INVESTMENT STRATEGY STATEMENT UPDATE

Introduction

1. This report presents the Fund's updated Investment Strategy Statement (ISS) and Responsible Investment (RI) policy. The two documents remain substantially unchanged from the current versions which were endorsed by the Committee on 12 March 2021.

Recommendation

2. The Committee is asked to endorse the updated Investment Strategy Statement and Responsible Investment policy and agree they can be published on the Fund's website.

Background

3. Following an extensive review and consultation process overseen by the Pension Fund Committee, a revised ISS and RI policy were published on 1 April 2020. This ensured the Fund's compliance with the LGPS Investment Regulations 2016 which require that each fund in the Local Government Pension Scheme must review, revise and republish its ISS at least every three years.

4. The Committee agreed that it made sense to conduct a lighter touch review annually in recognition of two main factors: the pooling agenda and the availability of new products from LGPS Central Ltd (LGPSC), which may influence/inform Strategic Asset Allocation decisions, and the enormous pace of change on RI issues and climate change in particular.

5. This report asks the Committee to incorporate the already endorsed (September 2021 Committee) change to the strategic asset allocation model in respect of the Open Employers and Academies and to clarify the wording in the Fund's Responsible Investment policy to properly reflect the Fund's net zero climate change commitment. All other aspects of the ISS and RI policy remain unchanged.

Agreed changes to Strategic Asset Allocation model

6. On 3 September 2021 the Committee received a report which set out the case to amend the Fund's existing asset allocation model for both the Open Employers and Academies group of employers. The net result of these deliberations was an endorsement of the strategic asset allocation as set out in Table 1:

Table 1: September 2021 Committee agreed changes to the Fund's Strategic Asset Allocation

Asset Class	April 2021 Asset Allocation %	Sept 2021 Cttee Approved Asset Allocation %
Equities	24	24
Private Equity	5	5
Infrastructure	5	5
Absolute Return	6	6
Multi Asset Credit	15	15
Emerging Market Debt	5	5
Property	10	7.5
Index Linked Gilts	30	25
Private Debt	0	7.5
TOTAL	100	100

7. The new asset allocation model was approved for application to both the Open Employers and Academies group of employers. However, Committee were advised that it was likely that further options for the Academies group would need to be explored. This was because the Academies group has very different characteristics to the Open Employers group in that it has a lower level of funding level than other groups, a very different and immature liability profile and is significantly cash flow positive (relative to other employers). Therefore, it was likely that a strategic asset allocation which was more likely to deliver higher annual investment returns needed to be considered. Proposal are being modelled with the assistance of the Fund's advisors and those will be presented to the Committee as soon as firm conclusions and recommendations can be made.

Responsible Investment

8. In March 2021 the Committee considered the Fund's Responsible Investment policy and agreed a small number of changes to ensure the policy was fully aligned to the Fund's Climate Change strategy. In addition, the proposal to attach the Climate Change Strategy as a new annex to the RI policy was also endorsed.

9. Over the past year the Committee has endorsed a number of investment changes to ensure the Fund's short term climate change targets will be delivered in full and ahead of schedule. The latest position with regard to performance against climate change targets as at the end of 2021 will be reported in the Fund's climate risk report which will be available in May/June.

10. Included within the Fund's current Responsible Investment policy is the following commitment:

- *The Fund intends to decarbonise its investment portfolio with the aim of being carbon neutral by 2050.*

11. Since the Fund made this commitment in December 2020 the debate around climate change and best practice for asset owners has progressed and it is recommended that the Fund amends its existing commitment to a clearer and more explicit statement as follows:

- *The Fund commits to decarbonise its investment portfolio to deliver net zero emissions by 2050 at the latest.*

12. This will ensure the Fund is completely aligned with LGPS Central who in January 2022 agreed with partner funds the commitment to:

transition our investment portfolios to Net Zero emissions… (via)…the Institutional Investor Group on Climate Change's ('IIGCC') Net Zero Investment Framework to achieve Net Zero emissions across our internally and externally managed portfolios by 2050 (or sooner).

13. The revised and clearer commitment will also help remove any confusion amongst some pressure groups who appear to evaluate the effectiveness of asset owner's approach on climate change to this one statement of intent. Members may recall last year the Fund was criticised by the pressure group Make My Money Matter as they felt our existing net zero commitment was not explicit enough. The proposed new wording should help reduce any future misunderstandings.

Investment Strategy – Ongoing Review

14. The Committee are aware the Fund's investment strategy approach is not just reviewed each year and instead there is a rolling programme of scheduled work. The proposed items for priority in 2022-23 are:

i) In 2021 the Investment Sub Committee reviewed the Fund's stock lending policy and endorsed a number of recommendations to further safeguard the Fund's position and also to increase the Fund's likely level of stock lending income. Most of the recommendations need to be agreed and implemented in agreement with the Fund's custodian BNY Mellon. Negotiations with BNY Mellon will be concluded in early 2022-23 and changes implemented as soon as practicably possible.

ii) A review of the Fund's investment benchmarks. The Fund's overall investment performance is measured against a weighted benchmark reflecting the Fund's strategic asset allocation. Some of the individual benchmarks e.g. equities, are directly linked to broad market performance, while others are linked to the inflation rate or a fixed absolute return target. The review will assess whether each benchmark remains appropriate over different timeframes and sufficiently challenging (carried forward from 2021-22).

iii) A review of current and future cash flow requirements together with an assessment of whether current and forecast levels of investment income will be sufficient to meet commitments. The Fund has been in a cash flow negative position to date in 2021-22 which means that benefit payments have been greater than contributions collected. As the Fund's membership continues to mature it is likely that the Fund will have to increasingly rely on reliable and predictable sources of income to meet liabilities as they fall due. This situation is common to a large and growing number of LGPS funds. The review will forecast benefit outgoings and assess whether the full implementation of agreed asset allocation changes, such as a 5% allocation to infrastructure and 7.5% to private debt, will be sufficient for future cashflow management purposes.

iv) The Fund's diversified fixed income portfolio will continue to be assessed and reviewed as the two equivalent funds from LGPSC (the Emerging Market Debt Fund and the Multi Asset Credit Fund) become more established. Once the Committee are assured that the funds are performing satisfactorily then further redemptions from legacy managers Janus Henderson, Bluebay and M&G will be considered.

v) Inflation has risen rapidly since mid 2021 and more recently interest rates have also started to increase. There may be further potentially severe economic implications from the Russian invasion of Ukraine; it is now likely that inflationary pressures will be sustained for a longer period than previously thought. Therefore, the Fund will need to carefully review its approach to managing the risk from inflation and interest rate volatility and assess whether the current levels of mitigation are sufficient and fit for purpose.

vi) The Fund retains a residual 6% allocation to hedge funds. This used to form part of a broader 15% allocation to an Absolute Return portfolio but the two other managers within the portfolio have been wholly divested from. Therefore, if the work programme permits it makes sense to review the residual holding as other alternative, cashflow generative investment classes such as infrastructure become more established in the Cheshire portfolio.

INVESTMENT STRATEGY STATEMENT

March 2022

1. Introduction

1.1 This is the Investment Strategy Statement (the "Statement" or "ISS") of Cheshire Pension Fund (the "Fund") as required by regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the "Regulations").

1.2 Cheshire West and Chester Council is the administering authority of the Cheshire Pension Fund.

1.3 The regulations require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

1.4 The ISS is an important governance tool for the Fund. The document sets out the current investment strategy of the Fund, provides transparency in relation to how the Fund's investments are managed, acts as a high-level risk register, and has been designed to be informative for all stakeholders.

1.5 In preparing this Statement, the Fund has consulted with such persons as it considers appropriate and the document will be updated based on any factors that the Fund considers material to its liabilities, finances or attitude to risk.

1.6 The current regulations require this statement to be reviewed at least triennially but the Fund intends to carry out an annual review and update as appropriate.

1.7 Any feedback or comments on this document should be addressed to the Pension Fund Manager and emailed to: pensions@cheshirewestandchester.gov.uk

2. Investment Objectives and approach

2.1 The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death before or after retirement for their dependants, in accordance with LGPS Regulations.

2.2 The Funding Strategy and Investment Strategy are intrinsically linked and together aim to deliver stable and affordable contribution rates for employers.

2.3 The investment objective is therefore to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers, and minimising the long term cost of the scheme. Having a thorough understanding of the risks facing the Fund is crucial and these are covered later in this statement.

2.4 The Fund's investment approach which helps to inform the investment strategy is as follows:

- Funding, investment strategy and contribution rates are linked.
- The strategic asset allocation is the key factor in determining the risk and return profile of the Fund's investments.
- Investing over the long term provides opportunities to improve returns.
- Diversification across asset classes can help to mitigate against adverse market conditions and assist the Fund to produce a smoother return profile due to returns coming from a range of different sources.
- Managing risk is a multi-dimensional and complex task but the overriding principle is to avoid taking more risk than is necessary to achieve the Fund's objectives.
- Environmental, Social and Governance are important factors for the selection and sustainability of investment returns over the long term.
- Value for money from investments is important, not just absolute costs. Asset pooling will help reduce costs whilst providing more choice of investments and will therefore improve Fund returns.
- High conviction active management adds value to returns over the long term.

2.5 A successful investment strategy, delivering strong investment returns over the long term while managing short-term volatility is essential for the ongoing stable operation of the Cheshire Pension Fund. Benefits are fixed and must be paid through a combination of employer contributions, employee contributions and investment returns. Employee contributions are fixed by law, so if investment returns are below expectations, the only source of income to fill the gap is employer contributions, invariably from public sector organisations that are operating under tight financial constraints.

3. Investment Strategy and the Process for Ensuring Suitability of Investments

3.1 Translating the Fund's investment and funding objectives into a single suitable investment strategy is challenging. The key objectives often conflict. For example, minimising the long-term cost of the scheme is best achieved by investing in higher returning assets e.g. equities. However, equity values are also very volatile (i.e. can go up and down frequently), which conflicts with the objective to have stable contribution rates. Achieving greater stability of contributions may therefore be better achieved by a lower allocation to equities but the resulting contributions may be higher in the longer term.

3.2 Additionally, the number of employers in the Fund has increased significantly in recent years meaning that there are groups of employers with different underlying characteristics and with different long-term funding objectives. For example, for employers approaching the point where they will leave the Fund, the most important objective may be to protect their funding position by minimising volatility in asset values and this may delivered by an investment strategy with a lower allocation to equities.

3.3 In order that the Fund delivers on its key objectives (ensuring that it takes the appropriate level of investment risk, giving each employer the best opportunity possible to achieve its long term funding objective whilst keeping contributions affordable), the Fund has over the past six years divided employers into four separate groups and operated a distinct investment strategy for each group. This approach was taken to recognise the different characteristics, cash flows, maturity of liabilities and funding levels of different employers.

3.4 Following a review of the current groupings of employers, the Fund has re- organised the employers into the following groups:

- Open Employers
- Academies
- Exiting/Closed Employers
- Exited Employers

3.5 Each grouping will have its own investment strategy with its own strategic asset allocation benchmark. The strategic benchmark is consistent with the Fund's views on the appropriate balance between generating required long- term returns, whilst taking account of market volatility, risk and the nature of the Fund's liabilities.

3.6 The strategic asset allocation at 1 April 2022 for each of the four groups is shown in table 1.

Table 1 – Strategic Asset Allocation

Asset Class	Investment Objective	Investment Strategy (%) Open employers	Academies	Exiting/Closed Employers	Exited Employers
Growth		**50**	**50**	**50**	**-**
Equity	- Exposure to global equity markets - Outperform global equity markets - Contains allocation to active strategies with meaningful outperformance targets	24	24	24	-
Absolute Return	- Provide significant real returns (currently CPI+ 5%) - Lower volatility than equities - Low correlation to equities (beta) - Preserve capital at times of stress	6	6	6	-
Illiquid Alternatives	- Long term returns in excess of public equity markets - Access to assets that provide link to inflation - To provide a source of regular cash flow - Includes new allocation to Infrastructure	20	20	20	-
Diversifying & Matching		**50**	**50**	**50**	**-**
Diversifying Fixed Income	- Diversified exposure to global fixed income - Focus on return generation - Flexible duration	20	20	20	-
Low RiskFixed Income	- Provides diversification and inflation protection	30	30	30	100

The Fund allows asset allocations to fluctuate around the target allocations subject to the tolerances set out in table 2.

3.7 At present, the Fund believes that the funding objectives of all open employers, academies and exiting/closed employers can be met by the same investment strategy as set out above. However, this will be reviewed regularly, and it is possible that different investment strategies may be implemented when it is considered appropriate to do so.

3.8 Between 2014 and 2021, the Fund operated a dynamic Risk Management strategy for the major employers in the Fund. This gave the Fund the opportunity to adjust the strategic asset allocation in the event that a group of employers are ahead or behind their funding plan. This mechanism was used by the Fund to ensure that each group of employers continued to take the appropriate level of investment risk, giving each the best opportunity possible to achieve its long-term funding objective whilst increasing certainty of cost. The Fund now considers this Risk Management strategy to have delivered its objectives and therefore the automatic de-risking and/or re-risking steps linked to changes in funding levels has ceased. All employers formerly governed by the Risk Management strategy have now been allocated to the 'Open Fund' or 'Academies' investment strategies as set out in Table 1 above.

3.9 The performance of each investment strategy will however, continue to be regularly monitored and changes proposed as and when the Fund and its advisors believe changes will improve the chances of employers meeting their funding objectives.

3.10 The Fund is required to monitor its investment strategy relative to the agreed asset allocation benchmark in order to ensure that it remains consistent with the overall objective. The Fund also monitors compliance with this statement and the progress of groups of employers towards their long-term funding objective at least quarterly.

Table 2 – Tolerance Ranges

Asset Class	Open Employers and Academies	Exiting/Closed Employers
Equities	+/-5%	+/-2.5%
Absolute Return	+/-2.5% (rebalancing dependent on magnitude, cost and liquidity)	+/-2.5% (rebalancing dependent on magnitude, cost and liquidity)
Illiquid Alternatives	+/-2.5% (rebalancing dependent on magnitude, cost and liquidity)	+/-2.5% (rebalancing dependent on magnitude, cost and liquidity)
Diversifying Fixed Income	+/-2.5%	+/-2.5%
Low Risk Fixed Income	+/-2.5%	+/-2.5%

3.11 The above tolerance ranges may be relaxed from time to time to allow the Fund to efficiently manage the transition of investment assets to LGPS Central.

3.12 The maximum percentage of assets to be held in each asset class is set out in table 3.

Table 3 – Maximum Allocations

Asset Class	Open, Academies and Exiting/Closed
Equities	29.0%
Absolute Return	8.5%
Illiquid Alternatives	22.5%
Diversifying Fixed Income	22.5%
Low Risk Fixed Income	32.5%

3.13 A fundamental review of the strategic asset allocation is undertaken every three years following the actuarial valuation to provide assurance that the investment strategy is aligned to the long-term funding plan. This review utilises both qualitative and quantitative analysis, and covers:

- The required level of return that will mean the Fund can meet its future benefit obligations as they fall due
- The level of risk that the Fund can tolerate in absolute terms, and in relation to its funding level and deficit /surplus
- An analysis of the order of magnitude of the various risks facing the Fund is established in order that a priority order for mitigation can be determined
- The desire for diversification across asset class, region, sector, and type of security
- The level of cash flow and liquidity required by the Fund.

4. Risk measurement and management

4.1 The Fund assesses risks both qualitatively and quantitatively, with the starting point being the investment strategy review, which is undertaken as a minimum every three years. The Fund's approach to risk is informed by the Pension Fund Committee, its professional advisors and officers of the Fund.

4.2 The key risks that the Fund is exposed to can be grouped under the following headings:

a) Investment
b) Funding
c) Operational
d) Governance

4.3 These risks are identified, measured, monitored and managed on an active basis with the Pension Fund Manager being responsible for the oversight of this process.

4.4 These risks are summarised as follows:

A. INVESTMENT RISK

4.5 There is a risk of funding levels deteriorating because of a fall in asset values or an unexpected increase in inflation increasing the value of future pensions and benefit payments. For open employers the funding level itself is not an immediate concern as the deficit or surplus will never be crystallised. However, a sustained weakening of the funding position and/or deterioration in the outlook for future returns may eventually feed through into higher employer contribution requirements.

4.6 To give an illustration of the potential scale of these risks, Table 4 below shows how a range of events could impact the funding position of the Fund:

Table 4 – Sensitivity Analysis

Event	Event movement (a)	Possible Impact on Deficit (b)
Fall in equity markets	25% fall in equities	c.£430m
Fall in property markets	20% fall in property values	c.£120m
Rise in Inflation	0.75% increase in long-term inflationexpectations	c.£660m
Fall in interest rates	1% fall in interest rates	c.£740m
Active Manager underperformance	3% underperformance from all active managers	c.£80m

(a) One off impact of market changes, broadly equating to a 5% chance of occurring in a one-year period

(b) Figures estimated based on current strategic allocation and total Fund asset value as at 30 September 2019. Assumes index-linked gilts and liabilities are equally sensitive to changes in interest rates and inflation and makes no allowance for sensitivity of other assets, e.g. diversified fixed income, property or infrastructure. Figures assume no "rebound" or "unwinding" of the event movement, which may or may not subsequently occur.

Interest Rates

4.7 Long-term interest rates provide an indicator of future investment returns. Therefore, if interest rates fall, this can indicate that future investment returns are expected to be lower. Lower investment returns would lead to the investment strategy underperforming the funding target. To mitigate this risk, the Fund already has a significant allocation to fixed income assets, such as index-linked gilts and corporate bonds, which increase in value with falling interest rates. This higher asset value helps to protect against a possible reduction in future investment returns on the other assets in the portfolio. The Fund will review this allocation periodically in response to changing market conditions.

Equities

4.8 The Fund holds equities in order to provide the necessary returns to ensure that the Fund remains viable. The Fund believes that the extra returns that are expected to be generated by equities over the long term compensates for the volatility involved in equity investing. The investment strategy is diversified which helps to mitigate equity risk by investing significantly in bonds and alternatives.

Alternatives

4.9 The risks associated with investing in alternative asset classes including absolute return, property, infrastructure and private equity are relevant considerations when assessing the overall level of risk within the investment strategy. The Fund believes that over the long term, alternative asset classes will provide a level of return that compensates for the inherent risk. The additional level of diversification provided by these assets helps to reduce the Fund's reliance on equity returns. At the aggregate Fund level, investing in alternative asset classes reduces the overall level of risk.

Active Manager Risk

4.10 The Fund undertakes extensive due diligence on its appointed investment managers and formally monitors their performance and operation on a quarterly basis. This process is overseen by the Investment Sub-Committee and is advised by Officers and the Fund's advisors.

Liquidity risk:

4.11 The Fund invests in both liquid and illiquid assets meaning that not all assets can be realised at short notice. Given the long-term investment horizon, the Fund accepts some liquidity risk given the potential for higher returns. The Fund monitors its liquidity position carefully to ensure that it is not a forced seller of long-term assets in order to make day to day payments of benefits. Around 80% of Fund assets are expected to be highly liquid. Investment in cash flow generative assets is undertaken to assist the Fund's cash flow needs.

Exchange rate risk:

4.12 The Fund as a long-term investor can tolerate some short-term currency fluctuations, however this is managed carefully by its investment managers who are monitored against Sterling benchmarks and therefore use hedging techniques to contain this risk. The Fund does not at present directly hedge against the risk of foreign currency fluctuations but has the capacity and processes in place to do so if necessary.

B. FUNDING RISK

4.13 The Fund's investment strategy is a fundamental part of ensuring that affordable contributions can be set in the long term. Employer contribution strategies are aligned with the investment strategy; There are, however, a number of factors that could lead to a disconnect between the investment and contribution strategies. These risks are set out below:

Inflation

4.14 Future benefit payments to be made by the Fund are linked to inflation. Therefore, increases in the rate of inflation will increase the value of payments to pensioners. The Fund invests in assets such as index-linked gilts and property with inflation linked income streams to manage and mitigate this risk.

Demographic risks

4.15 The Fund is subject to a range of demographic risks. A more mature membership base would mean that there were a greater number of pensioner members receiving benefits than active members paying contributions. The projected maturity of the membership base is factored into the investment strategy in order to ensure that as the membership base matures, the fund is invested in the appropriate level of income generating investments or investments that are realisable at short notice and at low cost.

Climate Change Risk

4.16 In its revised Responsible Investment policy, the Fund acknowledges that there may be a significant risk from climate change which could impact on the ability of the Fund to meet its long term liabilities. It has therefore resolved to adopt an evidence based precautionary approach to climate change to monitor and actively manage any identified risks. Further information is included in the Fund's Responsible Investment policy which is attached in Appendix B.

C. OPERATIONAL RISK

4.17 Operational risks arise through the implementation of the Fund's investment strategy. These risks are set out below:

Transition risk

4.18 The Fund may incur unexpected costs in relation to the transition of assets between managers and/or asset classes. When carrying out significant transitions, the Fund takes professional advice and considers the appointment of specialist transition managers in order to mitigate this risk when it is cost effective to do so.

Custody risk

4.19 The Fund must ensure that it retains the economic rights to all Fund assets, when held in custody or when being traded. It does this through the use of a global custodian for custody of assets, the use of formal contractual arrangements for all investments and maintaining independent investment accounting records.

Credit default risk

4.20 A counterparty related to a Fund investment could fail to meet its contractual obligations. The Fund monitors this through robust internal compliance arrangements where applicable, contractual requirement for investment managers to manage counterparty risk on the Fund's behalf and robust due diligence prior to making any investment.

D. GOVERNANCE RISK

4.21 Good governance is an essential part of the Fund's investment strategy and the Fund therefore identifies **poor governance** as a potential risk that can have a detrimental effect on the successful operation of the Fund. The Fund ensures that its decision-making process is robust and transparent, and this is documented in the Governance Compliance Statement which is published on the Fund's website.

Environmental, Social and Governance risks

4.22 The Fund's investment strategy contains its own policy on Responsible Investment. Non-compliance with this policy would expose the Fund to financial and reputational risk. The Fund believes that effective management of financially material Responsible Investment risks should support the Fund's requirement to protect returns over the long term. The Fund will seek to further integrate Responsible Investment factors into the investment process across all relevant asset classes. Further information on the Fund's approach to managing this risk is provided within the Responsible Investment Policy which is published on the Fund's website and as at Appendix B.

5. Securities Lending

5.1 Securities lending is undertaken in respect of the Fund's directly owned quoted equities holdings through an arrangement with the Fund's Custodian, BNY Mellon. The Fund receives a fee whenever it loans stock out via this arrangement and the income is used to help the Fund meets its liability payments. The Fund's securities lending programme was reviewed by the Investment Sub-Committee in 2018; they examined the potential risks and concluded that sufficient safeguards were in place and that that the programme should continue.

6. Approach to asset pooling

6.1 LGPS Central Ltd ("LGPS Central") has been set up as an arms-length company, accredited by the Financial Conduct Authority, to manage the pooled investment assets of eight LGPS funds across the centre of England.

6.2 The Cheshire Pension Fund is one of the eight partner funds, all of whom hold equal shares in the company. The other partner LGPS pension funds are:

Derbyshire, Leicestershire, Nottinghamshire, Staffordshire, Shropshire, West Midlands and Worcestershire.

6.3 LGPS Central started trading on 3 April 2018 and partner funds have started to migrate assets over to the company as and when appropriate investment products become available. As at the end of December 2021 the Cheshire Pension Fund has migrated approx. 20% of its total investment assets to LGPS Central and this percentage will increase to around one third as private asset commitments are drawn down and existing decisions implemented. In respect of migrated investment assets, LGPS Central will assume responsibility for the day to day monitoring of investment performance and the appointment and dismissal of external investment managers.

6.4 The Fund is committed to making a success of LGPS asset pooling in the belief that the Fund will benefit from lower investments costs achieved via economies of scale and greater bargaining power driven through the aggregation of assets. In addition, the Fund will have greater access to a broader range of investable asset classes, including new and innovative products and services. LGPS Central and the partner funds have put in place a robust governance framework to ensure the company operates effectively and delivers timely and transparent reporting to shareholders and client funds.

6.5 The Fund will retain full responsibility and control over its strategic investment allocation policy. Subject to satisfactory due diligence and value for money considerations being satisfied, the Fund intends to eventually invest all its assets with LGPS Central but will maintain some cash balances locally. However, some existing assets held are illiquid and difficult to transfer (e.g. private equity limited partnership holdings and property assets) and these will be evaluated carefully to assess whether best value for money is delivered by the transfer of the assets to LGPS Central or continuing to be held directly by the Fund.

7. Responsible Investment (RI)

7.1 The Cheshire Pension Fund is a long-term investor aiming to deliver a sustainable Pension Fund for all stakeholders.

7.2 Cheshire West and Chester Council, as the administering authority of the Fund, has a fiduciary duty to act in the best, long-term, interests of the Fund’s employers and members. The Fund believes that in order to fulfil this duty, it must have a clear policy on how it invests in a responsible manner.

7.3 Responsible Investment is a fundamental part of the Fund’s overarching investment strategy as set out in this Investment Strategy Statement – that is to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers and minimising the long term cost of the scheme. The Fund believes that consideration of Environmental, Social and Corporate Governance (“ESG”) factors are fundamental to this, particularly where they are likely to impact on the overarching investment objective.

7.4 The Fund's approach aims to ensure that consideration of ESG factors is embedded in the investment process, utilising the various tools available to manage ESG risks and to harness opportunities presented by ESG factors.

7.5 The Fund's core principles of responsible investment are:

1. We will apply **long-term thinking** to deliver **long-term sustainable returns**.
2. We will seek **sustainable returns** from **well-governed assets**.
3. We will use an **evidence-based** long term investment appraisal to inform **decision-making** in the implementation of RI principles and consider the costs of RI decisions consistent with our fiduciary duties.

7.6 The way in which the Fund ensures that these core principles are met, and how it monitors its own performance is provided within the Responsible Investment Policy presented in Appendix B.

8. Myners Principles

8.1 Although not specifically referenced in the Regulations, the Fund continues to assess its own compliance with the Myners Principles of Good Investment Governance. A statement that sets out an assessment of compliance is presented in Appendix A.

9. Advice taken

9.1 In creating this statement, the Fund has taken advice from its Officers and external advisors.

9.2 In relation to each of the constituent parts, such as the asset allocation and risk mitigation, the Fund has taken advice from its Investment Consultant, Mercer, and the Scheme Actuary, Hymans Robertson. In providing investment advice, Mercer is regulated by the Financial Conduct Authority.

APPENDIX A

COMPLIANCE WITH MYNERS PRINCIPLES OF GOOD INVESTMENT GOVERNANCE

Principle	Evidence of Compliance
Principle 1 Effective Decision Making: Administering authorities should ensure: - That decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and - That those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	**Compliant** - Decisions are taken by the Section 151 Officer of the Administering Authority, advised by the Pension Fund Committee. - The Section 151 Officer and the Committee has support from Council officers with sufficient experience to assist them. - The Fund is also advised by professional actuarial and investment advisers. - The Committee makes robust challenges to advice and is aware of where potential conflicts of interest may reside within the Committee and in relation to service providers.
Principle 2 Clear objectives: - An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.	**Compliant** - The Fund has established investment objectives, which take account of the nature of Fund liabilities and the contribution strategy. The objectives are set based on advice from the Fund Actuary and Strategic Investment Advisor, which informs the overall risk budget for the Fund. The overarching objective is reflected in the investment mandates awarded to the asset managers. - There is dialogue with admitted bodies within the Fund in relation to the contributions they pay, their capacity to pay these contributions and the level of guarantees they can provide.
Principle 3 Risk and liabilities: - In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. - These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default	**Compliant** - The investment strategy is considered in the light of the nature of the Fund liabilities, the timescale over which benefits will be paid, and financial and demographic factors affecting the liabilities, such as inflation and improving longevity -

Principle	Evidence of Compliance
and longevity risk.	- The Pension Fund Committee and Council officers challenged the contribution strategy with the Actuary, in order that it takes into account of risk factors for the Fund including strength of covenant. Discussions have also taken place with admitted bodies in relation to the affordability of contributions and the
Principle 4 Performance assessment: - Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. - Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.	**Partially compliant** - The performance of the Fund and its individual managers are monitored on a regular basis. - The quality of advisers is assessed on a qualitative basis and is subject to periodic retender in order to ensure value for money. - The Pension Fund Committee does not yet have a formal process in place to measure its own effectiveness.
Principle 5 Responsible Ownership: Administering authorities should - adopt, or ensure their investment managers adopt, the Financial Reporting Council's (FRC) Stewardship Code on the responsibilities of shareholders and agents. - include a statement of their policy on responsible ownership in the Statement of Investment Principles. - report periodically to scheme members on the discharge of such responsibilities.	**Compliant** - The Pension Fund Committee encourages its investment managers to adopt the Financial Reporting Council's (FRC) Stewardship Code on the responsibilities of shareholders and agents on the Fund's behalf and all relevant managers comply. - This Investment Strategy Statement includes a statement on the Fund's policy on responsible ownership. - The Fund will publish an annual summary of voting and engagement activity.
Principle 6 Transparency and Reporting: Administering authorities should - act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives	**Compliant** - The Fund maintains minutes of all Pension Fund Committee meetings and documents all key decisions through the EDN and ODN process. Minutes are available on the Fund website. - The Council holds a formal annual meeting for employers and meets periodically with sponsoring employer

Principle	Evidence of Compliance
- should provide regular communication to scheme members in the form they consider most appropriate.	bodies. - A member representative attends Committee meetings. - The Investment Strategy Statement is published on the Fund's website and is available to members on request. - Other information on the Scheme is available to members on the Fund's website.

Glossary of Terms

Term	Definition
Absolute return	A fund that aims to achieve a positive return irrespective of movements in the equity and bond markets.
Alternatives	Typically seen as an "unconventional" asset class – i.e. an asset class, other than traditional asset classes such as public equities, bonds, property and cash.
Bonds / Fixed Income	A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate. Seen as a good "matching" asset for a pension scheme.
De-risking	Moving from growth to matching assets to reduce risk.
Diversifying fixed income	A bond like investment that is return seeking and provides a different source of return other than equities.
Equities	A share in a company. Seen as a "risky" or "growth" asset from a pension scheme perspective.
ESG	Environmental, social and corporate governance factors which could impact company performance and therefore investment returns. Examples include (but are not limited to) climate change, workforce issues, remuneration, independence of the board and auditors, board composition and diversity.
Funding basis	The assumptions used by the Scheme Actuary to place a value on the Fund's liabilities (the value of the benefits to be paid out of the Fund).
Funding level	The difference in the value of the Fund's assets and liabilities. Assesses the financial health of the Fund.
Hedging	Currency hedging is an approach that is intended to manage the degree of risk that may be present when engaging in some type of foreign investment strategy. Essentially, the structure of a currency hedging process would attempt to compensate for any shifts in the relative value of the currency types utilized in the investment scheme or the transaction.
High Conviction	High conviction is a style of active management often associated with active equity investment funds. Such managers seek to deploy a high conviction approach over time with the aim of outperforming the benchmark or passive fund equivalent for their target sector.
Illiquid alternatives	An alternative asset which is not easily traded (i.e. cannot be converted into cash quickly or without an impact to the price received)
Liquid asset	An asset which is easily traded (i.e. can be converted into cash quickly and with minimal impact to the price received)

RESPONSIBLE INVESTMENT POLICY

1. Introduction

1.1 The Cheshire Pension Fund (“the Fund”) is the name of the Local Government Pension Scheme (LGPS) in Cheshire.

1.2 Cheshire West and Chester Council (“the Council”) as the administering authority of the Fund, has a fiduciary duty to act in the best, long-term, interests of the Fund’s scheme members and participating employers.

1.3 The Fund’s primary investment objective to meet its fiduciary duty is to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers given the long term nature of the scheme.

1.4 The Fund believes that in order to fulfil this duty, it must have a clear policy on how it invests in a responsible manner. Consideration of Environmental, Social and Governance (“ESG”) issues are fundamental to responsible investment, particularly where they are likely to impact on the primary investment objective.

1.5 This Responsible Investment (RI) policy sets out the Fund’s approach to embedding consideration of ESG issues in the investment process, utilising the various tools available to manage ESG risks and harness opportunities presented by ESG factors.

2. What is our policy on Responsible Investment?

2.1 The Fund’s core principles guiding our approach to Responsible Investment are:

- We will apply **long-term thinking** to deliver **long-term sustainable returns**.
- We will seek **sustainable returns** from **well-governed assets**.
- We will use an **evidence-based** long-term investment appraisal to inform **decision-making** in the implementation of Responsible Investment principles and consider the costs of Responsible Investment decisions consistent with our fiduciary duties.

2.2 The Fund will invest in sustainable assets to deliver long term financial returns to enable pension promises to be paid now and into the future. This approach places the full consideration of financially material ESG factors at the heart of the Fund’s investment decision making and monitoring process. This approach is distinct from the commonly used definition of ‘ethical’ investing: an approach in which the values or moral beliefs of an organisation or its key decision makers takes primacy over its investment considerations. Such an approach is often typified by an exclusions policy whereby certain sectors or groups of companies are excluded at the initial stage of the investment analysis process.

3. What actions will the Fund take to meet these principles?

Core Principle	Associated Actions
We will apply long-term thinking todeliver long-term sustainable returns	- Investment objectives are clearly set out in the published Investment Strategy Statement. - Set longer-term performance objectives for investment managers. - Seek to ensure that long term interests are aligned with that of its investment managers on all issues including on ESG considerations. - Policies relating to ESG will be considered as part of the Fund's long term investment planning process, following a thorough and robust investment appraisal.
We will seek sustainable returns from well-governed assets	- Apply a robust approach to stewardship, linked to the Fund's approach that engagement can positively and effectively influence behaviours. - Engage with companies when engagement to improve ESG outcomes and add value to the Fund. - Comply with the UK Stewardship Code and work within the spirit of the United Nation backed Principles of Responsible Investment ("PRI"). - Hold investment managers to account to ensure compliance with this policy. - Collective engagement through membership of the Local Authority Pension Fund Forum (LAPFF), the LGPS Central pool and other opportunities that arise from time to time. - Exercise voting rights in all markets where practicable.
We will use an evidence-based long-term investment appraisal to inform decision-making in the implementation of RI principles and consider the costs of RI decisions consistent with our fiduciary duties.	- Consider the potential financial impact of ESG related issues (such as climate change or executive remuneration) on an ongoing basis. - Consider the potential financial impact of investment opportunities that arise from ESG related factors (e.g. investment in renewable energies or housing infrastructure). - Monitor the carbon footprint of its publicly listed investment assets and actively manage any potential financial risks that this identifies through a Climate Change Stewardship Plan. - Consider investment opportunities that have positive impacts and recognises that the changing external environment presents new opportunities i.e. renewable energy, green technology and social impact investments.

4. How will we monitor performance on Responsible Investment?

4.1 The Fund will be **transparent and accountable** in terms of its performance on Responsible Investment.

4.2 To achieve this the Fund will: -:

- publish the Investment Strategy Statement on the Fund's website in line with the scheme regulations
- explain decisions relating to the setting of the investment policy
- publish the Responsible Investment Policy on its website, review the policy on an ongoing basis and formally consult on the policy at least every three years
- closely monitor its appointed investment managers whom the Fund rely on to partly implement its Responsible Investment Policy
- publish a Climate Change Report showing the carbon footprint of the Fund's publicly listed investment assets and how the Fund will manage any related risks
- undertake an annual review of corporate governance, voting and engagement activity undertaken by the Fund and its underlying managers
- publish an annual summary of voting and engagement activity
- ensure that its decision makers are properly trained and kept abreast of ESG issues
- include ESG as standing item on the Investment Sub Committee (or equivalent) agendas with a view to reporting on manager performance in relation to ESG investing, and noting any hot topics / issues arising
- undertake a fundamental review of any specific ESG issues that are considered by the Investment Sub Committee to be of potentially material financial impact
- consider and respond to feedback from stakeholders in relation to issues of concern.

5. Responsible Investment and LGPS Central pool

5.1 The Fund has joined with seven other LGPS Funds (Derbyshire, Staffordshire, Shropshire, Leicestershire, Nottinghamshire, West Midlands and Worcestershire) to create the LGPS Central pool. This is one of eight pools across the LGPS.

5.2 The pool was set up to deliver the Government's requirement for all administering authorities in England and Wales to join together and pool the way they managed their investment assets to drive economies of scale and increase opportunities in asset classes which partner funds may not have had the capacity to invest in individually.

5.3 In April 2018, the partner funds created a jointly owned company called LGPS Central Ltd, a Financial Conduct Authority accredited investment company, to manage their pooled investment assets, collectively valued at some £40bn.

5.4 It will take a number of years to transition assets securely and economically from current management arrangements across to LGPS Central Ltd.

5.5 LGPS Central Ltd has now launched a number of investment products and the Fund will continue to work with LGPS Central Ltd and partner funds to help shape further investment products that meet the requirements of the Fund's Investment Strategy Statement.

5.6 All partner funds retain ownership and control of their Investment Strategy and asset allocation decisions. Day to day investment decisions such as to engage or dismiss investment managers, and monitoring of investment performance passes to LGPS Central as assets transfer.

5.7 To date the Cheshire Pension Fund has transitioned over £1billion of assets across to LGPS Central (approx. 20% of the Cheshire Fund's total assets) and this figure will increase as LGPS Central launch new investment products.

5.8 It is expected that the Fund's ability invest in a responsible way will be enhanced through LGPS Central due to the inherent benefits of scale, collectivism and innovation that will result from the project.

6. Engagement versus Exclusion

6.1 The Fund believes that its influence as a shareholder is most effective by engaging with companies, in order to influence behaviour and enhance shareholder value.

6.2 Consequently, the Fund does not implement a disinvestment approach that excludes certain types of investments, companies or sectors except where barred by UK law.

6.3 The Fund actively engages with companies in which it is invested through LGPS Central Ltd, its investment managers and though membership of the Local Authority Pension Fund Forum (LAPFF).

6.4 Ultimately the Fund retains the right to disinvest from certain companies or sectors in the event that all other approaches are unsuccessful, and it is determined that the investment is no longer aligned with the interests of the Fund or that the issue poses a material financial risk.

6.5 Specifically, in respect of climate change, the Fund does not adopt an approach to disinvest from companies or sectors on a mechanistic basis. For example, calls to disinvest from fossil fuel companies by default take insufficient account of the relatively high carbon footprint of many companies outside of the energy sector. In addition, there is strong evidence that some companies within this sector are transitioning quickly and effectively to a net zero carbon emissions position and/or are engaging positively with the requirements of the Paris Climate Change agreement. The Fund therefore believes that it is not sensible to disinvest from such companies when pursing a holistic and evidence based approach to managing and monitoring climate change risk.

7. Responsible Investment Engagement Themes

7.1 Working in partnership with LGPS Central the Fund has adopted the following key engagements themes for particular focus during the year:

7.1.1 Climate Change
7.1.2 Single Use plastics
7.1.3 Technology and disruptive industries
7.1.4 Tax transparency and fair tax payment

7.2 LGPS Central Ltd has appointed a specialist engagement provider, Hermes EOS. Every quarter LGPS Central Ltd reports on their activities and progress in a Quarterly Stewardship report, which is publicly available at:

https://www.lgpscentral.co.uk/wp-content/uploads/2021/11/LGPSC-Stewardship-Update-Q2-2021-22-2.pdf

7.3 In addition to the focus on the four themes outlined above, LGPS Central Ltd have a wealth of active engagement activity on numerous other themes including executive remuneration, board composition, diversity and workforce rights.

8. Exercise of Voting Rights

8.1 The Fund exercises its ownership rights by actively voting stock it holds.

8.2 The Fund delegates responsibility for voting to LGPS Central Ltd or the Fund's directly appointed investment managers who are required to vote wherever the Fund has a voting interest.

8.3 For Fund assets managed by LGPS Central Ltd, wherever practicable, votes must be cast in accordance with LGPS Central's Voting Principles (available on LGPS Central's website at:

https://www.lgpscentral.co.uk/wp-content/uploads/2020/04/LGPSCentralVotingPrinciples-Apr-2020.pdf

8.4 For Fund assets managed by appointed external investment managers, votes must be cast in line with industry best practice as set out in the Combined Code of Corporate Governance with a clear focus on enhancing long term shareholder value.

8.5 Investment managers' quarterly performance reports are required to include a specific briefing on corporate governance, detailing all votes cast on the fund's behalf. The Investment Sub Committee receives these reports on a quarterly basis and any exceptions or examples of non-compliance are addressed directly with the Fund's managers.

8.6 The Fund is committed to becoming accepted as a signatory to the recently relaunched and revised UK Stewardship Code and will submit an annual stewardship report for assessment by the Financial Reporting Council by the required deadline.

9. Climate Change

9.1 The Fund recognises that, in addition to the wider impacts of climate change, owning investment assets with a significant exposure to fossil fuels, poses a particular potential investment risk in that markets may re-price fossil fuel assets in response to growing public concerns over climate change and the response of policy makers to this concern.

9.2 It is impossible to predict the timing or quantum of any market re-pricing. Given this, the Fund believes it is sensible to adopt a precautionary approach to climate change related investment risk and this approach was articulated in the Fund's Climate Change Strategy document which was published in December 2020. In the document the Fund commits itself to:

i) The Fund commits to decarbonise its investment portfolio to deliver net zero emissions by 2050 at the latest.
ii) Support the Paris Climate Agreement, which seeks to limit increases in global temperatures below 2 degrees centigrade. By extension, the Fund expects all investee companies to align their business activities with the Paris Agreement.
iii) The belief that climate change is a long-term material risk and therefore it is correct that the Fund consider it as an integral part of its statutory fiduciary duties.
iv) The belief that climate change may impact the Fund through asset pricing, life expectancy, employer covenants, long term inflation and interest rates.
v) The belief that the Fund believes that the transition to a low carbon world economy presents both risk and opportunities and therefore, the Fund will consider climate change as a part of all asset allocation, manager selection and individual investment decisions.
vi) To support the long-term aim of net zero by 2050 by setting specific shorter-term targets to lower the carbon footprint of its equity portfolio year on year compared to the general market.

9.3 Further details of the Fund's approach to climate change are included in the Fund's Climate Change Strategy document which is available at:

https://www.cheshirepensionfund.org/members/wp-content/uploads/sites/2/2020/12/Climate-Change-Strategy-December-2020.pdf

and is attached to this Responsible Investment policy as an Annex.

9.4 The shorter-term decarbonisation targets that the Fund has set are:

i) A commitment to reduce the carbon footprint of the Fund's equity portfolio by 7.6% per year.
ii) A commitment to reduce the carbon footprint of the Fund's equity portfolio to a level 50% below that of the general equity market by the end of 2023.
iii) The Fund will seek to invest an increasing proportion of total Fund assets in low carbon and sustainable assets.

9.5 The Fund believes that the above targets can be delivered without jeopardising its fiduciary duty to act in the best long-term financial interests of members and employers.

ANNEX

Climate Change Strategy

Introduction

This Climate Change Strategy sets out the Cheshire Pension Fund's approach to managing the risks and opportunities to its investment portfolio from climate change.

The publication of a separate Climate Change Strategy reflects the Fund's view that there is a significant material risk from climate change to the value of the Fund's investment assets and this risk needs to be actively monitored and managed.

Climate Change Risk

Climate action failure is *the* stand-out, long-term risk the world faces in likelihood and impact according to the 2020 Global Risks Report from the World Economic Forum. If 'business as usual' continues, the world could heat up by about 5 degrees by 2100 which would cause profound societal damages and significant human harm. According to the Intergovernmental Panel on Climate Change (IPCC), greenhouse gas (GHG) emissions need to fall by 45% vs 2010 levels by 2030 in order to avoid the worst effects of climate change.

As a long-term asset owner, the Fund would like to see stable, well-functioning and sustainable markets which will foster long-term value creation and sustainable returns. Climate change cuts across industries, markets and economies and is a risk that cannot be fully diversified. How companies manage climate-related transition and physical risks and opportunities is highly likely to affect long-term profits and company returns. The Fund will endeavour to take a holistic approach to managing climate change risk and to act in a manner that will enable the broader transition towards a low-carbon economy through a combination of portfolio construction, engagement and policy advocacy.

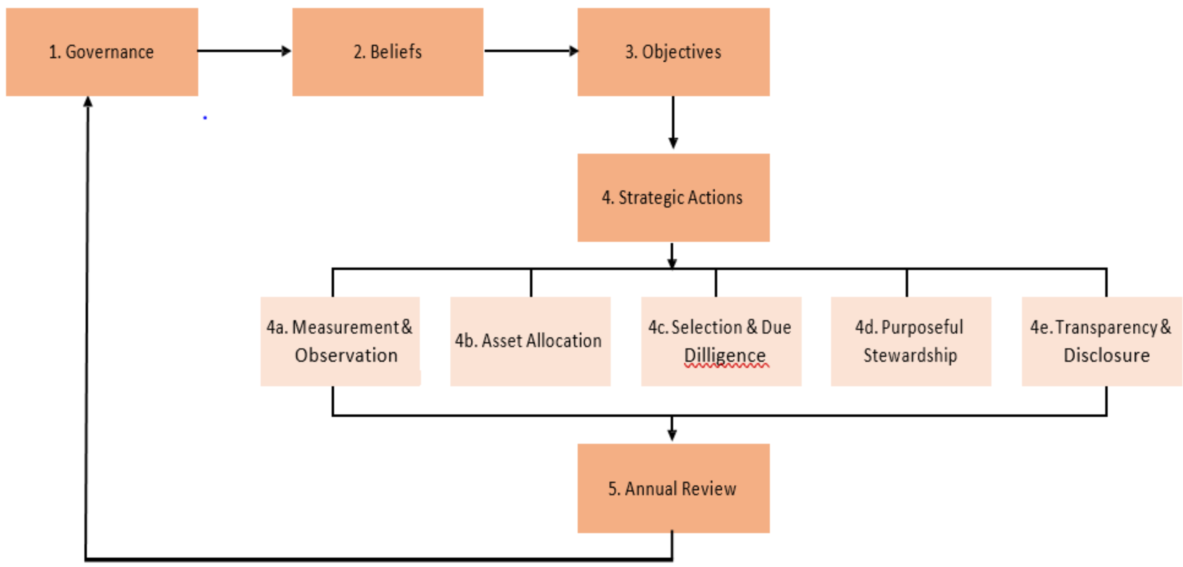
Governance of Climate Change Risk

The Pension Fund Committee is responsible for endorsing the Fund's policies and procedures including the Fund's *Climate Change Strategy.* Responsibility for the implementation of the Strategy is held by the Head of the Cheshire Pension Fund and the Finance and Investments Manager. The Pension Fund Committee will review the strategy on a bi-annual basis and agenda time will be scheduled twice a year for discussion of progress on the strategy.

The Fund is committed to providing decision-makers with appropriate training, including specialised training on climate change. The Investment Sub- Committee includes responsible investment (including climate change) as a standing item on the Investment Sub-Committee agendas, and investment managers' quarterly performance reports are required to include a specific briefing on responsible investment (including climate change as relevant).

As a primarily externally managed Fund, the implementation of much of the management of climate-related risk is delegated onwards to portfolio managers, with oversight from Fund officers. Where appropriate, the Fund's asset pooling company, LGPS Central Ltd, assists in assessing and managing climate- related risks.

Figure 2: Depiction of the Climate Change Strategy



Evidence-based beliefs related to climate change

The Fund believes that:

i) Climate change is a financially material risk for the Fund. It has the potential to impact our beneficiaries, employers and all our holdings across asset classes. Due consideration of climate risk falls within the scope of the Fund's fiduciary duty.

ii) There is overwhelming evidence that climate change is impacting the environment. This will have long-term consequences for our financial system. The Fund holds that the economic damages of climate change will outweigh the costs of precautionary mitigation.

iii) As a result of human activities, the world is warming at an unsustainable rate. Already the world is approximately 1°C warmer than pre-industrial levels. Unabated, such change would be devastating for our way of life.

iv) Climate change has the potential to impact the funding level of the Fund through impacts on employer covenant, asset pricing, and longer-term inflation, interest rates and life expectancy.

v) The Fund strongly supports the Paris Agreement on climate change.

vi) The Fund believes that a transition to a low-carbon economy is essential. This requires greenhouse gas emissions to decline to net-zero well before the end of this century. This will happen not only by focussing on the suppliers of energy but also, the demand for energy must undergo a major transformation.

vii) The Fund believes all companies should align their business activities with the Paris Agreement on climate change. It is possible for a high- emitting company to undergo this transformation and thrive in the transition to a low-carbon future.

viii) Investors have an important role to play in the transition to a low-carbon economy. The Fund believes the global economy will be less likely to realise a Paris-aligned energy transition were investors to cease influencing company behaviours.

ix) A global co-ordinated response is needed to limit the rise in temperatures. No individual investor is influential enough to act alone. Governments, policymakers, consumers, companies and investors all have a role to play. Acting in collaboration will increase the likelihood of an orderly transition to a low-carbon economy.

x) Climate-aware decisions can only be made with accurate, relevant, complete, and comparable data.

Objectives

Identify, understand and assess risks and opportunities

The Fund aims to utilise the best available information and tools to identify, understand and assess climate change risks and opportunities across regions and sectors that are material to our Fund. This includes both relevant climate-related transition and physical risks and opportunities likely to impact on the Fund's Investment Strategy and Funding Strategy.

Integration

The Fund intends to ensure that its investment portfolio; Funding Strategy and Employer Covenant Framework are resilient to climate change impacts.

To achieve climate change resilience, the Fund will ensure that material short, medium and long-term climate change considerations play an integral part in the stewardship of our investment portfolio. This includes climate change integration in the selection and due diligence, and continuous monitoring of assets.

The Fund will seek to influence investee companies and fund managers through routine engagement and voting on climate change issues.

Climate solutions and decarbonisation

The Fund aims to promote the transition to a low carbon economy through identifying and investing in sustainable and low carbon products across all asset classes. The Fund will also aim to benefit from the opportunities posed by the transition to a low carbon economy.

To further support the low carbon transition, the Fund will continue to steadily decarbonise our listed equities portfolios.

Policy advocacy and transparency

The Fund will work alongside like-minded organisations to support the ambitions of the Paris Agreement. This includes advocating for Paris-aligned regulations and policies with governments, policy makers, the investment industry and other stakeholders.

The Fund will aim to be fully transparent with our stakeholders through regular public disclosure, aligned with best practice.

Strategic Actions

Measurement & Observation

The Fund recognises that methodologies for assessing investment related climate change risk are evolving rapidly and we will seek to use the best information available. The Fund will make regular measurements and observations on the climate-related risks and opportunities relating to investment performance. This will include:

- Identification of the most material climate-related risks and opportunities relevant to the Fund;
- Economic assessment of the Fund's asset allocation against plausible climate-related scenarios;
- A carbon risk metrics assessment of the Fund's listed equities and fixed income assets. This includes the following metrics; Portfolio Carbon Footprint, Fossil Fuel Exposure, Carbon Risk Management and Clean Technology. The Fund aims to expand this type of analysis to other asset classes once reliable climate-related data becomes available.
- Regular assessment of progress against the Fund's carbon reduction targets.

Recognising the deficiency of relevant, consistent and comparable climate-related financial data, the Fund will encourage disclosure and the adoption of the recommendations of the TCFD across our investment chain, including external managers and investee companies.

Asset Allocation and Targets

Where permitted by a credible evidence base, the Fund will integrate climate change factors into reviews of our asset allocation, subject to the requirements of the Investment Strategy statement (ISS) and Funding Strategy Statement (FSS). In light of this, the Fund will actively consider allocations to asset classes that improve our ability to meet our investment objectives.

In addition, the Fund believes that the setting of meaningful and measurable targets can be a meaningful aid to set, measure and demonstrate progress towards net zero. Therefore, as a result the Fund commits to:

- Reduce the carbon footprint (scope 1 and 2 emissions) [1] of the Fund's listed equities portfolio from its current 30% below the general market (the FTSE All World baseline) to 50% below by the end of 2023.
- The Fund will also reduce the carbon footprint of its listed equities portfolio by a minimum 7.6% each year. This would ensure the Fund's equity portfolio is aligned with the recommendations of the United Nations Environment Programme's report (published November 2019), which stated that global greenhouse gas emissions must fall by 7.6% per year between 2020 and 2039 to deliver the Paris Climate target of reducing the rise in global temperatures to 1.5C.
- The Fund will seek to invest in an increasing proportion of total Fund assets in low carbon and sustainable assets. The paucity of carbon emissions data across many asset classes makes it impossible to set a meaningful Fund wide target for this commitment at present. The Fund will regularly review this with a view to setting a target once sufficient data is available.

The Fund commits to review progress on delivering against these targets on an annual basis. The targets themselves will be regularly reviewed and the Fund expects to amend the targets as both the scope and quality of investment asset carbon data improves.

Selection, Due Diligence and Monitoring

When considering all new investment decisions, the Fund will assess the material climate-related risks and opportunities and the investment manager's approach to managing climate-related risks. Wherever possible, the Fund will fully assess the impact of all new investment decisions on the carbon footprint of the investment portfolio.

Appointed investment managers will be regularly monitored to ensure climate-related risk is fully integrated into the managers investment process. The Fund will also regularly monitor and review the managers climate-related engagement and voting activity.

[1] Scope 1 Greenhouse Gas Emissions: Direct emissions from owner or sources controlled by the owner, including: on-campus combustion of fossil fuels; and mobile combustion of fossil fuels by institution-controlled vehicles. Scope 2 Greenhouse Gas Emissions: Indirect emissions from the generation of purchased energy

Purposeful Stewardship

The Fund will develop an Annual Climate Stewardship Plan, which will set clear goals of engagement, particularly on Paris Alignment, with companies, fund managers, policymakers and other organisations of influence. It is clear that the transition to a low carbon economy will depend on policy intervention, changes in corporate behaviour and changes in technology. It is therefore critical that the Fund engages in these discussions to help shape the policy and business landscape. The Fund's engagement efforts are carried out through its asset pooling company LGPS Central Ltd and through other investment managers.

The Fund will use stewardship techniques to manage the risks and opportunities within our investment portfolio, focusing on the risks and opportunities of greatest magnitude. Engagement will be prioritised using the following criteria: perceived level of climate risk, considering carbon risk metrics; weight of the company in the portfolio; likelihood of achieving change; and ability to leverage investor partnerships. Climate related investment risk is not restricted to just companies in the energy sector; the Fund will therefore engage across all relevant sectors and on both the energy supply and demand side, including but not limited to fossil fuels, diversified energy, mining, cement, aviation and utilities.

The Fund will collaborate with like-minded investors where possible and be an active participant in selected collaborative initiatives that support the Fund's stewardship aims, such as the Climate Action 100+ (CA100+) engagement project. The objectives of this engagement activity with companies will be largely aligned with a Benchmark Framework launched by CA 100+ in September 2020. In line with this Framework, the Fund will ask companies to:

i) Work toward providing disclosures consistent with the Framework enabling investors to assess a company's potential for long-term value creation;
ii) Set an ambition to achieve net zero emissions by 2050 or sooner across all material GHG emissions, and establish short, medium, and long-term targets to support that ambition;
iii) Work with investors on action plans to develop and implement net zero transition pathways toward achieving net zero emissions for specific sectors or value chains.

The Fund will make full use of its voting rights and will co-file or support climate-related shareholder resolutions where these align with the Fund's Climate Change Strategy.

Transparency & Disclosure

The Fund will prepare and publish a TCFD report annually, which will include our carbon risk metrics.

The Fund will disclose the stewardship reports of the Fund's key investment managers on a quarterly basis and report on progress against the Fund's Climate Stewardship Plan every year.