

A stag with large antlers is shown in profile, looking towards the left. It is standing in a field of ferns. The background is a soft-focus landscape with trees and foliage in warm, autumnal tones.

INVESTMENT STRATEGY Appendix A – Responsible Investment Policy

April 2023

Hertfordshire Pension Fund
Local Government Pension Scheme

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1. Introduction

- 1.1. This policy sets out how the Hertfordshire Pension Fund manages Environmental, Social and Governance (“ESG”) risks and opportunities. It outlines the key principles that have been established, and our approach to considering sustainability risk and other ESG factors.
- 1.2. The Hertfordshire Pension Fund does not directly manage its investments and contracts with specialist investment managers who have discretion to buy and sell investments within their various portfolios, within the guidelines of their mandates agreed with the Fund. These guidelines may include ESG considerations.
- 1.3. The Fund is required by Local Government Pension Scheme (LGPS) Regulations to include in its Investment Strategy Statement (ISS):
 - the policy on how ESG considerations are taken into account in the selection, non-selection, retention, and realisation of investments; and
 - the policy on the exercise of the rights (including voting rights) attached to these investments.
- 1.4. Responsible Investment (“RI”) has been defined as encompassing both financial and non-financial factors, bringing together ESG factors and broader systemic issues, e.g., climate change and sustainable development, along with active ownership (stewardship and voting) as these can have a material impact on financial performance.
- 1.5. The RI Policy that follows, in section 4, has been approved by the Hertfordshire Pension Committee (“the Committee”) following a series of training and information events presented by RI specialists from the Fund’s external advisers. RI issues are complex and have many facets for which authoritative and consistent sources of data are in their infancy. Seemingly simple investment changes may have unintended consequences for the operation of free markets, local communities, and the environment as well as the value of the Fund’s investments. The Hertfordshire Pension Fund needs to take a holistic approach that takes into account how its policies will impact all citizens and communities as well as direct stakeholders of the Fund whilst adhering to the principles of fiduciary duty.
- 1.6. This iteration of the RI policy sets out certain areas that the Hertfordshire Pension Fund has prioritised for action which include steps to better understand and produce reporting on the Fund’s exposures to ESG risks, primarily from climate change. This analysis will inform the next steps that the Pension Committee need to take, and which will be incorporated in the next iteration of the RI policy.

2. Responsible Investing

- 2.1. Hertfordshire County Council (the “County Council”) is the Administering Authority of the Hertfordshire Local Government Pension Fund and administers the Scheme on behalf of the participating employers and members in the scheme.
- 2.2. The Local Authority (Functions & Responsibilities) (England) Regulations 2000 (as amended), state that functions relating to the Pension Scheme are the responsibility of the full Council. The County Council, through its constitution, has delegated these

functions to the Pensions Committee and to the County Council's Chief Finance Officer, the Director of Finance.

- 2.3. The membership of the Pensions Committee is made up of ten County Council members and three District Council representatives. All employers and a staff representative, nominated by UNISON, are invited to attend meetings as observers.
- 2.4. The Administering Authority has established a Pension Board in accordance with Section 5 of the Public Service Pensions Act 2013. The Board assists the Pension Fund in securing compliance with the Scheme regulations and other legal and regulatory requirements. The membership of the Pensions Board is made up of four employer representatives and four member representatives.
- 2.5. Members of the Pension Committee have a fiduciary duty to act in the best interests of its scheme members and other beneficiaries in all financial and non-financial decisions. With respect to the Fund's investments, to do this effectively there is recognition of the importance of generating sustainable long-term returns. This involves more than an appraisal of financial factors but also considers non-financial factors such as ESG issues, including notably, climate change, which may be financially material to the Fund's investments.
- 2.6. There is a growing urgency and continual regulatory development with regard to long-term sustainability issues, such as The Climate Change Act 2008 that legally binds the UK to bring all greenhouse gas emission to net-zero by 2050, and the comprehensive 'apply and explain' requirements for asset owners set out in the UK Stewardship Code 2020. Therefore, it is imperative that ESG and stewardship (or active ownership) considerations are integrated throughout investment processes and that they are taken into account as part of funding and investment strategy setting.
- 2.7. Responsible Investment ("RI") is the integration of ESG issues into investment processes and stewardship practices in the belief this can positively impact financial performance over the long-term and will serve the best interests of the Fund's beneficiaries.

3. RI Beliefs

- 3.1. The Hertfordshire Pension Fund is committed to embedding RI into all aspects of the investment decision-making process and has adopted a set of Responsible Investment Beliefs as set out in the table below. These beliefs have informed the Hertfordshire Fund's policy which is set out in section 4, below.

Belief	Explanation
Summary	ESG issues, including climate change, create material risks and opportunities which will influence long term investment performance and the ability of the Hertfordshire Fund to achieve its investment and funding objectives. Therefore, robust ESG and stewardship practices should be integrated throughout the investment process of the Fund. The Hertfordshire Pension Fund recognises that the responsible management of RI Issues by ACCESS, the investment pool, and its partner Councils in the ACCESS pool is a reputationally important issue.
ESG integration	Effective management of ESG issues is a key determinant of long-term shareholder value and good risk management. Their consideration is part

Belief	Explanation
and broad risk management	of this Fund's fiduciary duty to beneficiaries. The Hertfordshire Pension Fund therefore recognises the importance of its investment managers integrating all material financial and non-financial factors, including ESG considerations, into the decision-making process for fund investments and the ongoing monitoring of these same issues.
Stewardship	Good stewardship can protect and enhance value for companies and markets as a whole. The Hertfordshire Pension Fund is committed to being a long-term steward of the assets in which it invests. It believes in the importance of investment managers acting as active asset owners through proactive voting and engagement with companies. In addition, this Fund believes that acting collectively with other investors for example through the ACCESS pool is an effective way to engage with companies.
Climate change risk	<p>The Hertfordshire Pension Fund believes that climate change presents risks over the short, medium, and long-term that the Fund should better understand and mitigate where possible. Investment action is an important area for the Fund to further develop its approach, including collaborative engagement opportunities.</p> <p>This Fund supports the objectives of the Paris Agreement and believes that keeping a global temperature rise this century to well below 2°C relative to pre-industrial levels is entirely consistent with securing strong financial returns.</p> <p>This Fund also believes in a "just transition" to a low carbon economy that ensures fair treatment for employees and communities that would otherwise bear the brunt of industrial change.</p>
Pooling	<p>The Hertfordshire Pension Fund is a participating Fund in the ACCESS Pool. The Fund believes that it should work collaboratively with its partners in the ACCESS pool to set clear expectations of its investment managers and advisers on how ESG considerations are incorporated into investment activities. ACCESS should offer funds to investors that integrate ESG considerations into their investment process and develop a consistent policy approach to stewardship and climate change.</p> <p>The Hertfordshire Pension Committee will ensure that appropriate reporting is available for Pool aligned assets in order that progress can be monitored against the RI Policy.</p>
Ongoing commitment	Responsible investment is a rapidly developing area, and the Hertfordshire Pension Fund will commit to staying informed, developing its approach, and increasing its ambition with regard to these issues.

4. Responsible Investment Policy

- 4.1. This section sets out the Hertfordshire Pension Fund's Responsible Investment Policy based upon the Responsible Investment Beliefs set out in section 3, above. The Hertfordshire Pension Fund, through its Pension Committee, has responsibility for setting its investment strategy and its ambitions on RI.

ESG integration and broad risk management

- 4.2. The Hertfordshire Pension Fund's investment managers should integrate all material financial factors, including ESG considerations, into the decision-making process for Fund investments and the ongoing monitoring of these same issues.
- 4.3. The Hertfordshire Pension Fund recognises the importance of ensuring that Pool level engagement between ACCESS and investment managers in providing appropriate assurance with regard to the investing Funds' policy commitments in this area.

Stewardship – voting rights and engagement

- 4.4. The Hertfordshire Pension Fund's investment managers should exercise their rights as owners of investments to actively participate in company level decisions tabled as shareholder votes at General Meetings.
- 4.5. Hertfordshire Pension Fund assets in the ACCESS pool should be voted in accordance with the ACCESS Voting Policy on a "comply or explain" basis with voting outcomes regularly monitored.
- 4.6. In addition to proactive voting, the Fund's investment managers should act as active asset owners through engagement with companies where there are concerns over ESG issues. The Fund also believes that acting collectively with other investors, for example, with fellow investors in the ACCESS pool or through membership of the Local Authority Pension Fund Forum ("LAPFF") is an effective way to engage with companies. In the event that engagement is not effective the Hertfordshire Pension Fund will consider divestment from an individual stock, where agreed with the relevant investment manager that this is appropriate. If this Fund cannot reach agreement with the investment manager on a stewardship issue, it may be appropriate to divest from the manager.
- 4.7. In order to enable effective engagement, the following topics have been identified as specific RI priorities for the Hertfordshire Pension Fund:
 - Climate Change
 - Waste and pollution
 - Diversity, equity, and inclusion
 - Human Rights
- 4.8. The Committee prefers engagement over exclusion as the means to further the Committee's RI beliefs. Selling an asset remains an option when it comes to unaddressed ESG concerns in the investments made by the Fund's investment managers.
- 4.9. It is recognised that the application of restrictions may be limited in certain circumstances, for example investments in "pooled assets". These types of funds are held collectively with other investors, normally in order to reduce costs or ensure a wider range of investment opportunities.

Climate Change

- 4.10. The Hertfordshire Pension Fund recognises the systemic risk associated with climate change as well as the County Council's targets in this regard and the views and aspirations of other scheme employers and scheme members.
- 4.11. The Hertfordshire Pension Committee supports the objectives of the Paris Agreement and believes that keeping global temperature rises well below 2°C relative to pre-industrial levels is entirely consistent with the Fiduciary duty of the

Fund. In order to manage this systemic risk and to align with its support of the Paris Agreement and a “just transition”, the Fund is aligned with the UK Government’s target of aiming to achieve net zero carbon dioxide emissions by 2050 or sooner. The Fund will monitor its transition journey and will periodically review the appropriateness of its net zero target.

Pooling

- 4.12. The Hertfordshire Pension Fund and ten other like-minded LGPS funds have formed the ACCESS Pool and are committed to collaboratively working together to meet the Government’s criteria for asset pooling. An Inter Authority Agreement has been signed to underpin the partnership and commitment of the eleven Funds to pooling.
- 4.13. The Hertfordshire Pension Fund will utilise, where relevant and applicable, the scale and inherent benefits of improved governance and stewardship practices that arise from collaboration with partner ACCESS funds to carry out this Responsible Investment Policy.
- 4.14. More information on this initiative can be found on the ACCESS Pool website.

5. Implementation

ESG integration and broad risk management

- 5.1. The Hertfordshire Pension Fund reviews the investment process and ESG practices of all prospective managers at the investment/manager selection stage. The ACCESS ACS Operator, Link Financial Services (“LFS”), performs a similar assessment of ESG, stewardship and the consideration of sustainable opportunities before any investment manager is appointed to a sub-fund within the ACCESS Pool.
- 5.2. Assurance will be sought through engagement with investment managers and as part of ongoing reporting and presentations at a Fund and Pool level that the investment managers are appropriately integrating ESG into their investment processes and decision making. If managers are lagging behind their peers and the essence of this Policy, they will be engaged and encouraged to improve.

Stewardship - voting rights and engagement

- 5.3. The Hertfordshire Pension Fund has delegated the exercise of voting rights to all investment managers including the ACCESS ACS Operator, LFS, on the basis that voting power will be exercised by them with the objective of preserving and enhancing long-term shareholder value.
- 5.4. LFS requires investment managers appointed to exercise the voting rights attached to investments held in sub-funds in line with its voting policy, agreed by all eleven member funds of ACCESS. Where investment managers on the platform do not adopt the positions set out in the LFS voting policy, they are required to provide a robust explanation of the position adopted on a comply or explain basis in each sub-fund prospectus.
- 5.5. The Fund’s other investment managers (i.e., those where the investment is not accessed via the ACCESS ACS) are not obliged to follow the LFS policy but have all produced written guidelines and policies outlining their own stewardship process and practices (including voting and engagement). These managers are encouraged to vote in line with their respective guidelines, in respect of all resolutions, at annual

and extraordinary general meetings of companies. As part of its manager selection and monitoring process, the Hertfordshire Fund reviews such guidelines and policies and ensures that the practices adopted are aligned with the Fund's own Responsible Investment Beliefs.

- 5.6. The Hertfordshire Pension Fund embraces the 12 principles of the Financial Reporting Council's UK Stewardship Code 2020 (the Code). Initial work has been started by this Fund to identify areas for improving the monitoring of investment managers and further steps necessary to implement a Fund Annual Stewardship Report that meets the standards required to become a signatory to the Code. The Hertfordshire Fund expects that all its UK based investment managers to comply with the code and become signatories.
- 5.7. When it comes to engagement, investment managers provided through ACCESS and the Hertfordshire Fund's other investment managers not accessed via the ACCESS pool platform are expected to engage in constructive dialogue on behalf of this Fund and to use their influence to encourage companies to adopt best practice in key areas. In the event that engagement is not effective the Hertfordshire Pension Fund will consider divestment from an individual stock, where agreed with fellow ACCESS investors and the relevant investment manager that this is appropriate. If the Fund cannot reach agreement with the investment manager on a stewardship issue, it may be appropriate to divest from the manager.

Climate change

- 5.8. The Hertfordshire Pension Fund is assessing the implications of reporting in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures ("TCFD") framework across the four pillars of Governance, Strategy, Risk Management, Metrics and Targets.
- 5.9. The Fund plans to commission an assessment of the systemic risk posed by climate change on an ongoing basis by undertaking climate change scenario analysis. This analysis seeks to understand the climate impact on return at the total Fund and asset class level across different warming scenarios and help the Fund to further its decision-making.
- 5.10. The Fund will be developing a plan over the next 12 to 18 months with interim milestones to achieve a net carbon neutral investment portfolio by 2050 in alignment with the targets set by the UK government.

Pooling

- 5.11. It is expected that the Hertfordshire Pension Fund's ability to carry out this Responsible Investment Policy will be enhanced through the ACCESS Pool, due to the inherent benefits of scale and improved governance and stewardship practices that will result from the collaboration.
- 5.12. For the investments that are held within the ACCESS ACS, the Operator, Link Fund Solutions, ensures that ACCESS pool RI guidelines and voting policy are applied by pool investment managers in their active stewardship of the companies within the ACCESS sub-funds.
- 5.13. The Hertfordshire Pension Fund will support the ACCESS Pool in further developing pool level Responsible Investment Guidelines and associated reporting, that will enable all partner Funds to meet their strategic requirements with regards to ESG/Responsible Investment.

6. Monitoring and Reporting Progress

ESG integration and broad risk management

- 6.1. The Hertfordshire Pension Committee will receive an annual report on the degree to which the Fund's investment managers integrate ESG within their investment practises and how they compare to peers. In addition, ongoing ESG developments will be monitored through performance reporting. Where managers are lagging behind their peers (or the expectations of this Policy) engagement will be undertaken with the manager to encourage them to improve.

Stewardship - voting rights and engagement

- 6.2. All investment managers are expected to report on their voting activity on a regular basis, with ACCESS Pool managers required to report on a monthly basis.
- 6.3. Regarding engagement, the Hertfordshire Pension Fund receives regular reporting covering the dialogue between investment managers provided by the ACCESS ACS with companies to encourage best practice in key areas.
- 6.4. The Hertfordshire Pension Fund will look to publish summaries of the voting undertaken on the Fund's behalf and provides member communications as and when appropriate.
- 6.5. Where managers are lagging behind their peers (or expectations of this policy) on voting and engagement activity, engagement will be undertaken with the manager to explain their performance and encourage them to improve.
- 6.6. In addition, the Hertfordshire Pension Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which aims to protect the long-term investment interests of LGPS beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies through active engagement with management. Further details can be found on the LAPFF website <https://lapffforum.org>.
- 6.7. The Hertfordshire Pension Fund receives regular email updates and a quarterly report from LAPFF on engagement activity including the nature and outcomes from those engagement activities.

Climate change

- 6.8. The Hertfordshire Pension Fund is committed to developing its reporting in respect of climate change, including with regards to carbon-foot-printing (for example, carbon intensity, fossil fuel reserves and potential emissions) and scenario analysis.
- 6.9. The reporting of carbon exposures in investment portfolios is a relatively new development and as such not all investment managers provide data on a comparable basis. The ACCESS Pool provides a basic report on sub-funds held in the ACCESS ACS, but complete data is not yet available. ACCESS are currently developing their reporting requirements in this area and the Fund is actively supporting this development in order that the requirements of this Responsible Investment Policy can be met.
- 6.10. The Hertfordshire Fund will also be developing an approach to assessing climate change scenario analysis in order to understand the climate impact on return at the

total Fund and asset class level across different warming scenarios and help the Fund to further its decision-making.

- 6.11. The Fund is working with advisers to produce its first report that complies with the TCFD¹ reporting recommendations that will be mandatory for large private sector funds from 2021 and are expected to become mandatory for LGPS Funds in the coming years.

Pooling

- 6.12. Pool level reporting will be provided to facilitate the Fund and ACCESS Pool's monitoring of the ACCESS sub-fund managers and Alternative asset managers, as and when the pool Alternatives solution is implemented. The Hertfordshire Pension Fund is committed to working with ACCESS pool partner funds to further develop pool level reporting and to facilitate the Fund's RI reporting on its total assets including those not held in the pool.

For and on behalf of Hertfordshire County Council Pension Fund Committee

¹ TCFD – Task Force on Climate-related Financial Disclosure