up, the LAPFF Chair also met with Rio Tinto staff to discuss the forthcoming 'say on climate' vote at the 2022 AGM. The challenge as ever is addressing Scope 3 emissions, which comprise 95% of total emissions. In doing so, the pace of roll-out of zero-carbon technologies by the company's steel customers was noted.

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

- LAPFF – (of which Bedfordshire is an active contributing member) during the first quarter of 2022, LAPFF undertook 63 engagements with 50 companies, while in 2021 it engaged with 171 companies (discussed in principle 10). The outcomes of these engagements are recorded in LAPFF's [report](#). As an example, LAPFF met with the CEO of Shell to seek improvements in the company's climate change plans and it is hoped this will be the beginning of a dialogue with Shell.
- Border to Coast – the quarterly stewardship [report](#) indicates that BCPP carried out 327 company engagements over the first quarter of 2022 and cast votes on 1,298 agenda items. For example, BCPP voted against Apple's executive compensation arrangements due to the structure of the remuneration package and the high quantum of total compensation. Approximately 36% of shareholders voted against the executive compensation advisory vote, sending a strong message to the company on its consistent failure to address the remuneration size and design issues.

- 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.
- BlackRock – BlackRock are responsible for managing approximately 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 RISub-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. It is expected that the RISub-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.

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 83 member funds with assets of more than £300 billion and directly engages with company chairs and boards to affect change at investee companies. During 2021, LAPFF engaged with 171 companies covering a range of different topics including climate change and human rights. Further details can be found in LAPFF's [2021 annual report](#).

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

BCPP and managers

BCPP is one of the largest pension pools in the UK. Collectively, its partner funds have pooled c£60bn of assets (31 March 2022). With Bedfordshire's input, leadership and influence, 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 advise BCPP on behalf of Bedfordshire. They engage on BCPP's behalf (and with the guidance of Bedfordshire 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 Fund as an active shareholder.

BCPP (and Bedfordshire) are members of LAPFF, the UK's largest collaborative shareholder engagement forum. The Chair of LAPFF is also Chair of the Bedfordshire fund and therefore the Fund is a key collaborator.

Many of the Fund's investment managers also collaborate with the encouragement of the Fund, these include involvement directly in Climate Action 100+ and other collective action groups.

- Climate Action 100+ published the second round of Net Zero Company Benchmark assessments during March 2021. The results show some corporate climate progress against key climate indicators but find much more action is required to support efforts to limit temperature rise to 1.5°C. In line with their new voting guidelines (as directed by Bedfordshire and 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 Benchmark¹², BCPP will also vote against the Chair of the board.
- SEC Climate Disclosure Rulemaking – LAPFF (and therefore Bedfordshire 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.

¹² <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 operating on its behalf when engaging in stewardship activities, and this includes actions to escalate their approach where appropriate with underlying stocks and shares. The Fund monitors and engages with managers on these escalations and sets out expectations on progress.

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. The Fund is in regular communication with BCPP and the Fund is satisfied that their approach to escalation aligns with our own objectives and priorities.

The following examples are taken from stewardship reports published by BCPP.

Example 1 – integrated mining company (BCPP)

2021/22 saw the closure of an unsuccessful engagement with one of Border to Coast's portfolio companies. The company was highlighted for enhanced engagement due to several high profile environmental and health and safety issues. During the engagement, objectives were set for the company around their policies, transparency, mitigation, and risk management systems. Unfortunately, insufficient progress was made against the objectives and significant concern remained regarding the lack of oversight and lapses in risk management at the company.

In response, BCPP:

- Assessed the materiality of the holding, including the size of the position, its weight in the benchmark and its overall contribution to risk.
- Held meetings internally with the BCPP Portfolio Manager, Research team, and RI team.

- Contacted other large shareholders, to understand their stewardship approach to monitoring and mitigating associated E S G risks to increase our knowledge.
- Held a meeting with the company to discuss the specific ESG risks, the progress and improvements made, and the future strategy to further mitigate risks.
- Discussed the findings at BCPP's Investment Strategy Committee meeting to determine the appropriate action.

Following conclusion of the above escalation process, BCPP recognised the company's progress whilst acknowledging there was further work required. The decision was taken by the Portfolio Manager decided to reduce the position in the company rather than dispose of the entire holding.

Example 2 – external manager escalation (BCPP)

During the annual review of an external manager in the period 2021/22, Border to Coast's RI team downgraded a third-party manager due to the identification of perceived weaknesses across both integration and stewardship. The outcome of the review was reported to BCPP's Investment Committee and escalated with the manager, with whom further calls were held to discuss the improvements needed. Following this, BCPP have noted a material increase in the quality of the manager's disclosures and now have greater confidence in the manager's integration of ESG factors.

Example 3 – Moderna (LGIM)

In 2021, LGIM took the unusual step of filing a shareholder proposal at Moderna. LGIM asked the company to disclose publicly how its receipt of government financial support for development and manufacture of a COVID-19 vaccine is being considered when making decisions that affect access to products, such as setting prices. The company contested the inclusion of the proposal on its 2022 AGM agenda at the SEC, as it stated that it would publish a report prior to the AGM outlining the government funding it has received and how it has set its prices for the COVID-19 vaccine in various countries.

LGIM held in-depth engagements with the company at the beginning of 2022 to ensure that Moderna provided as much public information as possible. LGIM welcome Moderna's openness to engagement on the important issue of vaccine pricing and access, and positively noted the board's public approval of the press statement issued by the company.

Following the publication of the company's statement, LGIM felt sufficiently comfortable to withdraw the shareholder proposal. This is a clear example of making use of various 'escalation tools' – engagement and the filing of shareholder proposals – and achieving concrete results with real impact.

The Fund has also escalated issues directly with its providers, including the Fund's custodian. As these were not addressed satisfactorily after a number of engagements with progressively more senior individuals, the custodian contract was terminated and transitioned.

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 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" that 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.

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 emerging exception¹³). 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.

BCPP works with the 11 partner funds, including Bedfordshire, 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

¹³ See discussion of BlackRock's new proxy voting arrangements in Principles 7 and 9.

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 Bedfordshire ISS is shared with its investment managers and BCPP. All of the 11 partner funds share their ISSs with BCPP.

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

The Fund's listed equities are spread across a number of funds. The most material listed equity investments held during 2021/22 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 c40% of the Fund's total assets and c80% of the Fund's listed equity investments.

The voting records for these funds during 2021/22 are shown below.

LGIM Future World Global Equity¹⁴ (4,465 votable meetings, 47,851 resolutions voted on)

Table 7: LGIM Future World Global Equity voting record

Votes cast with or against management	Percentage of votes
With	82%
Against	18%
Total	100%

¹⁴ https://fundcentres.lgim.com/srp/lit/ND0gqJ/ESG-report_Future-World-Global-Equity-Index-Fund_31-03-2022_Multi-Audience.pdf

BlackRock World Low Carbon¹⁵ (1,103 votable meetings, 13,854 resolutions voted on)

Table 8: BlackRock World Low Carbon voting record

Votes cast with or against management	Percentage of votes
With	93%
Against	7%
Total	100%

Global Equity Alpha¹⁶ (165 meetings; 2,430 agenda items)

Table 9: Global Equity Alpha voting record

Votes cast with or against management	Percentage of votes
With	86%
Against	14%
Total	100%

Table 10: Votes against by category

Votes against by category	Percentage of votes cast against
Audit	5%
Remuneration	23%
Company statutes	1%
Meeting administration	1%
Political donations	0%
Board	33%
Capital management	4%
M&A	0%
Shareholder proposals	28%
Other	5%
Total	100%

¹⁵ Source: BlackRock. Percentage of votes on proposals actually voted on by manager.

¹⁶ <https://www.bordertocoast.org.uk/wp-content/uploads/2022/07/Responsible-Investment-and-Stewardship-Report-2021-22-1.pdf>

Example – Engagement with a logistics technology company (BCPP Global Equity Alpha Fund, 2021/22)

Reason for engagement: A material E S G opportunity was identified for the company to better measure its contribution to reducing systemic risks in the global supply chain and disclose its impacts.

Objectives: The objective was for the company to improve the measurement of its impacts on E S G issues and to produce disclosure specifically highlighting the material impact for customers, employees, and shareholders.

Scope and process: Best practice E S G measurement and disclosure was shared with the company. This included how infrastructure investments made by an industrial gases company had enabled it to better assess the long-term risks of climate change and set ambitious Sustainable Development targets.

Outcome: The management agreed it is their responsibility to measure E S G impacts and to inform investors, customers and suppliers of the outcomes. The website was updated with specific disclosure on CO2 savings. In addition, the company planned a step-by-step approach, first to include environmental disclosures in its investor and customer outreach, a goal of publishing an inaugural Sustainability Report in April 2022 and to invest in measuring and auditing environment factors.

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 and in this vein has transitioned a large part of the bond portfolio to Insight's Responsible Horizons Fund that uses a number of RI measures to allocate lending. The Committee believes this better aligns its bond mandate to its RI priorities.

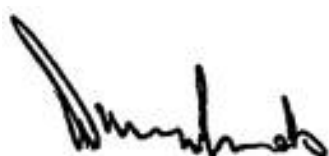
Property

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 property manager regarding the energy efficiency of properties held and type of tenant.

Signed By:

Councillor Doug McMurdo

Chair of Bedfordshire Pension Fund



31 October 2022

Appendix 1 – Action Plan

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

Principle	Action	Target date
Principle 1	Follow up with single manager which is not a signatory to the Stewardship Code 2020. 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
Principle 2	Undertake a self-assessment of the Pension Fund Committee.	December 2023
Principle 3	Create Fund-specific conflicts of interest policy	June 2023
Principle 4	The Fund will start reporting on the impact of practices that undermine biodiversity of local environments in the coming year.	March 2023
Principle 6	The Fund is also working towards reporting against the TCFD criteria and has agreed the metrics that will be monitored. The Fund also intends to set a net zero target date. 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.	September 2023
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
Principle 11	Clarify escalation expectations in the Stewardship Policy	June 2023