



Bedfordshire
Pension
Fund

Stewardship Report

Bedfordshire Pension Fund 2023/24



Key activities undertaken during the year

We are pleased to report on the activities undertaken by the Fund during 2023/24. It has proved to be another busy year for the Fund.

Our aim is to invest the Fund's assets to deliver sustainable investment returns for the benefit of 81,000 members who are entitled to receive a pension from the Fund, and the activities undertaken this year have been carried out with this objective in mind.

Key activities

1. Governance effectiveness review

The Pension Fund Committee and Pension Board commissioned an effectiveness review as part of their programme of regular reviews of the Fund's governance activities. The review was carried out by an independent firm, who sought views from members of the Board and the Committee and Fund Officers on key governance, operational and strategic issues and observed how meetings are run and decisions are taken. The review's findings highlighted that the Pension Fund Committee and the Board operate effectively, that members are engaged, and Officers have delivered positive changes over the last few years. The review included recommendations for further improvements, and Officers will act on these recommendations. In particular, the review recommended that Officers should consider a refresh of the Fund's training strategy to ensure this meets the needs of the Pension Fund Committee and the Board, and that new members are brought up to speed quickly with resources available when needed. The strategy should also seek to align training with regulatory expectations and the Fund's business plan. To assist with this, the Fund has signed up to an online training service offered through one of its advisers.

2. Updated Stewardship Policy

The RI Sub-Committee approved an updated Stewardship Policy in 2024 which details the arrangements for stewardship with its investment managers together with engagement themes based on the agreed RI beliefs. It also includes a new escalation policy setting out the steps the Fund will take where stewardship actions taken by managers are not in line with the Fund's expectations.

3. Manager engagement programme

During the year, the Pension Fund Committee met with 6 investment managers plus Border to Coast Pensions Partnership (BCPP), covering 67% of the Funds assets, to review their performance and stewardship of the Fund, continuing its programme of regular manager meetings.

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 on page [41 and 42 of our 2023 Stewardship Report](#).

A number of meetings were held with BCPP reflecting the range of BCPP-managed vehicles in which the Fund is invested as well as proposed new vehicles. This included an “Away Day” at BCPP’s offices in Leeds where the Pension Fund Committee and Advisors spent two days discussing a range of issues with BCPP, including Responsible Investment. The “Away Day” included formal discussions with each of BCPP’s in-house investment management teams. Given the increasing role of BCPP and the importance of exercising active oversight as both a client and part-owner of BCPP, the Pension Fund Committee believes it is important to meet with BCPP face-to-face on a regular basis. These “Away Days” at BCPP are expected to be a key recurring part of the Pension Fund Committee’s stewardship activities in the future.

In most cases, the Pension Fund Committee was satisfied with the responses provided by the investment managers and by BCPP. Most recently, the Pension Committee voted against participating in Gateway Fund intended to aggregate some but not all of the indirect real estate holdings of partner funds. Given the illiquidity in the UK commercial real estate market, suspension of redemption rights at certain funds and other characteristics of a dysfunctional market, there seemed little value in splitting up the Fund’s indirect real estate holdings, which are currently being managed by a globally recognised firm (CBRE), with a view towards orderly disinvestment as and when market conditions allow (or as underlying fund terms require). BCPP withdrew this proposal for which there was little support. One of the lessons learned from this experience is the importance of robust engagement by all partner funds early in the development process for a new product or idea to ensure there is demand by the 11 partner funds (including the Fund). Further details are provided in the next section.

One of the Fund’s managers, Gresham House, was acquired by a US-based investment company, Searchlight, in December 2023. When the acquisition was announced in July 2023, the Pension Fund Committee examined its terms and were satisfied that it would not have a detrimental impact on the ability of the Gresham House management team to deliver on their investment objectives. The Searchlight acquisition closed as planned. Senior executives at Gresham House report that Searchlight leaves the team undisturbed to execute their strategy, and that being part of a larger private group allows employees to participate in equity upside of the firm, which was not previously possible with an AIM-listed stock.

4. Further developing the Fund’s private markets investments

The Fund is building up its allocation to the private markets (i.e., unlisted equity and credit), infrastructure and property investments to improve levels of diversification (a key risk management tool), whilst maintaining expected return levels. Fund Officers, Advisors and the Pension Committee continue to engage with BCPP on fund design, processes and the integration of RI factors into new mandates, continuing the work outlined in our 2023 Stewardship Report. Notable developments during the year are discussed below.

Working with BCCP to build a diversified property portfolio

The Pension Committee approved a £130m commitment to BCPP’s global value-add property fund. The Fund asked BCPP to improve specific aspects of the investment strategy in relation to its approach to ESG and sustainability before approving the investment. BCPP responded constructively and subsequently disclosed to the 11 partner funds the work that had been done on environmental and broader ESG aspects of global property investing. The Pension

Committee felt that the value-add strategy would be more likely to undertake sustainability-driven improvements and upgrades to existing property in order to capitalise on the expected valuation uplift from better environmental performance, as compared to the core global property fund offered by BCPP.

Following a period of input to the design of BCPP's new UK property funds, the Pension Fund Committee reviewed BCPP's proposals for two new UK property funds in June 2024, namely the Main fund and the Gateway fund (described above). The Pension Fund Committee reviewed the risk and return profile and the associated investment management fees of the Main fund, as well as its RI characteristics, and decided that the Main fund meets the Fund's criteria for investment. The Main fund will invest mainly in directly-owned property and is expected to become the Fund's main UK property investment, although it will take a number of years for that vehicle to reach the required size to accommodate the strategic commitments of all BCPP's Partner Funds. Further work is needed to determine the initial commitment the Fund would like to make to the Main fund and the pace at which future commitments will be made.

The Pension Fund Committee also considered the merits of the Gateway fund, which BCPP designed as a feeder fund for the Main fund. The Pension Fund Committee decided that the Gateway fund did not offer a material advantage over simply running off the Fund's existing UK property mandate with CBRE (value £175m). Instead, the Pension Fund Committee have engaged with CBRE to get a clear idea of the projected run-off of the Fund's existing indirect property holdings. As part of this assessment, the Pension Fund Committee have asked CBRE to review the sustainability criteria of the pooled funds they manage, since it is likely that these holdings will remain in the Fund's portfolio for at least a few more years. The Pension Fund Committee held an initial meeting with CBRE in June 2024 to discuss the most effective way of achieving this aim and further discussions will take place during 2024 and beyond.

Investing in UK sustainable infrastructure

In May 2023, consistent with its RI beliefs, the Fund committed £50m to the Gresham House British Sustainable Investment Fund 2 (BSIF 2). In June 2024, the Fund committed a further £50m to the Gresham House British Sustainable Investment Fund 3 (BSIF 3), which shares many of the aims and objectives of BSIF 2. These two investments represent a commitment of £100m (c 2.9% of portfolio) to UK sustainability enterprises and industries. They also demonstrate that (i) pursuing sustainable investments does not come at a cost of lower returns and (ii) delivering entrepreneurial solutions to large-scale environmental, sectoral or market takes time and money, yet is too often below the "radar screen" of larger pension fund or other investors.

Investment in BSIF 2 and now BSIF 3 gives the Fund exposure to start-up businesses in the UK which have potential to be early-movers in more sustainable methods for agriculture, waste-to-energy, biodiversity restoration and renewable energy generation and storage. Other investments in the BSIF strategy will help to accelerate the roll-out of broadband in remote, rural areas. Gresham House has expanded the BSIF scope into new "social infrastructure" areas by investing in operators of day nurseries and care homes. Delivering high quality, reliable care for pre-school age children or elderly people who can no longer live independently is an important factor in improving the lives of families and increasing workforce productivity. Nursery places can help parents return to work and part of the fees will be covered by the UK's EYFE funding available to all parents. Similarly, providing secure living arrangements for the elderly that meet their needs can free up people who might otherwise become unpaid carers for their relatives, while at the margin keeping them safer, preventing accidents (like falls) and thereby relieving pressure on the UK's overstretched health care system.

While not generally posing a “systemic” risk, small companies find it increasingly difficult to access the capital they need to develop their businesses and products, some of which may prove necessary to shift industries towards new, more environmentally friendly products and manufacturing processes that are consistent with the Net Zero transition, the circular economy and more sustainable lifestyles, or providing for the youngest and oldest members of society. Having recognised the urgent need to address climate change in all aspects of our society and across industries, the scarcity of capital for entrepreneurial approaches to decarbonisation and shift towards more sustainable economic models could be considered a market failure.

£50m commitment to BSIF 2 represented <2% of Fund assets but c15% of that vehicle’s total capital commitments, hence made a valuable contribution to that strategy. The fund-raising process for BSIF 3 is still in its early stages so it is too early to determine the share of that fund that our further £50m commitment will represent.

The BSIF 2 and 3 investments align with the Fund’s RI beliefs, and are expected to generate higher returns for providing early-stage capital to the portfolio of businesses that Gresham House have identified and are developing in a very hands-on manner. BSIF 2 and 3 also provide some diversification to the Fund because they reduce public market risk exposure while diversifying away from the larger (multi-billion) funds that BCPP commits to in its pooled infrastructure funds. BSIF portfolio companies are expected to support certain of the government’s levelling-up goals, while contributing to the UK’s Net Zero transition, expanding digital connectivity and providing capital that addresses social needs and can help boost productivity. By helping to fund the extension of broadband to rural areas, the Fund’s capital will help to address another market failure, namely the productivity deficit in rural areas, which has been exacerbated by the unequal digital roll-out between denser urban areas and rural areas, particularly in remote regions.

Developing the Fund’s impact investing strategy

The Pension Fund Committee has begun to develop its strategy for allocating money to impact investments. The Fund has received numerous proposals from investment managers offering funds that deliver impact in one shape or form. To assist Officers in shortlisting proposals for further consideration, the Pension Fund Committee has begun to draw up a set of strategic objectives for the Fund’s impact investments which will be summarised in an Impact Investment Policy. Although currently under development, the Fund’s Impact Investment Policy is likely to signal that the Fund would welcome investments that offer a financial return that is appropriate for the degree of inherent risk; where the benefits to society, the environment or other beneficiaries can be measured, tracked and quantified; where they are consistent with the Fund’s RI beliefs and where the Fund is not the “investor of last resort” for a proposition that has been turned down by others. It would be reasonable to specify that the Fund will invest in funds or other vehicles managed by suitably qualified investment professionals with specialist expertise in the type of asset or business that is being considered. Fund Officers lack the staffing resources, and likely the specialist knowledge to undertake investments directly. Consequently, for risk management and prudent investment considerations, so-called “impact” investments will be undertaken through BCPP and/or specialist managers via funds or co-investment vehicles outside the pool.

5. Review of manager voting policies and activity

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

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

The RI Sub-Committee met with LGIM and Tumelo in November 2023 to understand whether it would be possible to implement a similar solution in relation to investments held in index-tracking equity funds with LGIM. This followed Tumelo's announcement relating to another LGPS fund. Following this meeting, the RI Sub-Committee reviewed the alignment of LGIM's stewardship activities with its RI beliefs and priorities, and determined that the manager's approach was delivering in line with their expectations. The RI Sub-Committee appreciated the strong stewardship activities of the manager, the integration of stewardship in the future world fund series in which it invests, and the strength of retaining an integrated voting and engagement approach that is well aligned to the Fund's expectations. As such, the RI Sub-Committee's initial conclusion was to retain LGIM's in-house stewardship team and continue reviewing the availability of other options as market practice develops, including the use of pass-through voting utilising LAPFF voting alerts.

Over Summer 2024, the RI Sub-Committee carried out a further exercise to compare the votes cast through the ISS Sustainability Policy and LGIM with LAPFF voting alerts. The RI Sub-Committee used this as a mechanism for detailed assessment of voting on key resolutions, and to identify any significant divergence in voting activities to inform further engagement with their managers on their stewardship activities. This exercise demonstrated that the Fund's decision to apply the ISS Sustainability Policy has markedly improved the alignment of voting (cast for BlackRock equities) with the Fund's RI beliefs. Further, the Panel agreed to use LGIM's Pass-Through-Voting platform to automatically apply an 'override' of LGIM's voting intention and instead follow the voting recommendation from the alerts the Fund receives from LAPFF (of which it is a member). It is expected that this will change how votes are cast on the behalf of the Fund for 30-50 resolutions each year. The Fund will carry out monitoring of its new arrangements.

The RI Sub-Committee continue to engage with LGIM and BlackRock to best align the Fund's voting and engagement principles across the equity mandates, which make up nearly half of the Fund assets (and c85% of the Fund's listed equities) and will assess how a consistent and well aligned approach may be

implemented across mandates. The Fund challenges these managers to continue to develop their solutions to best meet its needs, and will evaluate new solutions as they arise, such as the BlackRock climate and decarbonisation stewardship solution.

6. Hedging foreign currency risk

Volatility of interest rates, inflation and currency all impact Fund returns and its funding ratio. As a long-term investor that is expected to remain invested (rather than trade tactically), the Fund cannot shield itself from all of these effects. Nonetheless, the Fund takes steps to understand its potential sensitivity to large shifts in rates, inflation, currencies or other macroeconomic factors, and identify ways to mitigate the impacts of volatility and unwanted correlations between investments and liabilities.

Diversification is often the most natural and “cheapest” solution, but diversification needs to be understood in a more granular way, beyond the broad asset categories of equities, fixed income, infrastructure, credit and property. In other instances, the Fund may (i) take short-term decisions to capitalise on market conditions which may be favourable near-term but are not expected to persist, and hence are not incorporated into the strategic asset allocation; or (ii) make allocations outside of its stated policy of pooling its investments, when opportunities are presented that are diversifying, offer a robust reward-risk proposition and are consistent with the Fund’s RI and/or local investment priorities, but are not offered by the pool. By remaining agile, the Fund has maintained its value at c£3.25 billion over 2023/24 despite continued volatility in equity, rates and currency markets.

Changes in exchange rates can affect the value of foreign investments when translated back into GBP, resulting in decreased asset values. If asset values decreased not through their performance but simply because of translation back into higher cost GBP, that in turn could lower the funding ratio because all Fund liabilities are in GBP. Depending on the degree of funding level erosion, increases to contribution rates could be required at the next triennial actuarial valuation. In an era of stretched budgets across the public sector as well as at household level, raising LGPS pension contribution rates becomes challenging, particularly in response to a risk that can be foreseen and managed.

During 2023 and 2024, Fund Officers and Advisors took training from outside experts on currency risks and ways to mitigate them. After considering various approaches, Fund Officers recommended adoption of a dynamic foreign exchange (FX) hedging overlay. Most of the Pension Fund Committee members had previously participated in training on dynamic currency hedging, hence were able to approve this proposal in June 2024. Dynamic FX hedging was chosen because the degree of protection is flexible and can change depending on whether market signals (combined with expert human judgment) indicate that GBP is likely to strengthen or not. In this way, the Fund can increase its FX hedging to protect asset values when GBP is expected to rise, yet retain flexibility to reduce or eliminate FX hedging when GBP is expected to weaken. Under a weakening GBP scenario, the Fund could retain the windfall benefits of weaker GBP-denominated liabilities vs. a mix of multi-currency assets that, in aggregate, had appreciated thanks to translation effects.

Fund Officers, with help from Advisors, embarked on a competitive procurement process in Autumn 2024 with the goal of appointing a provider by December 2024 and implementing the overlay shortly thereafter. Fund Officers and Advisors will work with the selected provider and the Fund’s custodian to achieve the most efficient collateral arrangements and create a useful reporting format for ongoing monitoring and measurement of benefits versus cost.

7. Government call for evidence

The Pension Fund Committee noted the Government's recent call for evidence about LGPS asset pooling and the options that could be explored for increasing UK investment, and awaits with interest the outcome of this review. We are mindful that managing LGPS pensions in a manner that supports local economic development, preserves inter-generational fairness despite adverse demographic trends (e.g. an ageing population) and mobilises capital to fund the net zero transition requires careful consideration.

Principles addressed by these actions

The Pension Fund Committee welcomes the announcement from the Financial Reporting Council (FRC) in July 2024 that allows asset owners to reduce the level of detail provided in annual submissions. Reflective of this announcement, we have made some changes to our report to cross-reference previous submissions. We have also identified the Principles that are addressed by the actions described in this section and this is summarised in the table below.

Action	Principles addressed
Governance effectiveness review	2, 3
Updated Stewardship Policy	5, 12
Manager engagement programme	4, 7, 9, 11, 12
Further developing the Fund's private markets investments	4, 7, 12
Review of manager voting policies and activity	7, 8, 9, 10, 12
Hedging foreign currency risk	4
Government call for evidence	4, 11

Principle 1 Signatories’ purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Context

Purpose of the Fund

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

The Fund’s key facts are shown below:

Fund Membership	Funding Levels and Employers	Investments ²	Budget and Cash Flow 2023/24
Total membership 80,982 (31/03/2024) 24,359 Active Members 34,903 Deferred Members 21,720 Pensioners	Funding Level 92% (31/3/2022) 238 Employers (31/3/2024) 172 Scheduled bodies (of which 111 are pooled into an academy pool) 66 Admitted bodies	Investments £3.5bn (31/03/2024) £2.0bn Growth Portfolio £1.0bn Income Portfolio £0.5bn Volatility & Liquidity Management plus Cash £2.5bn (72%) pooled with BCPP or in pooled passive funds	£24m Net Budget £68m Cashflow Positive £221m Contributions £150m Benefits Payable £24m 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 2024

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

Governance Overview

The LGPS, unlike private pension schemes, does not have Trustees but has a committee made up of elected Councillors and other interested parties, representing other employers in the Fund and scheme members. The Pension Fund Committee performs similar duties to Trustees, under the administering authority of Bedford Borough Council, and is the decision-making body responsible for the investments and the administration of benefits under the scheme. The Fund has oversight and assurance from a Local Pension Board, established under the Public Service Pension Act 2013. The Board's role is to assist the Committee in securing good governance and administration of benefits for the scheme members and employers.

The Pension Fund Committee is supported by a Pensions Panel constituted of the same members as the Pension Fund Committee; and external advisors.

The Pension Fund Committee has recognised the need to establish Responsible Investment (RI) as a permanent, core element of its investment process and governance structure. In 2020, the Fund established its RI Panel as a forum for debating and agreeing the RI beliefs that would govern the Fund's investment decisions. The RI Panel 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.

Investment Strategy and beliefs

The Fund has a fiduciary duty to its employers and members and recognises the importance of being a responsible asset owner. The Fund has a clear Investment Strategy Statement (ISS), which outlines its [Investment Beliefs](#) on page 23. 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.

The Fund's investment beliefs were reviewed and updated in 2023 and reported in the Stewardship Code submission 2022/2023. These are expected to be long term and any change gradual but are subject to periodic reviews.

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

Responsible Investment Beliefs

In addition to the investment beliefs, the Pension Fund Committee has undertaken research and training to develop an additional set of detailed [Responsible Investment \(RI\) beliefs](#) which form the basis of considering the ESG impact and engagement discussions with the Fund's investment managers directly or via the LGPS pool.

Funding Levels

As a consequence of decisions taken decades ago regarding contribution rates, the Fund received a white flag for being one of the five lowest funded LGPS funds, as measured by the Government Actuary Department (GAD) in its Section 13 report of August 2024. And while the most recent GAD review did not raise any amber or red flag issues for the Fund, its Officers, members of the Pension Committee and Advisors are keenly aware of the ground that needs to be made up to raise the funding ratio from c92% as of the March 2022 Triennial Valuation to 100% or above. Given the constraints on employers budgets, realistically that improvement must be achieved through strong investment returns that exceed the liability discount rate of 4.2%, as at 30 June 2024, and which are compounded and not then "lost" through adverse foreign exchange translation effects.

Activity and Outcomes

The Fund's commitment to responsible investment is now embedded within its ISS. The Fund continues to develop the Fund's capability in this area - as reported in the 2022/2023 Stewardship Code submission - through the approved investment in a new sustainable reporting service, called Clarity AI, to which the Fund gained access when it transferred custody of its assets from providers in early 2023. Further activities and outcomes will be reported in future submissions as progress is made.

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

Context

As noted above, Bedfordshire Pension Fund is a contributory defined benefit Local Government Pension Scheme (LGPS). Bedford Borough Council is the designated Administering Authority for the Fund and is responsible for the investments and administration of benefits under the scheme. Under section 101 of the Local Government Act 1972, Bedford Borough Council has delegated its functions as the Administering Authority to the Bedfordshire Pension Fund Committee. The Fund is a member of the Border to Coast Pension Partnership (BCPP)⁴ investment management pool. As at 31 March 2024 the Fund held £850 million of assets (or 25%, 2023: 23%) in investment vehicles managed by its LGPS pool, BCPP. The Fund had an additional £604 million of undrawn commitments to BCPP, which the Fund expects to be invested over the new few years. In addition to its investments through BCPP, the Fund has passive allocations totalling c47% of total assets. These passive allocations benefit from an LGPS-wide low pricing structure, and hence achieve the same economies of scale as pooling through BCPP. Including passive assets, the total assets under "pooled" arrangements equals £2.48m, or 72% of Fund assets.

The Board provides oversight and assurance to the Fund in matters relating to governance and stewardship. The Board is constituted of four employer and four employee representatives to review areas such as compliance with the regulations and guidance such as the new General Code of Practice, 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 who is a

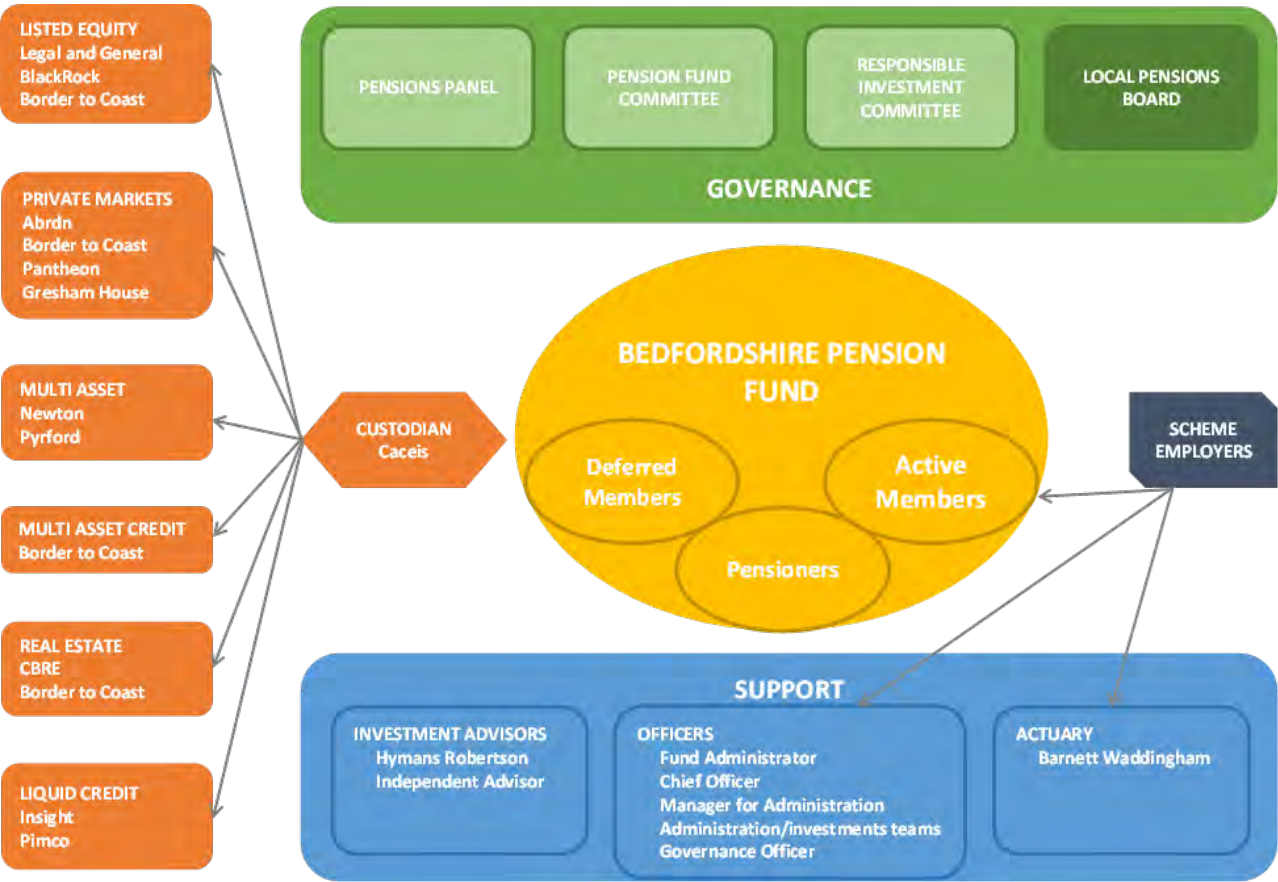
⁴ The Border to Coast Pension Partnership (BCPP) was created by eleven likeminded funds, established in 2018 in response to the Government's LGPS: Investment Reform Criteria and Guidance (2015). BCPP's purpose is to make a difference for the Local Government Pension Scheme by providing cost-effective, innovative, and responsible investment opportunities that deliver returns over the long-term.

CFA Charterholder, to provide additional market perspective and appropriate challenge on the advice of Hymans Robertson. The Independent Advisor and Hymans Robertson are sometimes referred to collectively as “Advisors”.

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 Regulations⁵.

The diagram below summarises the governance structure for the Fund.



⁵ Public Services Pensions Act 2013 (PSPA 2013)

The key officers involved in the day-to-day management of the Fund are set out below, with relevant qualifications and experience

Title	Experience	Relevant Qualifications	Years Relevant Experience
Fund Administrator	CIPFA qualified accountant with extensive experience in senior leadership roles in local government. Assistant Chief Executive & Chief Finance Officer (Section 151) Bedford Borough Council till October 2022. Responsible for making the necessary arrangements for local financial management controls including the Pension Fund. Now has responsibility solely for the Pension Fund.	CPFA	35
Chief Officer for Bedfordshire Pension Fund	Joined the Fund on a permanent basis in February 2024 (seconded to the role 12 months prior). CIMA qualified accountant with 20 years spent in a wide range of local authority finance/pensions roles. Significant experience of LGPS in roles at Lincolnshire and Cambridgeshire Pension. Covered every aspect including internal portfolio management, fund accounting and governance.	CIMA / ACMA	20
Manager for Administration	Joined the Fund in January 1992. Since 2001 has led the team responsible for providing administration services to 75,000 members. Has guided the team through many challenges, including the implementation of the pensions administration system and developing new teams and service areas. Also chairs the regional national Pensions Officers group for the South East in conjunction with LGA. Significant experience of the LGPS and other pensions related legislation/regulations.	Related experience	32
Manager for Pensions Finance	Joined in March 2024. CIPFA qualified accountant with 10 years spent in local authority pension fund management with significant experience of an LGPS fund in a Head of Service role. Strong technical background in local authority accounting, with a focus on the pension fund. Early adopter of climate risk management approaches and extensive responsible investment experience.	CPFA	14
Governance Officer	Joined the Fund in February 2005. Extensive experience working in communications and pensions administration with in-depth knowledge of the LGPS regulations and other pensions related legislations/regulations.	First-class BA (Hons) degree.	19

Activity and Outcomes

The Pension Fund Committee's role is to set the strategic policy framework and monitor implementation and compliance within the framework including the appointment and monitoring of the Fund's investment managers and their stewardship arrangements. This oversight by the Pension Fund Committee covers those assets held with BCPP as well as those held by other managers.

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

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

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

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

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

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

- | | |
|---|--------------|
| • Actuarial Valuation and Funding Levels | October 2024 |
| • Currency Risk and Asset Liability currency mismatch | May 2024 |
| • Biodiversity and TCFD | March 2024 |
| • Proxy Voting | March 2024 |
| • Impact Investment Framework | January 2024 |
| • Manager Engagement | January 2024 |
| • Net Zero | October 2023 |

An annual review of the Fund's Governance Policy was undertaken during 2024. The Policy Statement is required to be kept under review with any material changes in operations / governance that have been properly approved updated such that the Governance Policy Statement reflects how the Pension Fund is governed. A working group was established in 2023 to review wider Governance Policy and in particular Committee membership in relation to the issues around being quorate. The key proposed changes provides for all eight Members of the Committee to have voting status and for quorate to be any three of the eight Members of the Committee. In relation to the first point the fact that Committee Members are expected to attend all meetings (Committee / Panel) and given the Training requirements placed on Committee Members (i.e. Training Policy and recent Government actions around this being a requirement) there is in effect no difference in responsibility placed on Committee Members. These requirements lend themselves to all Committee Members being deemed substantive and therefore voting members. The second proposal simplifies the requirements such that quorate is achieved when three Members of the Committee are in attendance at the meeting, with the Chair having the casting vote.

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.

The Fund considers it best practice to assess the effectiveness of its committees. The Board, led by its Independent Chair, periodically carries out a periodic self-assessment to highlight areas for improvement. The most recent effectiveness review, which began in April 2024, highlighted that the Pension Fund Committee and the Board operate effectively, the members are engaged, and Officers have delivered positive changes over the last few years. The review included recommendations for further improvements, including refining the Fund's training strategy and strengthening Committee and Board collaboration. Officers will be bringing the results and recommendations from this review to the Board and Committee in the Autumn of 2024..

A second one-year extension to the contract for Investment Consultancy Services was agreed to ensure continuity of approach through the 2025 actuarial valuation and the associated investment strategy review. This reflects the final extension to the contract which now ends 31 March 2026.

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 since 2017, and was appointed Vice Chair in 2018, and has been Chair since 2019.

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

During 2023/24 Members undertook 49 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 across the team undertook continual professional development building on qualifications obtained in the Administration Team having completed the Foundation Degree in Pensions Administration and Management.

Two key senior roles were filled on a permanent full-time basis by experienced finance and pensions professionals in 2023/24; the Assistant Chief Executive and Chief Finance Officer (Section 151 Officer) in September 2023, and the Chief Officer for Bedfordshire Pension Fund in February 2024. Following these appointments a review of the Pensions staffing structure was undertaken which led to the creation and approval of a new Governance Officer role responsible for ensuring the Fund is well run and compliant with all LGPS regulations and other legislative/regulatory requirements. In addition to this, the Fund has approved resource for a Responsible Investment Officer for a 12-month period to support on various Environmental, Social and Governance (ESG) reporting initiatives including net zero pathway and climate change reporting.

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

Context

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

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

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

The Fund expects its investment managers, Advisors and contractors to have effective policies in place to address potential conflicts of interest, and for these to be publicly available on their websites. The Fund utilises Bedford Borough Council's procurement strategy, which requires all bidders to have a conflicts policy in place. The Fund has clear conflicts of interest agreement in place with advisers.

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

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.

The effectiveness review (see Principle 2) recommended that Officers should consider a refresh of the Fund's training strategy to ensure this meets the needs of the Pension Fund Committee and the Board, and that new members are brought up to speed quickly with resources available when needed. The strategy should also seek to align training with regulatory expectations and the Fund's business plan. To assist with this, the Fund has signed up to an online training service offered through one of its advisers.

Border to Coast Pension Partnership (BCPP)

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

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

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

Activity and Outcomes

All Members of the Pension Fund Committee and senior Fund Officers are required to declare any relationships or transactions with organisations that has a relationship with the Fund. Such declarations, including any directorships of companies held, are reported and published in the Annual Report and Accounts. A backlog in Local Authority auditing has led to delays in preparation and auditing of the Accounts. The draft 2023/24 Accounts are expected to be approved by the Pension Fund Committee in November 2024. The audited Annual Report and Accounts will be published on conclusion of the audit.

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

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

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

Through the declarations made by the Pension Fund Committee and Board members and the actions taken, no actual conflicts of interest occurred during the year 2023/24.

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

A number of Pension Fund Committee members declared relationships with parties potentially related to the Fund. These declarations are available on page 59 of the [Fund's Annual Report and Accounts](#) in 2022/23. Three elected members made declarations in 2023/24 (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

Context

At the core of managing a funded defined benefit pension plan that remains open to new members and offers inflation-linked payments to pensioners is prudent management of a wide range of investment and macroeconomic risks. Fund Officers, members of the Pension Fund Committee and Pension Board focus continuously on managing these risks and identifying new ones given the potential financial consequences and impact on the Fund if they are not well managed.

Officers, external managers and the Advisors monitor global financial markets to ensure systemic risk and specific risks are properly considered, identified and managed. The Fund works with its Advisors 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, all of which are in GBP.
- 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 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 part of Bedford Borough Council's Risk Management Strategy, and is reviewed at each quarterly Pension Fund Committee meeting.

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

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

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

Activity and Outcomes

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

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

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

Manager Engagements

During the year, the Pension Fund Committee met with 6 investment managers plus BCPP to review their performance and stewardship of the Fund. A number of meetings were held with BCPP reflecting the range of BCPP-managed vehicles in which the Fund is invested as well as proposed new vehicles. This included an “Away Day” at BCPP’s offices in Leeds where the Pension Fund Committee and Advisors spent two days discussing a range of issues with BCPP, including Responsible Investment, and held formal discussions with each of BCPP’s in-house investment management teams. Given the increasing role of BCPP and the importance of exercising active oversight as both a client and part-owner of BCPP, the Pension Fund Committee believes it is important to meet with BCPP face-to-face and on a regular basis. These “Away Days” at BCPP are expected to be a key recurring part of the Pension Fund Committee’s stewardship activities in the future.

In most cases, the Pension Fund Committee was satisfied with the responses provided by the investment managers and by BCPP. Most recently, the Pension Committee voted against participating in a Gateway fund intended to aggregate some but not all of the indirect real estate holdings of partner funds. Given the illiquidity in the UK commercial real estate market, suspension of redemption rights at certain funds and other characteristics of a dysfunctional market, there seemed little value in splitting up the Fund’s indirect real estate holdings, which are currently being managed by a globally recognised firm (CBRE), with a view towards orderly disinvestment as and when market conditions allow (or as underlying fund terms require). BCPP withdrew this proposal for which there was little support. One of the lessons learned from this experience is the importance of robust engagement by all partner funds early in the development process for a new product or idea to ensure there is demand by the 11 partner funds (including the Fund).

As recorded in last year’s submission, the Pension Fund Committee, reflecting concerns of the Panel and Advisors, declined to approve a new BCPP offering relating to global property and instead asked BCPP to improve specific aspects of the investment strategy that related to sustainability, environmental impacts and “stranded asset” risk. BCPP were able to address these points and in September 2023 the Pension Fund Committee agreed to commit £130m to BCPP’s value-add global property fund.

Geopolitical Risks

As long-term investors Fund Officers reflect on emerging news, such as geopolitical conflict, to decide if it impacts the long-term fundamentals of our investment approach. Fund Officers, together with Advisors, will continue to monitor and consider any investment implications for Fund assets, such as inflationary shocks, supply chain disruption and exclusions criteria (most notably for the defence industry). At this stage we do not intend on making any immediate changes to the Fund’s portfolios, but we will consider changing economic and geopolitical conditions in the annual strategy review.

Collaboration Efforts

The Fund recognises that it does not have the capacity to cover all areas of risk; therefore it partners with other bodies to influence the market, particularly in relation to responsible investment. The Fund has been an active member of LAPFF⁶ since 2011 and is also a member of the Institutional Investors Group on Climate Change (IIGCC), and the Carbon Disclosure Project (CDP). Examples of specific engagements undertaken by these partners is discussed in Principle 10. Below are summarised aims of the various external bodies with which the Fund partners.

- IIGCC's mission, which is aligned with and therefore supports the Fund's mission, is to support and enable the investment community to drive significant, real progress towards a net zero and resilient future by 2030, thereby mitigating systemic risks arising from climate change.
- LAPFF carried out a number of engagements on behalf of the Fund (and all LGPS funds) in relation to market-wide and systemic risks. Over 2024, LAPFF was invited to participate on the Taskforce on Social Factors, which aims to improve disclosures and support pension schemes and companies to manage social factors. This is in addition to a range of initiatives that LAPFF contributed to over the period on a range of topics including climate change and nature loss, particularly with a focus on greater disclosure and creation of reporting standards (for example, in engaging with UK policymakers on private market climate transition disclosure).
- The Fund seeks to influence companies to measure and disclose information on climate risks through collaboration with the CDP, aiding transparency and risk management, thereby reducing systemic risk. 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.

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

The UK and other developed economies suffered significant and prolonged inflation shock, leading to central banks raising interest rates with unprecedented swiftness between late 2021 and August 2023, while also reversing open market purchases of government and corporate bonds. Between 2021 and 2023, UK core inflation remained elevated and sticky, and interest rates remain high. 2024 has seen inflation respond to these higher rates, shifts in demand patterns and other factors such that UK CPI inflation has fallen to 2.2% (year to August 2024). The CPI reading for September is especially important for the Fund (and all LGPS funds) because this inflation reading determines the rate at which benefits increase, which drives long-term compounded value.

Volatility of interest rates, inflation and currency all impact Fund returns and its funding ratio. As a long-term investor that is expected to remain invested (rather than trade tactically), the Fund cannot shield itself from these effects. Nonetheless, the Fund takes steps to understand its potential sensitivity to large shifts in rates, inflation, currencies or other macroeconomic factors, and identify ways to mitigate the impacts of volatility and unwanted correlations between

• ⁶ [LAPFF | The leading voice for local authority pension funds across the UK \(lapffforum.org\)](https://lapffforum.org/)

investments and liabilities. Diversification is often the most natural and “cheapest” solution, but diversification needs to be understood in a more granular way, beyond the broad asset categories such as equities, fixed income, infrastructure, credit and property.

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

By remaining agile, the Fund has maintained its value at c£3.25 billion over 2023/24 despite continued volatility in equity, rates and currency markets.

Specific examples are:

- The Fund has held additional levels of cash over and above the cashflow policy during the past year to manage the volatility in the equity market.
- Continuing to build private market allocations over different vintages to spread the risk of investing in unfavourable market conditions. In a high interest rate environment, dealmaking can slow down in some private markets or in real estate due to the higher cost of capital and mismatch in supply and demand. The Fund is well positioned to capitalise on favourable opportunities as they arise.
- As noted in on page 22 of [last year’s submission](#), the Fund liquidated its Pyrford multi-asset allocation (4.3% of assets) in September 2023 owing to weak performance and the fact that, in the current interest rate environment, money market funds can generate returns of c5% without the fees (which were among the highest of all the Fund’s managers).
- The Fund continues to invest in private markets secondary transactions through a manager (formerly abrdn, now Patria) outside of BCPP. Secondary interests in private markets investments (primarily private equity) can generate a superior return through capital appreciation and swifter realisation vs. primary investments, particularly in markets suffering dislocation or where other investors are motivated to monetise their illiquid holdings at a discount.

Strengthening Sterling and Potential Risk to Funding Levels

Since 2016, but especially since the “Mini budget” in late 2022, Sterling (GBP) has generally been weak relative to other currencies, namely the US Dollar. Over a longer time-frame, currency relationships are believed to “mean revert”. This makes it unlikely that GBP will remain permanently weak versus USD or other major developed markets currencies. GBP strengthening vs other currencies in the Fund’s well-diversified portfolio could negatively impact the Fund’s funding ratio (all else equal), and Fund Officers and Advisors have been focused on these potential adverse consequences.

An item about “exposure to currency fluctuations” was added to the Fund's risk register in Q2 2023. This identified that changes in exchange rates can affect the value of foreign investments when translated back into GBP, resulting in decreased asset values. If asset values decreased not through their performance but simply because of translation back into higher cost GBP, that in turn could lower the funding ratio because all Fund liabilities are in GBP. Depending on the degree of funding level erosion, increases to contribution rates could be required at the next triennial actuarial valuation. In an era of stretched budgets across

the public sector as well as at household level, raising LGPS pension contribution rates becomes challenging, particularly in response to a risk that can be foreseen and managed.

During 2023 and 2024, Fund Officers and Advisors took training from outside experts on currency risks and ways to mitigate them. After considering various approaches, Fund Officers recommended adoption of a dynamic FX hedging overlay. Most of the Pension Fund Committee members had previously participated in training on dynamic currency hedging, hence were able to approve this proposal in June 2024. Dynamic FX hedging was chosen because the degree of protection is flexible and can change depending on whether market signals (combined with expert human judgment) indicate that GBP is likely to strengthen or not. In this way, the Fund can increase its FX hedging to protect asset values when GBP is expected to rise, yet retain flexibility to reduce or eliminate FX hedging when GBP is expected to weaken. Under a weakening GBP scenario, the Fund could retain the windfall benefits of weaker GBP-denominated liabilities vs. a mix of multi-currency assets that, in aggregate, had appreciated thanks to translation effects.

Fund Officers, with help from Advisors, embarked on a competitive procurement process in Autumn 2024 with the goal of appointing a provider in Q4 2024 and implementing the overlay shortly thereafter. Fund Officers and Advisors will work with the selected provider and the Fund's custodian to achieve the most efficient collateral arrangements and create a useful reporting format for ongoing monitoring and measurement of benefits vs. cost.

Addressing other Market Failures

In May 2023, consistent with its RI beliefs, the Fund committed £50m to the Gresham House British Sustainable Investment Fund 2 (BSIF 2). In June 2024, the Fund committed a further £50m to the Gresham House British Sustainable Investment Fund 3 (BSIF 3), which shares many of the aims and objectives of BSIF 2.

Investment in BSIF 2 and now BSIF 3 gives the Fund exposure to start-up businesses in the UK which have potential to be early-movers in more sustainable methods for agriculture, waste-to-energy, biodiversity restoration and renewable energy generation and storage. Other investments in the BSIF strategy will help to accelerate the roll-out of broadband in remote, rural areas. Gresham House has expanded the BSIF scope into new "social infrastructure" areas by investing in operators of day nurseries and care homes. Delivering high quality, reliable care for pre-school age children or elderly people who can no longer live independently is an important factor in improving the lives of families and increasing workforce productivity. Nursery places can help parents return to work and part of the fees will be covered by the UK's EYFE funding available to all parents. Similarly, providing secure living arrangements for the elderly that meet their needs can free up people who might otherwise become unpaid carers for their relatives, while at the margin keeping them safer, preventing accidents (like falls) and thereby relieving pressure on the UK's overstretched health care system.

While not generally posing a "systemic" risk, small companies find it increasingly difficult to access the capital they need to develop their businesses and products, some of which may prove necessary to shift industries towards new, more environmentally friendly products and manufacturing processes that are consistent with the Net Zero transition, the circular economy and more sustainable lifestyles or providing for the youngest and oldest members of society. Having recognised the urgent need to address climate change in all aspects of our society and across industries, the scarcity of capital for entrepreneurial approaches to decarbonisation could be considered a market failure.

The commitment to BSIF 2 represented <2% of Fund assets but c15% of that vehicle's total capital commitments, hence a valuable contribution to that strategy. The fund-raising process for BSIF 3 is still in its early stages so it is too early to determine the share of that fund that our further £50m commitment will represent.

The BSIF 2 and 3 investments align with the Fund's RI beliefs, and are expected to generate higher returns for providing early-stage capital to the portfolio of businesses that Gresham House have identified and are developing in a very hands-on manner. BSIF 2 and 3 also provide some diversification to the Fund because they reduce public market risk exposure as well as diversify away from the larger (multi-billion) funds that BCPP commits to in its pooled infrastructure funds. BSIF portfolio companies are expected to support certain of the government's levelling-up goals, while contributing to the UK's Net Zero transition, expanding digital connectivity and providing capital that addresses social needs and can help boost productivity. By helping to fund the extension of broadband to rural areas, the Fund's capital will help to address another market failure, namely the productivity deficit in rural areas, which has been exacerbated by the unequal digital roll-out between denser urban areas and rural areas, particularly in remote regions. See further discussion under Principle 7.

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.

Context

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. The Pension Fund Committee considers the policies due for review in line with a timetable that Fund Officers established in 2021. The outcomes of the policy review over the past year are outlined in the table below. Where appropriate, the Board will scrutinise the Fund's policies ahead of the Pension Fund Committee to provide an additional layer of challenge and garner the views of employer and employee representatives on the policy.

A review of the employer risk profile of the Fund has commenced in 2024 to assess and highlight individual employers for further consideration. Further Education Bodies, Housing Associations represent a risk to the Fund; if any these employers were to leave, there is no other employer in the Fund who stand behind their liabilities. Contractors (Admission Bodies) are normally companies that have taken on work on behalf of a local authority in the Fund. While these admission bodies may or may not be financially secure, their liabilities are effectively guaranteed by the letting authority on whose behalf they work. The Fund is therefore engaging with specific groups of employers that pose a greater risk to the Fund to inform policy changes and risk mitigation measures in relation to the 2025 Valuation.

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

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

All Fund documents and policies are overseen by the Board, then discussed at relevant meetings of the RI Sub-Committee, Panel and Pension Fund Committee, and of course beforehand among the working team of Fund Officers and advisors. The Panel reviewed a draft of this report in October 2024 and were invited to provide their comments and thoughts. The Report reflects the combined drafting and input of Fund Officers, members of the client team from the Investment Consultant plus the Independent Advisor. Working together in a transparent and cooperative manner, all parties strive to ensure that the Fund's stewardship reporting is fair, balanced, comprehensive and understandable. We want to give readers insight into concrete actions or the reasoning behind decisions taken on behalf of the Fund. We want readers to see how RI beliefs and Fund policies translate into actions that are intended to strengthen the Fund's long-term performance and keep the LGPS pension affordable for employers and employees alike.

Activity and Outcomes

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

Policy	Outcome
Investment Strategy Statement	The Fund's updated responsible investment beliefs are to be included in the annual update to the strategy which will be approved by Pension Fund Committee in November 2024.
Administration Strategy	The Pension Administration Strategy is reviewed annually and sets out a framework by outlining policies and expected performance standards, which will enable provision of a cost effective and high quality pension administration service.
Funding Strategy Statement	Updated in September 2023 to include a more prudent basis for determining the discount rate for employers that represent a greater level of risk to the Fund or that want to leave the Fund. The Fund consulted with all employers and held a workshop for employers directly impacted by the changes. The FSS will reviewed as part of the work on the 2025 Valuation.
Border to Coast Responsible Investment Policy and Voting Guidelines	The Pension Fund Committee considered BCPP's new engagement themes adopted for 2024. The Pension Fund Committee subsequently confirmed that BCPP's updated RI Policy (January 2024) was consistent with the Fund's RI beliefs.
Stewardship Policy	The RI Sub-Committee approved a new policy in 2024 which details the arrangements for stewardship with its investment managers together with engagement themes based on the agreed RI beliefs. It also includes an escalation policy setting out the steps the Fund will take where stewardship actions taken by managers are not in line with the Fund's expectations.

Policy	Outcome
Communication Policy Statement	Updates were made following the implementation of i-Connect, an online portal for scheme employers' data submissions. Employers can submit monthly pensions data via the portal, which automatically updates members' records.
Service and Data Improvement Plan	The plan addresses all the areas of improvement that have been identified and also updates the different ways in which members can communicate with the Fund. There were no significant changes following this review.
Code of Conduct and Conflict of Interest Policy	As members of a publicly funded body with a responsibility to discharge public business, members the Bedfordshire Pension Fund Committee should have the highest standards of conduct. There were no significant changes following this review.
Governance Policy	As discussed in Principle 2 the Governance Policy was reviewed during the year by a Working Group that was formed in 2023. The key proposed changes provides for all eight Members of the Committee to have voting status and for quorate to be any three of the eight Members of the Committee. The policy was approved by the Pension Fund Committee.

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 80,982⁷ members and across 238 employer bodies. Members currently in receipt of their pensions reached 21,720 with an average age of 71.9 years. The average annual pension benefit received by a retiree in the 2023/24 year was £6,065 which represents a 10.3% increase over the £5,498 average payment over 2022/23, illustrating the impact of inflation indexing and the 10.1% CPI reading for September 2022. Important to note is that 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, 24,359 are active members with an average of 45.2 years, with a further 34,903 deferred members with an average age of 46.8 year. The maximum years of funded retirement benefits was 100 years as at the last triennial actuarial valuation.

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

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

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

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

The Fund’s investment strategy is described in the ISS. As at 31 March 2024, the Fund’s total assets were c£3.458bn, with investments spread across a number of asset classes and geographies as set out in the table below.

⁷ All membership numbers are as of 31 March 2024. Source: Bedfordshire Pension Fund Annual Report, to be published November 2024.

Asset class	Geography	Allocation at 31 March 2024	Pooled through BCPP	Passive Pooled
LGIM equities	Global	19.8%		Yes
LGIM equities	UK	7.4%		Yes
BlackRock equities	Global	20.0%		Yes
BCPP equities	Global	7.7%	Yes	
Patria private equity	Global	1.5%		
BCPP private equity	Global	0.3%	Yes	
CBRE property	UK	5.1%		
BCPP value add property	Global	0.0%	Yes	
Newton absolute return	Global	4.4%		
Pantheon infrastructure	Global	0.6%		
Gresham house infrastructure	UK	1.4%		
BCPP infrastructure	Global	7.4%	Yes	
BCPP climate opportunities	Global	0.3%	Yes	
BCPP private debt	Global	2.9%	Yes	
BCPP multi-asset credit	Global	6.0%	Yes	
Insight liquid credit	Global	4.9%		
PIMCO diversified income	Global	4.3%		
Cash	UK	6.1%		
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, as outlined on [page 29 and 30 in the 2023 Stewardship submission](#).

The Fund provides a newsletter for active and deferred scheme members. The topics included in the 2023/24 Newsletters included information on the new code for pension schemes (TPR General Code of Practice), and update on the McCloud underpin, pensions dashboards, details on standards of retirement, keep your pension safe and responsible investment. 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.

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

The collaborative work with the custodian Caceis, together with Clarity AI, will enhance the Fund's ability to generate meaningful measures across the portfolio. Nonetheless, as reported in FundsEurope⁸, an analysis by Clarity AI found that, while over 80% of the analysed companies reported on their decarbonisation measures, only 40% of all companies made a clear quantification of the impact of these measures. Stated commitments regarding carbon reduction targets often lack credibility. Understanding whether companies have a realistic and meaningful plan to achieve their ambitions requires analysing information that often lies buried in various documents or is presented in different forms. Harnessing AI to retrieve and process this data at scale can help to provide relevant and timely information for investment and engagement purposes.

Over time, measurements using ClarityAI tools are 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. Perhaps more important than simply reducing the Fund's carbon footprint is ensuring that companies in which the Fund invests have a credible path to decarbonising their business models. This focus is future-looking and recognises that some businesses that may have appeared to be lower carbon under Scope 1 & 2 reporting may turn out to have a heavier carbon footprint, hence need to decarbonise their business model, once carbon impacts are measured across the entire value chain. Members of the Pension Fund Committee and RI Sub-Committee are aware of the limitations of current measurements of scope 1 and 2 emissions and the lack of reliable scope 3 emissions data and will continue to seek improvements in these areas and monitor progress using data quality metrics. The Pension Fund Committee is committed to adopting Taskforce for Climate-related Financial Disclosure ("TCFD") and similar types of disclosure, despite their current limitations, because they represent an important discipline within the investment process. It should be noted that once Scope 3 measures become available, there could be some discontinuity with previously reported results if they included only Scope 1 & 2. This would likely impact all investors undertaking TCFD reporting, not just the Fund. Results of these will be published for the benefit of beneficiaries when available.

⁸ FundsEurope, 17 June 2024

In addition to ESG and RI matters, the Fund seeks to ensure that LGPS pensions remain as affordable as possible for employers. One group of employers, Academies, represents 111 admitted bodies whose employee profiles and funding levels can vary widely. Changes in non-teaching staff, whether via transfers or staff turn-over, can cause employer contributions of an individual academy to vary, sometimes widely. To bring greater stability to academy finances while also improving the overall creditworthiness across this group of employers, the Fund established an Academies pool, whereby all of the LGPS members associated with Academies will be combined into one large group. Over time, the employer contributions will be adjusted so that they converge over 5 years. Fund Officers consulted with Academy employers in the Fund in February 2022 and the Pension Fund Committee approved the concept in June 2022. The proposed Academies pool was implemented as of the 2023-24 fiscal year.

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 set high standards to pay all types of benefits within 10 days. During 2023/24, 76% of all retirement related payments were made within 10 days, and 81% of all death grants were paid within 10 days. 100% of payments, both retirement related and death grants, achieved the Pension Regulator targets of 30 days and 60 days respectively.

On behalf of the Fund, officers record all engagement from employers and Scheme members on RI matters. No enquiries were received during 2023/24. However, there were several media requests for information relating to investments the Fund has in arms companies linked to Israel. The Fund responded to this enquiry setting out the Fund's approach and actions in relation to RI and legislation.

Further Action

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

Similar to prior years, the Fund will use the Annual Report for 2024 which features coverage of RI as another means to seek feedback and input from members.

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

Context

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

The Fund's investment beliefs were agreed a number of years ago and have been reviewed annually since. They are listed in the [ISS](#) and guide the Fund's approach to assessing investments and evaluating third-party investment managers.

RI is a constantly evolving topic, and the RI Sub-Committee receives ongoing training from its consultants and external parties. RI is central to the thinking and activities of the RI Sub-Committee members, and this extends well beyond meetings of that group. For example, Sub-Committee members and their Advisors regularly attend conferences or other events; on occasion as presenters or panel participants for events attended by the investment management community, regulators, the Scheme Advisory Board and/or elected officials. On occasion, they lead on-site engagements with companies and industry groups.

The Fund's Independent Advisor, who participates on the RI Sub-Committee, publishes articles on Room 151 (an online platform serving the local government and LGPS audience), most recently comparing the approach of Canadian pension funds to that of the LGPS and their pools in terms of providing "additional" capital for new infrastructure or other ventures that will be required for the energy transition, enhancing UK productivity and becoming a market leader in more sustainable industry practices. The Independent Advisor also participates regularly as a panellist at conferences or round table discussions, most often organised by Room 151, on topics like financing housing or a women in the LGPS roundtable discussion of portfolio construction.

Following the change of Government in July 2024, the RI Sub-Committee is monitoring the new Government's plans and priorities for the LGPS. We expect to see heightened focus on investing in UK businesses to drive economic growth through high quality jobs and improved productivity; supporting and accelerating the energy transition, where possible through domestic producers and operators; leveraging the public sector and LGPS capital so that they work in closer cooperation and help to make the UK's necessary infrastructure "investable".

Following the Fund's commitment to Gresham House BSIF 2 fund (discussed above in Principle 4) in 2023, the Pension Committee committed to BSIF 3 in June 2024. We note that Gresham House was an early signatory to the Stewardship Code. Fund Officers, the Advisors and the Pension Committee members all believe that the BSIF strategy aligns with many of the Fund's RI principles, while also having potential to generate returns that are above those expected from the infrastructure sub-funds offered through BCPP. BSIF 2 & 3 offer a complementary (i.e. diversifying) exposure to those available via the Fund's BCPP

infrastructure commitment, while also increasing the Fund's exposure to "Local" (i.e. UK-focused) investments by targeting emerging sustainable industries in the UK.

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

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

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

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

While the Pension Fund Committee is seeking positive change across a broad range of environmental, social and governance factors, it recognises the need to prioritise and focus on key areas the Fund considers important. The Pension Fund Committee has identified 6 priority areas which fall under the following 3 themes:

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

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

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

Our [2023 Stewardship Report](#) gives an example of how the Pension Fund Committee engaged up front with BCPP to ensure that sustainability, energy efficiency, social/local impact, embedded carbon and other ESG and climate risk aspects were appropriately integrated into the design of the global property offerings. The 2023 report also summarises the thinking around shifting a passive UK equities portfolio into a low carbon / ESG tilted strategy to be more consistent with the Funds RI priorities.

Following a period of input to the design of BCPP's new UK property funds, the Pension Fund Committee reviewed BCPP's proposals for two new UK property funds in June 2024, namely the Main fund and the Gateway fund. The Pension Fund Committee reviewed the risk and return profile and the associated investment management fees of the Main fund, as well as its RI characteristics, and decided that the Main fund meets the Fund's criteria for investment. The Main fund will invest mainly in directly-owned property and is expected to become the Fund's main UK property investment, although it will take a number of years for that fund to reach the required size to accommodate the strategic commitments of all BCPP's Partner Funds. Further work is needed to determine the size of initial commitment the Fund would like to make to the Main fund and the pace at which future commitments will be made.

The Pension Fund Committee also considered the merits of the Gateway fund, which BCPP designed as a feeder fund for the Main fund. The Pension Fund Committee decided that the Gateway fund did not offer a material advantage over simply running off the Fund's existing UK property mandate with CBRE. Instead, the Pension Fund Committee have engaged with CBRE to get a clear idea of the projected run-off of the Fund's existing indirect property holdings. As part of this assessment, the Pension Fund Committee have asked CBRE to review the sustainability criteria of the pooled funds they manage, since it is likely that these holdings will remain in the Fund's portfolio for at least a few more years.

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:

Impact investment opportunities

During 2023/24, the Pension Fund Committee began to develop its strategy for allocating money to impact investments. The Fund has received numerous proposals from investment managers offering funds that deliver impact in one shape or form. To assist Officers in shortlisting proposals for further consideration, the Pension Fund Committee has begun to develop a set of strategic objectives for the Fund's impact investments which will be summarised in an Impact Investment Policy. Although currently under development, the Fund's Impact Investment Policy is likely to signal that the Fund would welcome investments that offer a financial return that is appropriate for the degree of inherent risk; where the benefits to society, the environment or other beneficiary can be measured, tracked and quantified; where they are consistent with the Fund's IR beliefs and where the Fund is not the proverbial "investor of last resort" for a proposition that has been turned down by everyone else. It would be reasonable to specify that the Fund will invest in funds or other vehicles managed by suitably qualified investment professionals with specialist expertise in the type of asset or business that is being considered. Fund Officers lack the staffing resources, and likely the specialist knowledge to undertake investments directly. Consequently, for risk management and prudent investment considerations, so-called "impact" investments will be undertaken through BCPP and/or specialist managers via funds or co-investment vehicles outside the pool.

Private markets, infrastructure and property

The Fund is building up its allocation to the private markets (i.e., unlisted equity and credit), infrastructure and property investments to improve levels of diversification (a key risk management tool), whilst maintaining expected return levels. Fund Officers, Advisors and the Pension Committee continue to engage with BCPP on fund design, processes and the integration of RI factors into new mandates, continuing the work outlined in our 2023 Stewardship Report.

As referenced above under Principle 7, during 2023/24, the Pension Committee approved a £130m commitment to BCPP's global value-add property fund. Initially, the Pension Committee had declined to approve the new BCPP global property offering because Advisors felt it lacked detail on its approach to ESG and sustainability. The Pension Committee asked BCPP to improve specific aspects of the investment strategy. BCPP responded constructively and subsequently disclosed to the 11 partner funds the work that had been done on environmental and broader ESG aspects of global property investing. The Pension Committee felt that the value-add strategy would be more likely to undertake sustainability-driven improvements and upgrades to existing property in order to capitalise on the expected valuation uplift from better environmental performance, as compared to the core global property fund offered by BCPP.

As discussed above, Fund Officers, Pension Committee members and Advisors have reviewed and input to the design of the two UK property funds due to be launched by BCPP this year. The Fund is expected to commit to the Main fund, which will invest mainly in directly owned property, and to retain its existing mandate with CBRE who already manage the Fund's £175m, of indirect holdings. The Pension Fund Committee held an initial meeting with CBRE in June to discuss the most effective way of achieving this aim and further discussions will take place during 2024 and beyond.

Sustainable infrastructure

In June 2024, consistent with its RI beliefs, the Fund committed a further £50m to the Gresham House British Sustainable Investment Fund 3 (BSIF 3) – see the discussion above under Principle 4. BSIF 3 shares similar investment and sustainability objectives to BSIF 2, in which the Fund invested £50m in 2023. These two investments represent a commitment of £100m to UK sustainability enterprises and industries, which constitutes c 2.9% of the Fund. The BSIF 2 & 3 investments also demonstrate that (i) pursuing sustainable investments does not come at a cost of lower returns and (ii) delivering entrepreneurial solutions to

environmental, sectoral or undercapitalised markets takes time and money, and often require small investments that are initially below the “radar screen” of larger pension fund or other investors.

Gresham House was acquired by a US-based investment company, Searchlight, in December 2023. When the acquisition was announced in July 2023, the Pension Fund Committee examined its terms and were satisfied that it would not have a detrimental impact on the ability of the Gresham House management team to deliver on their investment objectives. The Searchlight acquisition closed as planned. Senior executives at Gresham House report that Searchlight leaves the team undisturbed to execute their strategy, though being part of a larger private group allows employees to participate in equity upside of the firm, which was not previously possible with an AIM-listed stock.

Pillar 2 – Active Stewardship

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

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

It should be noted that BCPP continue to improve their own process of ESG integration (in discussion and with guidance from the partner funds including Bedfordshire) and investment stewardship, and have further developed their RI policies including a commitment on net zero. More details can be found in the [BCPP Responsible Investment Stewardship Report for 2023-24](#).

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.

Active Stewardship with managers outside of BCPP

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

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

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

The RI Sub-Committee met with LGIM and Tumelo in November 2023 to understand whether it would be possible to implement a similar solution in relation to investments held in index-tracking equity funds with LGIM. This followed Tumelo's announcement relating to another LGPS fund. Following this meeting, the RI Sub-Committee reviewed the alignment of LGIM's stewardship activities with its RI beliefs and priorities, and determined that the manager's approach was delivering in line with their expectations. The RI Sub-Committee appreciated the strong stewardship activities of the manager, the integration of stewardship in the future world fund series in which it invests, and the strength of retaining an integrated voting and engagement approach that is well aligned to the Fund's expectations. As such, the RI Sub-Committee's initial conclusion was to retain LGIM's in-house stewardship team but to continue reviewing the availability of other options as market practice develops.

The RI Sub-Committee also note with interest the project being undertaken by BCPP to launch its own factor based passive equity funds, which would offer stewardship activities that are more directly aligned with the RI priorities of Partner Funds. These points, and the integration of ESG considerations in the solution, will be considered in more detail during 2024/25.

The RI Sub-Committee continue to engage with LGIM and BlackRock to best align the Fund's voting and engagement principles across the equity mandates, which make up nearly half of the Fund assets (and c85% of the Fund's listed equities) and will assess how a consistent and well aligned approach may be implemented across mandates. The Fund challenges these managers to continue to develop their solutions to best meet their needs, and will evaluate new solutions as they arise, such as the BlackRock climate and decarbonisation stewardship solution.

The RI Sub-Committee is currently carrying out an exercise to compare the votes cast through the ISS Sustainability Policy and LGIM with LAPFF voting alerts. The RI Sub-Committee will use any significant divergence in voting activities to inform further engagement with their managers on their stewardship activities.

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 2023/24 the Pension Fund Committee and Advisors met with 4 managers, covering 73% of the Fund's assets. Fund Officers met with 2 further managers covering 15% of Fund assets during the period.

Questions are sent to the managers and BCPP in advance to give presenters time to prepare answers that are of greatest interest to the Pension Fund Committee. Sample RI-related questions are provided on [page 41 and 42 of our 2023 Stewardship Report](#).

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

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

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

Outcomes

The outcomes from the activities noted above are as follows:

- The Fund's RI beliefs and priorities have been used to inform the selection of the ISS Sustainability Policy as the proxy voting policy for the BlackRock World Low Carbon Fund. They are also being used to inform the approach to be adopted in relation to the index-tracking equity funds held with LGIM.
- The Fund completed its due diligence on BCPP's global property offerings, and in September 2023 the Pension Fund Committee agreed to commit £130m to BCPP's value-add global property sub-fund.
- The Fund reviewed BCPP's UK property offerings, and in June 2024 the Pension Fund Committee agreed to invest in the Main fund (timing and commitment sizes are to be determined) and chose not to invest in the Gateway fund.
- Due diligence undertaken on BCPP's private equity, private debt, infrastructure and climate opportunities strategies also included an assessment of BCPP's approach to RI and how they will monitor the underlying managers.

- The Fund's RI beliefs and priorities have been communicated to the Fund's investment managers and to BCPP. The Pension Fund Committee has had input to BCPP's own RI policy and confirmed that it is consistent with the Fund own beliefs.
- The Fund monitors the engagement activities of the investment managers and BCPP, including face-to-face meetings where the managers and BCPP report on stewardship activities and respond to questions that are tailored to the Fund's own RI priorities and ensure the priorities are being addressed by managers.
- The Fund is building up its own ESG reporting capability through its new collaboration with Caceis and a powerful new service provider Clarity AI, that will provide the Fund with far more comprehensive and comparable ESG based scores, TCFD reporting and insights into progress towards UN SDGs. This latest "own reporting" by the Fund is the most exciting element because it will combine all of the efforts by Fund Officers, the Pension Fund Committee and managers into metrics that, over time, will provide an increasingly robust measure of how the Fund, through its investment managers and service providers, is performing with respect to RI beliefs. These, too, may evolve over time, so our metrics can and will change accordingly. The further development of this capability is planned for 2024/25 following the approval to hire a dedicated Responsible Investment Officer. The Fund will also continue to work with BCPP to leverage their expertise and reporting capabilities while utilising the Clarity AI tool to challenge information provided.
- The Fund reviewed the approach to class actions and securities litigation of BCPP and each investment manager outside the pool. In some instances policies were not made available and insufficient detail was provided. The Fund considers active stewardship to encompass all aspects of asset ownership including the option to bring claims against listed companies to recover losses suffered as a result of a drop in price of shares, often caused by corporate scandal or other misfeasance being revealed to the market. It is therefore designed to encourage disclosure and transparency. In October 2024 the Pension Fund Committee agreed to further engage with investment managers on this important topic.

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 during 2023/24:

- 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 which covers any key trends. These reports are reviewed by Fund Officers and reported to the Pension Fund Committee to determine whether managers are achieving objectives and any concerning trends so that they can be addressed in a timely fashion. The Investment Advisor adds comments to these reports, and the Pension Fund Committee gets the benefit of all inputs in a cohesive, one-stop manner.
- The Fund's Investment Consultant and Independent Advisor work collaboratively together, but also challenge each other in a constructive manner intended to produce the best possible result for the Fund. These Advisors provide their views on, and raise concerns regarding the Fund's investment managers, including BCPP. Where concerns are raised, the manager is asked to provide further information and may be asked to attend the next Panel meeting for further in-person queries. From time to time, the Independent Advisor suggests new strategies (for example, Gresham House BSIF,) that other LGPS funds are investing in, which might be of interest for Fund Officers and the Pension Fund Committee to consider for the Fund.
- The Pension Fund Committee meets the Fund's investment managers on a regular basis. Managers are provided with questions in advance so they can prepare answers and reporting that is tailored to the Fund's requirements and its RI priorities. Sample questions relating to RI are set out above in Principle 7. Where responses are not considered satisfactory, the Fund continues to engage with the manager until the matter is resolved.
- Fund officers, along with Advisors, meet with BCPP (either virtually or in person) on a frequent basis, including dedicated "Away Days" which provides an opportunity to review BCPP's policies and actions and provide feedback. BCPP consider the proposals put forward by the Fund in conjunction with the other Partner funds.
- Fund officers have been considering how Partner Funds should effectively exercise their collective responsibilities in relation to oversight of the BCPP operating company. A two-day workshop was held in January 2024 to develop plans to improve effective oversight and the way in which the Joint Committee exercises its role in overseeing the work of the BCPP operating company and how this is supported by the Fund officers, reflecting the move from the Company's established phase to steady state operation. Outputs included:

- long-term focus on evaluation of performance through the cycle rather than simply quarterly or 1-year performance.
 - Formation of an Investment Officer Operations Group which will examine new each proposition review and identify issues which should be reported to the Joint Committee
 - A highlight report produced by the Investment Officer Operations Group, including assignment of a status (e.g. "On track", "Getting back on track" or "Review") to accompany the proposition reviews.
- The Pension Fund Committee has set separate strategic objectives for each of the Investment Consultant and Independent Advisor, in compliance with the requirements of the Competition and Markets Authority ("CMA"). Performance against these objectives is monitored annually.
 - The RI Sub-Committee assesses whether the stewardship activities undertaken by investment managers - or in some cases, proposed changes in investment parameters of an index fund - are consistent with the Fund's RI priorities. The Fund officers, Advisors and members of the Pension Fund Committee provide direct feedback, and challenge, to investment managers where appropriate. With respect to the BlackRock World Low Carbon Tracker passive fund (c16% of Fund assets), the Pension Fund Committee was pleased to note in September 2023 that proposed changes and additions had been limited to lowering the carbon-related metrics of the customised index yet further and tightening up key sustainability criteria. Having previously met with resistance from investors like the Fund, BlackRock had abandoned its prior plans to add many exclusions designed to appeal to investors prioritising other themes beyond carbon reduction, sustainability and the environment. The Pension Fund Committee's previous engagement on the topic of proposed changes had been successful.
 - The Fund's Investment Consultant provides RI ratings for each manager on a quarterly basis. Where a rating has declined or is judged unsatisfactory, the Investment Consultant will provide an explanation and escalate concerns with the manager. The Committee will then consider whether the manager's ongoing appointment remains appropriate.

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

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

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

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

In November 2023, the Pension Fund Committee carried out a formal review of the Fund's Investment Consultants and Independent Advisor against the objectives set and were satisfied with the service provided. The review of objectives covered the areas appropriate to the service delivered:

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

The objectives for 2024 were updated to give greater emphasis to RI and TCFD reporting in subsequent performance reviews as well as evolution to the Investment Strategy to include a private equity allocation. Performance against objectives will be evaluated in November 2023.

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

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

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

Activity

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

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

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

Theme	Priority area	Rationale
Climate change & Biodiversity	1. Companies to publish net zero strategies including assessment of resilience to key risk factors, in own business and across supply chain and the impact on biodiversity.	Supported by TCFD, proper disclosure will allow investors to make informed decisions on where to invest their capital. It also pressures company management (i) to calculate their company’s emissions as well as that up and down the value change and (ii) to consider the risk that 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 access to finance to build in resilience to climate change as a core part of business planning. It will also accelerate banks and financial institutions (including insurers) factoring in the credit and other risks of adverse climate events. Finally, banks and insurers will be held more accountable for the emissions that their provision of capital (or insurance) enables and pressure clients to find new, lower emissions ways of working (to the extent possible) to retain access to the banking system and Western financial markets.
	3. Companies to contribute actively to a Fair and Just Transition to a low carbon economy	<p>A Fair and Just Transition seeks to ensure that the benefits of the transition to a low carbon economy are shared widely, whilst also supporting those who stand to lose economically – be they countries, regions, communities, workers or consumers.</p> <p>The shift towards renewable energy and Net Zero agenda is likely to create some employment uncertainty or other disruption of peoples' lives and needs to be expressly factored into any manager's "Fair and Just Transition" plans. Prospectively, LGPS funds will likely be required to track their investments that align with the government's Levelling Up agenda, which encompasses the just transition for communities in the UK or industries that may be under threat from the shift towards renewable energy and away from fossil fuel-based energy sources.</p>
Diversity & Inclusion	4. Companies to establish targets for equalising pay gaps between socio-demographic groups (including but not limited to gender) and implementing fair pay practices	The equalisation of pay gaps and fair pay practices will create a fairer society based on merit and use of ones' skills and talents, while also building a broader and more vibrant local economy in jurisdictions where businesses

Theme	Priority area	Rationale
		operate. Broadening the skilled workforce will create advantages to employers and employees alike, which have an important social multiplier effect beyond those individuals hired.
	5. Companies to achieve a minimum of 30% female representation on Boards and Executive Teams, or publish strategies for achieving these targets	Improve diversity within company boards, and looking beyond gender to other characteristics and/or background factors that may create barriers to people thriving in an industry.
Progress against the United Nations Sustainable Development Goals	6. Companies to report on the actions they are taking to address those Sustainable Development Goals set by the United Nations that are most relevant to their business, area or customer base.	<p>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.</p> <p>Furthermore, goals like the UN SDGs are contained in the UK government's Levelling Up agenda, for there are areas within the UK that lack high quality jobs, broadband infrastructure, adequate housing that is affordable, or clean water and air.</p>

The RI Sub-Committee has explored the options available to institutional investors to exercise their voting rights within pooled funds. The Fund has adopted the ISS Sustainability Policy as the proxy voting policy for the BlackRock World Low Carbon Fund and are exploring the similar options now being made available through LGIM. The aim is to cover all index-tracking equity funds so that votes cast on company resolutions can 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 – Nestlé (Newton, 2023)

Reason for engagement: The impact of unhealthy foods and drinks is detrimental to public health and services, and is sensitive to shifts in consumer behaviour and new regulation. Newton believes that it is important for food sector companies to manage these risks and opportunities in business models and strategies are resilient and well-positioned to benefit from industry changes.

Activity undertaken: Newton engaged with Nestlé to set health-based sales targets across its product portfolio and for it to commit to increasing the sales of healthy product ranges. This formed part of their support of ShareAction's Healthy Markets initiative.

Outcomes and in progress: Nestlé has publicly committed to report on the healthiness of its product portfolio and agreed to set a target for health. The progress towards the stated targets will continue to be monitored in the context of long-term shareholder value.

Example 2 – Just Transition (Border to Coast, 2023)

Reason for Engagement: The 'Just transition' integrates social risks and opportunities into decarbonization strategies, addressing systemic threats to long-term stability and value creation that may arise due to rapid or significant change in the location and skills that companies seek in employees.

Activity Undertaken: Border to Coast held a meeting with CLP Holdings, an energy utility with significant operations in emerging markets, to secure a formal approach to a just transition strategy. They also collaborated with Royal London Asset Management to engage four UK banks (including Natwest), recognizing the banks' crucial role in the low carbon transition, through capital allocation and support for customers.

Achievements: The engagement with CLP Holdings aims to be a global first for a high emitting company operating in emerging markets to adopt a formal just transition strategy. The meeting with NatWest bank focused on requesting greater integration of just transition principles throughout its climate plan, emphasizing product, sector, and regional integration.

In Progress: Ongoing engagement with both CLP Holdings and UK banks will continue, focusing on the integration and demonstration of just transition strategies within their operations and climate plans.

The Fund welcomes this progress, as part of the Border to Coast engagement programme on the just transition. In addition to engagement with CLP and UK bank engagement with RLAM, the manager will join with other institutional investors in the Financing a Just Transition Alliance, with a view to influencing issuers on key issues.

Example 3 - LAPFF engagement with Mining Companies

Reason for engagement: LAPFF continues to engage with a number of mining companies on their human rights practices, and added a fifth (Grupo Mexico) over the past year. This follows an approach by the community members affected by a 2014 leak from the company's tailing ponds in Sonora, Mexico. The main objective is to ensure companies understand that any failure to respect human rights and environmental impacts can have financial consequences for the business and shareholders.

Activity undertaken: LAPFF's Chair, Cllr Doug McMurdo, engaged with a Grupo Mexico representative for the first time, discussing the company's approach to environmental, social, and governance (ESG) issues. The company acknowledged wider attention on ESG issues as the company is one of those chosen for inclusion in the PRI's Advance human rights initiative.

Outcomes and in Progress: The company acknowledged the importance of stakeholder engagement, but LAPFF note that while Grupo Mexico state that processes are in place to ensure ESG risks are managed and avoided where possible, community accounts differ. LAPFF continues to monitor the companies' progress in engaging with workers and communities. LAPFF now seek to meet with the Sonora community group affected by Grupo Mexico's operations to encourage stakeholder engagement and cooperation. LAPFF also plan to meet with Anglo American and Vale groups in support of PRI Advance groups.

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

- LAPFF – (of which the Fund is an active contributing member) engage with a number of companies each quarter on behalf of its members, including as part of the Climate Action 100+ initiative, with a view to addressing ESG issues that affect the environment, communities and investors – totalling 565 over 2023. The forum release voting alerts to support the engagement efforts, 50 for the 2023 AGM season (on topics such as action on transition plans, targets, lobbying and a just transition).
- BCPP – the [Quarterly Stewardship Report](#) indicates that BCPP carried out 546 company engagements over the first quarter of 2024 (802 in same period, 2023) and cast votes on 1,566 agenda items (1,702 in same period, 2023).
- 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 to address material issues, including 2,050 companies engaged with over the year and 3 shareholder proposal co-filings during the 2023 AGM season.
- BlackRock – BlackRock are responsible for managing 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 to enhance long term capital value.

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.

As set out under Principle 12, the RI Sub-Committee reviewed its voting arrangements over the period to improve alignment between voting activity carried out on its behalf and the Fund's RI priorities that they believe best support long-term capital value.

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

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

Activity and Outcomes

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

LAPFF

The Forum currently has 87 member funds and 7 LGPS (pool companies) with assets of more than £350 billion and directly engages with company chairs and boards to affect change at investee companies. During 2023, LAPFF engaged with hundreds of companies covering a range of different topics including climate change and human rights, and take an active role in numerous collaborative initiatives. Further details can be found in LAPFF's [2023 annual report](#).

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

The RI Sub-Committee is currently carrying out an exercise to compare the votes cast through the ISS Sustainability Policy and LGIM with LAPFF voting alerts. The RI Sub-Committee will use any significant divergence in voting activities to inform further engagement with their managers on their stewardship activities.

BCPP and managers

BCPP is one of the largest pension pools in the UK and oversees c£53bn of assets (31 March 2024). With input, leadership and influence from Fund Officers and members of the Pension Fund Committee, BCPP have brought together partner funds' interests into a single RI policy and developed voting engagement guidelines which inform the stewardship activities undertaken on utilising the weight of the combined partner fund assets. BCPP also collaborates with other investor groups (e.g. Climate Action 100+, 30% Club Investor Group) on behalf of the partner funds to increase their influence.

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

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

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

Example 1 – Border to Coast collaboration with 'Find it, Fix it, Prevent it' (Q3 2023)

Reason for engagement: Modern slavery is a significant issue due to weak law enforcement, complex supply chains, and migration, leading to the exploitation of people through forced labour.

Activity undertaken: Border to Coast joined the 'Find it, Fix it, Prevent it' (FFP) engagement collaboration led by CCLA, targeting 30 companies in the high-risk hospitality and construction sectors. They led an engagement with Crest Nicholson (a British Housebuilding company), meeting to discuss an assessment of the company's risk management and public benchmarking of their activity. Discussion included how they identify and address human trafficking, forced labour, and modern slavery in their supply chain.

Outcomes and in progress: Crest Nicholson scored well on its Modern Slavery statement, legal compliance, and adherence to guidance. However, they scored less well on proactive risk management, a common issue across the sector. Engagement with Crest Nicholson will continue as part of the BCPP's efforts to support the initiative, focusing on improving proactive risk management.

Example 2 – LGIM support of UK consultation on climate transition plans (Q3 2023)

Reason for engagement: The Transition Plan Taskforce (TPT) was launched by the UK government to develop a 'gold standard' framework for private sector climate transition plans, addressing the lack of information to assess credible progress towards net-zero commitments, and supporting consistent and comparable reporting of transition plans against the ISSB's global baseline.

Activity undertaken: LGIM supported the development of the TPT framework, with CEO Michelle Scrimgeour on the Steering Committee and further representation on the Delivery Group and sector working groups, engaging and collaborating with a range of industry stakeholders such as those from business, regulators, investors and academia.

Outcomes and in progress: The TPT's framework was published in November 2023 after consultation, which aims to improve standards and corporate activity to drive responsible climate action. LGIM continues to work with the TPT, advocating for widespread market adoption of the framework and supporting policy and regulatory environment.

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

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

Activity and Outcomes

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

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

BCPP (with input/approval from partner funds) have developed an escalation strategy should engagement not lead to the desired result. A lack of responsiveness by the company may be addressed by conducting collaborative engagement with other institutional shareholders, registering concern by voting on related agenda items at shareholder meetings, or attending a shareholder meeting in person and filing/co-filing a shareholder resolution. If the investment case has been fundamentally weakened, the decision may be taken to sell the company's shares (and/or bonds) The Fund is in regular communication with BCPP and the Fund is satisfied that thus far BCPP's approach to escalation aligns with the Fund's own objectives and priorities.

The following examples are taken from stewardship reports published by BCPP⁹, which has a defined escalation strategy and engagement priorities (low carbon transition, waste & water, social inclusion through labour management, and diversity of thought).

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

Reason for Engagement: Climate change poses significant systemic and company-level risks, yet investors lack a specific vote on companies' climate plans for shareholder approval. Regulators, such as the UK's Transition Plan Taskforce, are developing standards for climate transition plans, as companies increasingly set out their ambitions.

Activity Undertaken: Over the past two years, LAPFF has sent letters to FTSE All-Share companies requesting a vote on climate transition plans. Despite substantive responses, such resolutions were not standard practice in 2023, especially among high-emitting companies. To further encourage companies to provide shareholders with a vote, LAPFF organized a letter to 35 high-emitting companies facing heightened climate risks. The letter was supported by CCLA

⁹ [Border-to-Coast-Responsible-Investment-Stewardship-Report-22_23](#)

Investment Management, Sarasin & Partners, and the Ethos Foundation. The letter requested a response to help signatories make an informed assessment of each company's position.

Achievements: LAPFF gained the support of a wider group of investors, collectively representing £1.8trn in assets under management, raising awareness of climate risks.

In Progress: LAPFF will track the responses to the letter and continue dialogue with these companies on holding a specific climate transition plan vote, and engage with policymakers to support recommendation of the Transition Plan Taskforce (UK).

Example 2 – CLP Holdings and UK Banks (Border to Coast, 2023)

Reason for Engagement: The 'Just transition' integrates social risks and opportunities into decarbonization strategies, addressing systemic threats to long-term stability and value creation that may arise due to rapid or significant change in the location and skills that companies seek in employees.

Activity Undertaken: Border to Coast held a meeting with CLP Holdings, an energy utility with significant operations in emerging markets, to secure a formal approach to a just transition strategy. They also collaborated with Royal London Asset Management to engage four UK banks, recognizing the banks' crucial role in the low carbon transition, through capital allocation and support for customers.

Achievements: The engagement with CLP Holdings aims to be a global first for a high emitting company operating in emerging markets to adopt a formal just transition strategy. The meeting with NatWest bank focused on requesting greater integration of just transition principles throughout its climate plan, emphasizing product, sector, and regional integration.

In Progress: Ongoing engagement with both CLP Holdings and NatWest bank will continue, focusing on the integration and demonstration of just transition strategies within their operations and climate plans.

The Fund welcomes this progress, as part of the Border to Coast engagement programme on the just transition. In addition to engagement with CLP and UK bank engagement with RLAM, the manager will join with other institutional investors in the Financing a Just Transition Alliance.

Example 3 – APA Australia (LGIM, 2023)

Reason for Engagement: APA, Australia's largest energy infrastructure business, was identified as a 'dial mover' company under the Climate Impact Pledge campaign. The company was lagging in climate-related lobbying activities.

Activity Undertaken: Engagements were initiated with APA in 2022, setting out expectations for 'Say on Climate' votes and credible transition plans. These plans were expected to be consistent with the Paris goals, including the disclosure of Scope 1, 2, and material Scope 3 GHG emissions.

Achievements: Despite APA presenting Scope 1 and 2 goals for medium and long term on a path to achieving net zero emissions by 2050, the absence of Scope 3 targets led to a lack of support for a resolution on its climate transition plan. However, engagement with the company post this vote led to APA confirming the inclusion of a Scope 3 goal in the 2025 refresh of their Climate Transition Plan.

In Progress: The company has outlined their proposed Scope 3 reduction pathway and is committed to finalising these targets no later than 2025. The focus will be on continuing engagement with the company on their decarbonisation pathway and journey to net zero.

The Fund welcomes this activity, and LGIM's wider efforts to escalate concerns and apply the influence investors have as shareholders. This is consistent with the manager's Climate Impact Pledge, which updates its exclusion policy (which applies to the Fund's future world holdings) as a last resort. LGIM also co-filed three shareholder proposals over 2023 following continued engagement with companies, including with McDonald's in relation to anti-microbial resistance and Exxon in relation to disclosure on asset retirement.

Principle 12 Signatories actively exercise their rights and responsibilities

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

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

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

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

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

The Stewardship Policy will be a "living document" with the ambition that it will be updated regularly and published on the Fund website to record the voting and engagement activity undertaken by the Fund's investment managers, including links to the voting records of the Fund's equity managers. The change in Team structure referenced in Principle 2 will enable this to happen during 2024/2025.

Activity and Outcomes

The Responsible Investment Sub-Committee conducted a review of the voting arrangements with LGIM and BlackRock, whose stewardship platforms allow voting activity to be better aligned with investor beliefs. The Fund adopted the ISS Sustainability proxy voting policy under the BlackRock Voting Choice platform, which means that votes cast on behalf of the Fund's investments in the World Low Carbon fund will be more representative of the Fund's RI priorities. The Fund also reviewed arrangements under the LGIM Pass-Through-Voting platform. Having considered a number of different options, including establishing segregated mandates, the Fund has decided to retain the default LGIM voting policy but continues to explore options that would allow input on how the votes cast on key issues (including input from LAPFF) and how the Fund could adopt a consistent approach across its mandates.

The Committee updated the Fund's Stewardship Policy to better define its escalation policy and reflect developments in stewardship service providers such as the adoption of the ISS Sustainability voting policy on the BlackRock voting platform.

Equity

All of the Fund's assets are currently invested in pooled funds, where the assets are held alongside those of other investors within the same account, and the investment managers are not bound by the Fund's own voting intentions (with one recently emerged exception¹⁰). 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 the Fund, to review and update its voting policy in light of developing corporate governance standards and evolving best practice. The policy is also reviewed by BCPP's voting and engagement partner Robeco, using the International Corporate Governance Network Global Principles, the UK Stewardship Code 2020 and the UNPRI as benchmarks.

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

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

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

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

The Fund's listed equities are invested across a number of funds. The most material listed equity investments held during 2023/24 were in LGIM's Future World Global Equity fund, BlackRock's World Low Carbon fund and BCPP's Global Equity Alpha fund. Taken together, these funds represent c45% of the Fund's total assets and 85% of the Fund's listed equity investments.

The voting records for these funds during 2023/24 are shown below.

¹⁰ See discussion of BlackRock's new proxy voting arrangements in Principles 7 and 9.

Fund	Votable meetings	Resolutions voted on	Votes with management (%)	Votes against management (%)	Not voted (%)	Total (%)
LGIM Future World Global Equity	5,134	52,212	80	19	0	100
LGIM UK FTSE 250 Index	292	4,553	95	5	0	100
LGIM Future World UK	381	6,310	94	6	0	100
BlackRock World Low Carbon	927	13,305	96	3	0	100
BlackRock Emerging Markets	2,497	20,654	87	12	2	100
BCPP Global Equity Alpha	375	4,468	83	15	1	100

Source: Investment managers. Note: Totals may not sum due to rounding.

Active Ownership Example – Engagement with Apple (BCPP Global Equity Alpha Fund, Q1 2024)

Reason for engagement: The engagement with Apple was initiated due to concerns over the company's executive compensation structure, primarily due to significant awards for below-average performance and lack of ESG metrics integration.

Further, concerns were raised over the need for transparency in AI usage to help prevent and mitigate reputational and labour risks stemming from AI adoption including mass layoffs, privacy violations, and the generation and dissemination of misinformation and deep fakes. The objective was to hold the company to account against Fair and transparent compensation and use of AI.

Activity undertaken: The engagement involved opposing the company's executive compensation and supporting an AI-related shareholder proposal. This was part of a broader investor concern over the rapid adoption of AI technology in business.

Outcomes and in progress: The executive compensation was opposed by 8% of shareholders, and the AI-related shareholder proposal received 38% support. Apple responded by announcing plans to disclose more about its use of generative AI, which BCPP will monitor.

Active Ownership Example – Voting activity in relation to Japanese industrial conglomerate Canon Inc. (BlackRock Low Carbon Fund, 2023)

Reason for engagement: The engagement with Canon was initiated due to concerns about the lack of diversity in its board composition, specifically the absence of female directors, which is crucial for long-term financial value creation. The primary objective was to encourage Canon to improve its board diversity, aligning with the Japanese government's requirement for public companies to have a 30% female board director member ratio by 2030.

Activity undertaken: The engagement involved discussions on various corporate governance topics, including board composition and long-term executive leadership planning. It also involved monitoring Canon's adherence to local requirements for companies in the TOPIX 100 index to have at least one female director. Concerns about Canon's lack of board diversity was also raised at the company's AGMs in March 2022 and 2023. Ultimately, the election of the board chair and CEO, who also served as the chair of the nomination committee, was not supported.

Outcomes and in progress: Canon announced it would appoint one female director to the board at its March 2024 AGM, a development welcomed by BlackRock. This is seen as a step towards enhancing the board's composition in support of effectiveness and long-term financial value creation, and BlackRock will continue to use its rights and responsibilities as a shareholder to influence businesses to act on financially material risks.

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

Property

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

conditions where liquidity is scarce, it could take many quarters or years to receive a return of invested capital. These considerations have been central to the investment decisions taken in relation to BCPP's global property mandate during 2023/24. They have also informed decisions taken in relation to BCPP's UK property funds and the future of the Fund's current property mandate with CBRE.

Private Markets (Alternatives)

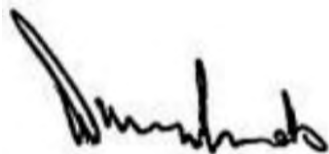
Similar to property above, private equity, private credit and non-listed infrastructure most typically use investment vehicles that are closed-end. That means that once an investor has committed (or BCPP has committed on behalf of its partner funds), capital will be tied up for as long (or short) as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

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

Signed By:

Councillor Doug McMurdo

Chair of Bedfordshire Pension Fund



31 October 2024

Appendix 1 – Action Plan 2023/2024

The table below sets out the original actions the Committee plans to take to review, develop and strengthen its stewardship activities during 2023/24.

Principle	Action	Target date	Commentary
Principle 1	To conduct an annual improvement review of stewardship activities to include the Fund's overall approach and monitoring of managers activities and outcomes.	September 2024	Review not yet concluded. Improvements include development of manager engagement framework leading to better informed and planned manager meeting. Conclusions and recommendations will be reported in the 2024/25 Stewardship report.
Principle 2	Undertake a self-assessment of the Pension Fund Committee.	December 2023	Concluded, report and actions to be discussed at November 2024 Committee.
Principle 4	The Fund will start reporting on the impact of practices that undermine biodiversity of local environments in the coming year.	December 2024	Officers are exploring the most effective means of reporting the impact of reporting on biodiversity. A training session was held in January 2024 to consider the risks and actions that may be taken.
Principle 6	The Fund is also working towards reporting against the TCFD criteria and has agreed the metrics that will be monitored.	December 2024	Officers are exploring the most effective means of reporting Fund carbon emissions. Though TCFD reporting is not a requirement for the LGPS, it is the Fund's intention to produce a draft report, even if it is not published, to allow discussion on targets and trajectories to be discussed.
	The Fund also intends to set an interim target date for reducing emissions.	June 2024	Carry forward to 2024/25
	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 2024	Carry forward to 2024/25
Principle 9	It is expected that following the announcement by LGIM in September 2023 the RI Sub-Committee will be able to	March 2024	The Fund has decided to retain LGIM's in-house voting policy but are exploring options for overlaying this with LAPFF voting alerts.

	consider the voting policies being made available through LGIM, to achieve better alignment with the Fund's RI priorities.		
Principle 11	Clarify escalation expectations in the Stewardship Policy	June 2024	Complete

Appendix 2 – Action Plan 2024/2025

Principle	Action	Target date
Principle 1	To conduct an annual improvement review of stewardship activities to include the Fund's overall approach and monitoring of managers activities and outcomes.	March 2025
Principle 2	Develop processes for continual self-assessment of Pension Fund Committee and Board effectiveness. For example post meeting feedback. Develop plan to address recommendation raised in the 2024 effectiveness review.	March 2025
Principle 4	The Fund will start reporting on the impact of practices that undermine biodiversity of local environments in the coming year.	September 2025
Principle 6	Develop reporting against the TCFD criteria and agreed metrics. - Establish carbon emissions baseline position and reflect on improvements achieved to date. - Undertake workshop to develop and set interim target dates for reducing emissions that will inform the further steps that may need to be taken, including capital allocation decisions and engagement activities. - Develop forward looking assessment of Fund's trajectory towards net zero based on the current strategy, and assess options available to the Fund to align the asset portfolio with the net zero ambition over time. 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.	March 2025 June 2025
Principle 12	Review voting activity over 2024 AGM season, including decision on implementation of voting arrangements to improve alignment of LGIM voting activity. Undertake annual review of asset manager voting behaviour to assess alignment with RI beliefs and priorities and inform manager engagement.	September 2024 September 2025