TWPF
Tyne and Wear
Pension Fund

Stewardship Code Report 2023/24

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Principle 1

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

Context

Tyne and Wear Pension Fund ("TWPF" or the "Fund") operates under the Local Government Pension Scheme ("LGPS"). The LGPS operates on a 'funded' basis, this means that contributions from employees and employers are paid into a fund which is invested, and from which pensions are paid. The primary purpose of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death for their dependants, on a defined benefits (DB) basis. The Fund has a Vision Statement[1] which states that the Fund's "*goal is to provide an efficient, affordable and attractive pension arrangement that is regarded by employers and members as being an important and valued part of the employment package and to be recognised as being amongst the leading UK pension funds*". To do this, the Fund will invest the assets in a responsible manner and seek to achieve sustainable, risk-adjusted returns on its investments, which in turn depend on investing in a sustainable economy, environment, and society. As further detailed later in the submission paper, the Fund largely delegates most stewardship functions, however it retains the key responsibilities for policy setting and outcomes, clearly communicating these to the managers and monitoring their actions.

South Tyneside Council is the administering authority for TWPF, so the Fund has adopted South Tyneside Council's Vision and Strategy.[2] The Vision and Strategy, states its ambition for all residents in South Tyneside to be financially secure, healthy and well, connected to jobs, skills and learning, and part of strong communities. The purpose of the Fund is therefore well aligned with the Council's Vision and Strategy. Similarly, TWPF's culture and values are rooted in Council values, to be PROUD: Professional; Respectful; Open and Honest; Understanding and engaging; and to Deliver what it says it will. These values guide TWPF's engagement with managers to understand and challenge stewardship activities undertaken on behalf of the Fund and its beneficiaries and to deliver on the purpose of the Fund.

TWPF has a fiduciary duty to employers and members and recognises the importance of being a responsible asset owner, which includes having a clear Investment Strategy Statement (ISS). The ISS was reviewed in 2023, confirming the investment beliefs adopted in 2022 and acknowledging the growing importance of ESG in general, and climate change in particular, as financial risk factors.[3]

The Fund's ESG related investment beliefs are shown below[4]:

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[1] The Fund's Vision Statement can be found in the Pensions Service Plan for 2023-2026 here https://www.twpf.info/media/2980/Pensions-Service-Plan-2023-2026/pdf/2023.01_-_Service_Plan_2023-26_-_Pensions_Final.pdf?m=638113816756900000

[2] The Council Vision and Strategy can be viewed here https://www.southtyneside.gov.uk/article/15972/The-South-Tyneside-Vision-and-Council-Strategy

[3] The full Investment Strategy Statement can be viewed here https://www.twpf.info/media/2519/Investment-Strategy-Statement/pdf/011223_TW_ISS_Clean.pdf?m=638373006132330000

[4] The Fund's Investment Beliefs can be found in Appendix I of the Investment Strategy Statement here https://www.twpf.info/media/2519/Investment-Strategy-Statement/pdf/011223_TW_ISS_Clean.pdf?m=638373006132330000

- Well run companies will produce superior returns for shareholders over the long term. There should be a focus on governance and engagement over disposal.

- ESG issues can represent long term financial risks to the Fund and its holdings. Climate Change is one of the most significant of these risks, reflecting the changing nature of the world we live in. The investment strategy includes approaches to addressing these issues for both actively and passively managed assets.

- Effective oversight of Responsible Investment requires monitoring of ESG and Climate Related Metrics

- It is not just through the shareholdings in public companies but also holdings in bonds, property and private market investments that can influence and effect improved outcomes over the longer term.

- Engagement with companies on climate related issues can be effective in creating change to protect shareholder value.

- Climate change provides investment opportunities as well as risks.

- Asset owners and managers have a responsibility to ensure there is effective engagement on climate related issues.

These investment beliefs inform the decisions that TWPF take on managing risks like climate change and TWPF's approach and expectation of asset stewardship accordingly.

For example, TWPF's preference for engagement over divestment means the Fund has chosen not to automatically divest from oil and gas companies. The Fund prefers to engage to support their transition, in the best long-term interests of its beneficiaries. If the Fund were to divest from certain high carbon sectors, the carbon emissions will still exist but be owned by other investors, who may be less interested in driving change going forward. Similarly, TWPF recognises that exclusions are a blunt instrument, which is why it supports engagement, escalation and divestment decisions being taken on a case-by-case basis by the appointed investment managers. The Fund does all of the above because it believes this will maximise long term shareholder value, thereby facilitating the payment of pensions.

Activity

In 2023, the Fund reviewed and updated its Investment Strategy Statement ("ISS"), RI policy, Climate Change Policy and Net Zero Roadmap to ensure they would continue to serve as an appropriate foundation for TWPF and its stewardship activities. In addition, feedback from the FRC on the Fund's 2023 Stewardship Code submission report was actively considered to ensure continuous improvement in our approach to stewardship. The Service Plan (i.e. the document that sets out the aims, objectives and actions that the Fund needs to achieve to meet its vision) is updated annually, and sets out the aims, objectives and actions the Fund aims to deliver over the following three years.

The Fund has a statutory duty to communicate with members and their representatives to allow them to make informed decisions. The Fund is required to publish and maintain a Communications Policy Statement detailing how we communicate with our stakeholders, the format, frequency, and method of our communications and how we promote the Scheme to prospective members and their employers. This statement is reviewed annually and published on the Fund's website[5]. Whilst the Communications

[5] The Fund's Communications Policy is available here: https://www.twpf.info/media/2978/Communications-Policy/pdf/Communications_Policy.pdf?m=637922602662170000

Policy is important, it does not expand into service delivery, engagement with members and gathering and acting upon feedback. To enhance the Fund's communications and engagement with members, the Service Plan includes actions to develop a 'Member Engagement Strategy' and an 'Employer Engagement Strategy'.

In Q1 2024 the Fund developed the first draft of the Members Engagement Strategy and an Employers Engagement Strategy which will be submitted for the Committee's approval in June 2024. The purpose of the Strategies is to outline how the Fund will actively engage with its members and its employers. This will ensure greater focus on service delivery, improvements to communications and enhancements to digital solutions. The Fund is committed to engaging with members and employers through surveys, video tutorials, developing social media channels, newsletters, and increasing the number of online documents. The draft strategies also outline how the Fund will monitor and review engagement with members and employers to ensure continuous improvement.

As further detailed in Principle 9, the Fund carried out continued discussions with its investment managers on behalf of its members, employers and wider stakeholders.

Outcomes

The beliefs outlined above recognise the importance of stewardship and climate change, which is an issue of particular importance to TWPF, in setting the direction of the Fund. The ISS states that the Fund expects both Border to Coast Pension Partnership Ltd (the LGPS pooling partner for the Fund and hereafter "BCPP") and any directly appointed fund managers to also comply with the UK Stewardship Code and this is monitored on an annual basis. The ISS also states that it expects managers to use best efforts to apply the principles of the UK Stewardship Code to overseas holdings.

TWPF believe the actions it has taken to consider ESG related beliefs to guide stewardship activities and the investment decisions taken, supports its purpose of providing pensions and other related benefits to beneficiaries. The Fund will continue to monitor the investment beliefs, most recently done in 2023, to ensure that they remain appropriate to guide its strategy and to deliver long-term benefits for beneficiaries.

In assessing the performance of the Fund against its benchmark, the long-term performance has been typically in excess of the benchmark, demonstrating the Fund has been delivering for the beneficiaries.

Period	Performance	Benchmark	Outperformance
Three years	+4.2 p.a.	+5.0 p.a.	-0.8 p.a.
Five years	+6.4 p.a.	+6.3 p.a.	-0.1 p.a.
Ten years	+8.0 p.a.	+7.2 p.a.	+0.7 p.a.
From April 1986	+8.6 p.a.	+8.3 p.a.	+0.3 p.a.

Principle 2

Signatories' governance, resources and incentives support stewardship.

Context

The Fund's Pension Committee (the "Committee") is primarily responsible for the investments and administration of benefits under the scheme, meeting at least five times per annum to achieve this goal. The Committee has nineteen members. South Tyneside Council has legal responsibility for the Fund and nominates eight members, whilst the other five local authorities within the Fund each nominate one member. The scheme members are represented by three trade union representatives and the employers in the Fund are represented by three employer representatives, the latter nominated by the employers themselves. The Committee's role is to set the strategic policy framework and monitor implementation and compliance within the framework including the appointment and monitoring of the Fund's investment managers and their stewardship arrangements.

The Fund created a Local Pension Board (LPB) and delegated certain responsibilities to the LPB mainly to ensure compliance with legislation and with any requirement imposed by The Pensions Regulator. The LPB reports back to the Committee on such matters. The LPB has eight members and is responsible for assisting the Committee to ensure the effective and efficient governance and administration of the Fund and to comply with legislation and with any requirement imposed by The Pensions Regulator. There are four representatives of the employers in the Fund appointed to the LPB. One is nominated by South Tyneside Council and the other employers in the Fund nominate the remaining three representatives. The scheme members nominate four trade union representatives to promote their interests.

The Fund has also established an Investment Panel to provide a greater focus on, and scrutiny over, the investment strategy and the performance of investment managers, including on stewardship. The Panel advises the Committee on investment-related issues and on actions to be taken on investment matters (more information on oversight is provided in disclosure against Principle 8). The Panel is accountable to, and receives oversight from, the Committee. This approach is taken to provide effective delegation of investment-related matters to those with the appropriate skills and knowledge to fulfil these duties. As the Panel monitors performance of and meets with the investment managers appointed by the Fund, it is best placed to assess and monitor stewardship activity carried out on the Fund's behalf.

The Panel receive support from the Fund's investment advisors, Hymans Robertson, on investment matters such as investment strategy and implementation. This is carried out in the form of written advice and training on relevant topics. Representatives from Hymans Robertson attend all meetings of the Investment Panel and Committee. The investment advisors have a dedicated Manager Research team, who carry out routine monitoring of investment managers, and a dedicated Responsible Investment team, who carry out monitoring of stewardship and ESG-related activities of the investment managers (which includes RI ratings, of which stewardship is a component). These teams feed into the advice received by the Panel, primarily through ongoing monitoring and alerts, and via advice at inception of a new investment mandate. The investment advisor is expected to incorporate responsible investment (including in relation to stewardship) in its advice to the Fund, in line with the Fund's beliefs. As per The Pensions Regulator's requirements, the Fund sets expectations for its investment consultant and undergoes an annual review to ensure Hymans Robertson meets the expected standards.

Activity

As mentioned earlier, the Fund does not engage in direct investment. Instead, it delegates the task to investment managers who act on its behalf. The Fund evaluates the processes and resources available to an investment manager as part of its decision in appointing an asset manager. In this way, the Fund encourages and ensures stewardship is incorporated into the process of making investment decisions, both within its own operations (such as defining its Investment Strategy) and externally (such as selecting expert advisors and investment managers to support its governance procedures and meet its investment needs).

The Fund's governance structure serves as the primary means to incentivize the incorporation of stewardship into internal investment decision-making. This involves establishing a transparent Investment Strategy and investment beliefs, as well as continuously evaluating the Fund's performance at various levels of detail. This also includes monitoring the performance of individual investments and stewardship activities of investment managers at a granular level, as well as conducting strategic evaluations such as the triennial actuarial valuation and comprehensive reviews of the Investment Strategy. Investment managers also have clear incentives on stewardship. Effective stewardship improves returns, and strong track records are critical to the commercial success of any investment manager. Furthermore, six of the Fund’s thirteen private markets investment managers earn performance fees and therefore can directly benefit from the value created by effective stewardship.

Where the Fund delegates responsibilities of day-to-day management of investments to an investment manager, it draws on the significant resources of the manager and its specialist service providers to carry out stewardship activity. This includes BCPP[6] (who manage the majority of the Fund’s assets) and other appointed managers. The Council’s Constitution requires the Committee to work with BCPP to implement the Fund’s investment strategy, prepare and maintain a Responsible Investment Policy (outlined in Principle 7) which takes account of the policy of the BCPP, and provide guidance to the Council on exercising its rights as a shareholder in BCPP.

BCPP use a Voting and Engagement provider (Robeco) and a Proxy Voting advisor (Glass Lewis) to implement Border to Coast’s Corporate Governance & Voting Guidelines[7] in line with the manager’s Responsible Investment policy[8] across the pool’s fund structures. The latter is reviewed yearly and underpins the approach taken by BCPP in its engagement on ESG issues across asset classes. Furthermore, the RI policy details the manager’s approach to engagement and escalation, as well as specifying the key engagement themes, which are reviewed regularly. Since the latest review in 2021 the manager’s key engagement themes are issues on low carbon transition, diversity of thought, waste and water management and social inclusion through labour management. While acknowledging the

[6] Tyne and Wear Pension Fund is a founder member of the Border to Coast Pension Partnership (BCPP) was created by eleven likeminded pension funds, established in 2018 in response to the Government’s LGPS: Investment Reform Criteria and Guidance (2015). BCPP’s purpose is to make a difference for the Local Government Pension Scheme by providing cost-effective, innovative, and responsible investment opportunities that deliver returns over the long-term.

[7] BCPP’s Corporate Governance and Voting Guidelines are available here: https://www.bordertocoast.org.uk/wp-content/uploads/2024/01/Border-to-Coast-Corporate-Governance-Voting-Guidelines-2024-FINAL-EXTERNAL.pdf?_gl=1*1facfbg*_up*MQ..*_ga*OTIzNDQ5NTI4LjE3MDc4MjUxNTI.*_ga_KKJQ3HKXSW*MTcwNzgyNTE1MS4xLjEuMTcwNzgyNTIwMi4wLjAuMA.

[8] BCPP’s RI policy is available here https://www.bordertocoast.org.uk/wp-content/uploads/2024/01/Border-to-Coast-RI-Policy-2024-FINAL-External-PDF.pdf?_gl=1*1jo77pr*_up*MQ..*_ga*OTIzNDQ5NTI4LjE3MDc4MjUxNTI.*_ga_KKJQ3HKXSW*MTcwNzgyNTE1MS4xLjEuMTcwNzgyNTIwMi4wLjAuMA.

flexibility required with each voting decision, the voting guidelines can broadly be summarised as follows:

• BCPP will support management that acts in the long-term interests of all shareholders, where a resolution is aligned with these guidelines and considered to be in line with best practice.

• BCPP will abstain when a resolution fails the best practice test but is not considered to be serious enough to vote against.

• BCPP will vote against a resolution where corporate behaviour falls short of best practice or the guidelines, or where the directors have failed to provide sufficient information to support the proposal.

Other managers, such as LGIM (who manage c.29% of the Fund's assets), carry out voting and engagement within their own stewardship teams, guided on a case-by-case basis by its Global corporate governance and responsible investment principles[9], and region-specific policies in recognition of differing regulatory regimes.

Through its role as a partner fund, TWPF provide input to the design of the RI policy at BCPP via active participation at Responsible Investment Officer Operations Group meetings. This allows the Fund to gain comfort that the manager's actions are best aligned with the beliefs of the Fund. All managers appointed by TWPF, including BCPP, are expected to have appropriate governance and resources to ensure adequate stewardship of investments.

TWPF is a long-standing member of the Local Authority Pension Fund Forum (LAPFF) with Officers and members of the Pensions Committee and Local Pension Board regularly attending business meetings, executive meetings and the Annual Conference. The Pensions Committee Vice-Chair had previously been a member of the LAPFF Executive, and the Principal Investment Manager was elected to the LAPFF Executive this year.

In terms of resourcing, as well as appointing independent advisors, the Fund ensures that it has sufficient skills, experience and diversity to deliver the objectives set out in the Pensions Service Plan, which includes effective stewardship of assets and engagement with the managers, as outlined below.[10]

South Tyneside Council has set up its own Equality Diversity and Inclusion Survey to learn more about its workforce. A summary of the results covering age and ethnicity is shown in the table below and compared to Census 2021 data for the region[11].

[9] LGIM's Global corporate governance and responsible investment principles are available here https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-global-corporate-governance-and-responsible-investment-principles.pdf.pdf.
[10] The full Pensions Service Plan can be seen here https://www.twpf.info/media/2980/Pensions-Service-Plan-2024-2027/pdf/Annex_A_Service_Plan_2024-27.pdf?m=1706896800230
[11] The comparative results are available here https://www.ons.gov.uk/visualisations/censusareachanges/E08000023/

	South Tyneside Council	South Tyneside Region
Age	**%**	**%**
0-16	0.0	17.9
16-50	53.6	39.5
51-65	43.0	21.7
66+	1.4	20.9
Prefer not say	2.0	0.0
Ethnicity	**%**	**%**
Asian	1.4	2.9
Black	0.3	0.5
Mixed	0.7	1.4
White	95.3	94.4
Other ethnic groups	0.3	0.8
Prefer not say	2.0	0.0

The Fund's Investment Team, headed by the Principal Investment Manager, comprises of eight officers responsible for the oversight and administration of the Fund's investments as well as responsible investment matters and financial control. A new role of an Investment Manager was created in the year to bring additional support to the in-house team. This role has a focus on responsible investment / stewardship given the Fund's commitment to this area.

Key roles at the Pension Fund include:

Name	Role	Experience
Cllr Anne Walsh	Chair of Pension Committee	9 years on the Pension Committee as Chair or Vice Chair and sitting on Investment Panel. Also, two years as a Non-Executive Director at BCPP 2020-2022.
Cllr Pat Hay	Vice Chair of Pension Committee	8 years' experience. This has covered, at various stages, Pensions Committee, the LPB and Investment Panel. Has undertaken ongoing training requirements.
Cllr Joyce Welsh	Member of the Investment Committee and Panel	2 years' experience as a member of the Pensions Committee and Panel. Has undertaken ongoing training requirements.
Paul McCann	Head of Pensions	9 years' experience within LGPS, covering all areas of the Fund.

Neil Sellstrom	Principal Investment Manager	21 years' experience across LGPS including 7 years as investment client and 12 years in advisory role across LGPS governance
Liz Vollans	Principal Governance and Funding Manager	Over 25 years LGPS experience, focussed on strengthening resilience, transparency and effectiveness of the Pensions Administration function.
Heather Chambers	Principal Pensions Manager	36 years' experience of LGPS including 24 years at a senior management level at TWPF. Member of PLSA LA Committee and LGPC Technical Group
Andrew Lister	Pension Fund Finance Manager	9 years' experience within LGPS covering investments and stewardship
Andrew Hill	Investment Manager	30 years' LGPS experience as Fund Manager, including RI integration. 5 years' private sector experience in support of LGPS Funds and pools.

In addition, the Fund recognises the importance of training for Committee and Pension Board members and officers responsible for financial management, decision making and administration of the Fund. The Fund has adopted the CIPFA Knowledge and Skills Frameworks for Officers, Elected Members and Board members as the basis for its training programme. The Training Policy and Programme takes account of the ongoing specific requirements of the Pensions Committee and the LPB, and requirements set out in the Pensions Regulator's Codes of Practice . Training is provided to ensure Committee and LPB members and staff possess an appropriate level of knowledge, skill and understanding to carry out their duties, including on oversight of stewardship activities.

Over the year to 31st March 2024, in-house training delivered to officers, board and committee members amounted to over 35 hours. In addition, the respective Chairs and Vice Chairs of the Committee and LPB, along with senior officers, also attended externally provided, professional development events amounting to over 60 hours. These included the Pensions and Lifetime Savings Association (PLSA) Conference in June 2023, LGC Investment Summit in September 2023, BCPP Annual Conference in September 2023 and LAPFF annual conference in December 2023, which each included sessions on engagement activities, climate change and education on ESG issues.

In addition, individual Committee and LPB members assess their personal training needs against the programme available to ensure all applicable skills are targeted and developed when required. The Fund monitors training attendance and ensures an adequate level of participation, as stated in the Training Policy[12], with a report on training included in the Annual Report and Accounts.

Outcomes

The Fund's governance structures (through the officers, Pensions Committee, LPB and Investment Panel) ensure strong focus is given to stewardship. Responsible Investment has been integrated into the investment strategy framework (as set and approved by Committee) which is then implemented by the Fund's Officers. The Fund's Officers engage in ongoing dialogue with all investment managers on at least a quarterly basis. Meetings focus on investment performance but also include ESG issues. The Fund's Officers report back to Committee and Investment Panel on a quarterly basis. The

[12] Full Training Policy available here https://www.twpf.info/media/2585/Training-policy-for-Pensions-Committee-and-the-Local-Pension-Board/pdf/Training_Policy_for_Committee_and_LPB_06072022.pdf?m=638048847043300000

governance structures ensure not only robust oversight of investment managers, but also ensure that Committee, Investment Panel and LPB retain oversight of the officer team.

During the year, fund officers have been working with colleagues at partner funds within BCPP to undertake a review of the governance and oversight of BCPP. This work remains ongoing into 2024/25 with TWPF officers playing a leading role in this. This should further strengthen the governance arrangements at BCPP which in turn benefits TWPF and its beneficiaries.

On a yearly basis the Fund undertakes a comprehensive governance audit, in particular assessing TWPF's adherence to the Myners Principles as set out in the guidance published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and how the Fund compares against recommendations of the Scheme's Advisory Board's ("SAB") Good Governance review. This was carried out by Isio, who were selected given the provider's experience in conducting similar exercises for other LGPS funds, for the period to January 2024. This approach was taken to ensure the Fund adheres to relevant requirements, works towards best practice and identifies and addresses areas that require improvement. In the latest review conducted in 2023-2024, Isio awarded the highest level of assurance to the Fund.

Isio has noted that TWPF is more self-sufficient and less dependent on its external investment advisor when compared with other LGPS Funds. Regarding resources, Isio observed that TWPF benefits from having a strong base of experienced internal staff, familiar with and exclusively dedicated to monitoring the Fund full-time on a day-to-day basis. In addition, a formal training programme for all members of the Committee is implemented based upon the CIPFA Knowledge and Skills Frameworks. A training checklist is also maintained and benchmarked against the Pensions Regulator's Code of Conduct training requirements.

Four main recommendations were made by Isio in their conclusion to the January 2024 governance review, which were adopted as improvement points by TWPF. First, given the increased challenges on the UK labour market, TWPF were advised to formulate a more robust and sustainable strategy for staff hiring and reduction of key person risk and this objective was consequently entered in the 2024-27 Service Plan by way of a workforce strategy. Secondly, while Isio pointed out TWPF's significant improvements on climate reporting, a recommendation was made to continue to be proactive in engagement with asset managers in relation to data quality on climate reporting. Thirdly, Isio noted that in light of central government guidance on pooling, the Fund might consider inviting a representative of the pool (BCPP) to all regular Committee meetings to ensure a joined-up approach. Finally, Isio recommended consideration of the merits of an independent investment advisor, though noted the Fund is well resourced and supported in this work.

TWPF is actively working on these areas and is committed to maintaining the highest standards of governance in support of its stewardship activity. Meetings have already taken place with a number of the investment managers, including BCPP and private market managers, to highlight the Fund's climate data requirements and to discuss actions to be taken to address previous deficiencies.

In March 2023, Deloitte conducted an independent review of the Fund's investment reporting practices which concluded with the auditor granting a 'substantial' assurance (the highest level available) opinion. Deloitte pointed out that TWPF is 'reaping the benefits of a familiar dedicated team whilst still obtaining sufficient exposure to external industry trends through its investment advisor and training sessions'. Two non-critical recommendations were presented by the auditor, focused on the formalisation of investment monitoring evaluations and internal procedures. The Fund is continuing to address this feedback and the associated actions are reflected in the current Service Plan.

Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Context

South Tyneside Council (the administering authority for the Fund) has a Constitution which, amongst other things, contains a Members Code of Conduct and Employees Code of Conduct. The Constitution sets out the approach to conflicts of interest and how they are to be managed.

Under the Members' Code of Conduct, elected members are required to register certain interests with the Monitoring Officer. There are additional requirements for members to declare interests at relevant meetings, including Pensions Committee. Members and Officers are also required to make declarations as to gifts and hospitality. Such declarations are published and are in the public domain. This ensures a high level of transparency.

In addition to this, TWPF has a Conflicts of Interest Policy[13] for the LPB. This sets out how conflicts are defined as well as means to identify, manage and monitor potential conflicts.

With regards to identifying potential conflicts, the policy states that the Local Pension Board should cultivate a culture of openness and transparency. The need for continual consideration of conflicts should be recognised. Local Pension Board members should have a clear understanding of their role and the circumstances in which they may find themselves in a position of conflict of interest and know how potential conflicts should be managed. Moreover, each member of the Local Pension Board (as well as any other attendees participating in a meeting) will be expected to declare, on appointment and at each meeting, any interests which may lead to conflicts of interest in the subject area or specific agenda of the Local Pension Board. The Local Pension Board should take time to consider what key decisions are likely to be made during, for example, the year ahead and identify and consider any conflicts of interest that may arise in the future. Other Local Pension Board members should be notified as soon as practically possible, and mitigations should be put in place to avoid these conflicts from materialising.

In order to monitor potential conflicts, as part of their risk assessment process, the Local Pension Board should identify, evaluate and manage dual interests and responsibilities which have the potential to become conflicts of interest and pose a risk to the Fund and possibly members, if they are not mitigated. The Local Pension Board should keep a register of interests to provide a simple and effective means of recording and monitoring dual interests and responsibilities. This document should be maintained on an ongoing basis. The Local Pension Board should ensure that the Administering Authority receives:

- Information on the roles, responsibilities and duties of Local Pension Boards members;
- A copy of the register of interests;
- A report on potential or actual conflicts of interest.

[13] TWPF Conflict of Interest Policy can be seen here https://www.twpf.info/media/2584/Conflicts-of-Interest-Policy/pdf/Conflicts_of_Interest_Policy_for_the_Local_Pension_Board_-_Approved_January_2024.pdf?m=1706890251763

Conflicts of interest shall be included as an opening agenda item at Local Pension Board meetings and revisited during the meeting, where necessary. This provides an opportunity for those present, including non-board members, to declare any dual interests and responsibilities, which have the potential to become conflicts of interest and minute discussions about how they will be managed to prevent an actual conflict arising.

Managing potential conflicts is an important part of the policy, stating that a perceived conflict of interest can be as damaging to the reputation of the Administering Authority as an actual conflict of interest. It could result in Scheme members and interested parties losing confidence in the way the Fund is managed. When seeking to prevent a potential conflict of interest becoming detrimental to the conduct or decisions of the Local Pension Board, Board members should seek advice from the Lead Officer.

In addition, TWPF expects investment managers, advisors and contractors to have effective policies in place to address potential conflicts of interest, and for these to be publicly available on their websites. This aspect is reviewed through officer due diligence upon the appointment of any new mandate and regularly monitored throughout the Fund's holding period.

Officers are aware of the potential for conflict of interest and monitor continuously. The Administering Authority works to the PROUD vision and standards, where O is Openness and Honesty. This embeds into the organisation's culture the ability to raise concerns in a non-confrontational manner and ensure mitigation actions are achieved.

All formal meetings of the Committee and the LPB have disclosures of interest as a standing item of the agenda at the commencement of each meeting. When a matter is under discussion that applies to a Disclosable Pecuniary Interest (DPI) of an elected member, they are required by law to declare their interest and leave the meeting when the matter is under discussion. Members are required to declare any interest at the start of each meeting, or at any time during the course of business, should a conflict subsequently become apparent. Members that declare a conflict of interest in relation to a particular matter may not participate in any discussions or vote on that matter.

Most direct stewardship issues are managed by BCPP and other managers on the Fund's behalf. The process to escalate an unresolved conflict is dependent on the source of the conflict, e.g. external asset manager, pool, democratic, officer or other service provider. The severity of conflict and its potential effect and evidence of action taken is also key. From a RI point of view BCPP had eight discrete stages in the escalation process for voting. Active consideration and discussion took place in 2024 to assess options for consistency in voting activity to ensure consistent conflict-free approaches to the RI policy that reflects the aims and aspirations of TWPF. In addition to line management safeguards, BCPP separates its Governance function (and oversight) from the Investment Function. This is backstopped within the organisation by the Administering Authorities Whistleblowing Policy[14].

Activity

The Council's Constitution, including the codes of conduct, was updated in May 2023. The Fund's Conflict of Interest Policy was updated on 30 January 2024. This policy addresses how the Local Pension Board recognises actual conflicts and manages potential conflicts of interest relating to the Fund. The policy provides a definition of conflicts, how these may arise and relevant regulation. It sets out the responsibilities of the Local Pension Board and its chair, standards of conduct, an approach for identifying, managing and monitoring potential conflicts, in addition to examples of how these might

[14] Administering Authorities Whistleblowing Policy available here: https://www.southtyneside.gov.uk/article/19329/South-Tyneside-Council-s-whistleblowing-policy

arise. As part of this, a register of interests is kept to record and monitor interests and responsibilities, updated on an ongoing basis. As this relates to stewardship, the Fund regularly includes how potential conflicts can arise in relation to voting and engagement activity of asset managers. Conflicts of interest are an opening agenda item at meetings and is addressed accordingly.

In its responsible investment policy, the Fund notes expectations of asset managers to have policies in place to address conflicts of interest, and that the Fund is consulted in the event that the policies to not facilitate resolution.

The Pensions Committee and Local Pension Board members attended a refresher training session on their roles and responsibilities as representatives of the TWPF on 20th September 2024. A section of the training was dedicated to identifying and appropriately acknowledging potential conflicts of interest. Such sessions will continue to be provided on a regular basis to aid Officers in adequately addressing any applicable conflicts.

Outcome

TWPF are satisfied that its approach to managing conflicts during the year was effective.

Declarations of interest are made at the start of each Committee, Board and Panel meeting. This includes all Disclosable Pecuniary Interests, personal interests and other interests which may give rise to an actual or potential conflict of interest. A member of Pensions Committee declares a personal interest at each Committee meeting relating to a connection with a climate pressure group. This interest is managed in accordance with the Members Code of Conduct.

As the Fund is both a partner fund (shareholder) in BCPP and a client (investor), in recognition of the evolving management of these interests, this is set out in the following case study.

Shareholder and client of the Border to Coast Pensions Partnership
Background
The Fund when scoping its activities for conflicts of interest has identified a potential conflict of interest between being both a shareholder and client of BCPP. This may arise where the interests of the Fund may differ in these differing roles, for example, should a mandate be desired by the Fund as an investor, but not be financially viable from the perspective of the pool. Whilst there has been a shift in the management of assets to Border to Coast, the fiduciary duty of the Fund means that our role in oversight remains crucial. At a high level, as well as it being a requirement to pool assets, the savings attainable from pooling and the skill resource available are considered to outweigh any potential conflict. The chosen model for pooling with BCPP offers also additional protections through shareholder participation.
Actions taken
In order to mitigate the arising conflict of interest, the Fund's shareholder relationship is primarily led by the Head of Pensions and Chair of Pensions Committee, with its client interest mostly led by the Principal Investment Manager and investment team. While in practice decision making occurs at the wider committee level, further delineation of these functions is created through holding a distinct set of meetings:

- BCPP Officer Operations Group meetings (OOG) relate to TWPF's role as a client of BCPP. Representatives of the member funds work collaboratively to ensure that due diligence over Border to Coast investment funds is carried out effectively on behalf of investors.
- BCPP Joint Committee and Senior Officer Group meetings represent collaborative vehicles through which the individual partner funds provide collective oversight of and direction of Border to Coast. As such, these primarily cover the roles and responsibility the Fund plays as a shareholder of the partnership.

And recognition of the combined interests through:

TWPF Pensions Committee meetings cover both the client and shareholder function interests. This is appropriate as these are inextricably linked in the long term and it provides a forum to bring these elements together as necessary.

Outcomes

Actions are ongoing to ensure further mitigation including:

- As the pooling project develops, Border to Coast are moving from the 'establishment' to 'business as usual' phase and this has led to a review of the governance arrangements to ensure they remain fit for purpose, which was led by the Fund's Head of Pensions. This review included considering the role and remit of each aspect of the governance structure to provide clarity and minimise duplication. This ensures that issues around investor oversight and shareholder oversight are addressed in the appropriate forum.
- In 2023/24 Officers of the Fund were part of a working group of Partner Funds working with Border to Coast to develop and implement a new funding model which led to the application of specific ad valorum fees rates for each product based on costs. The model considered the impact on Partner Funds as investors and also shareholder responsibilities regarding the creation and termination of new funds to ensure all scenarios were equitable to all Partner Funds and this was subsequently approved through revised Shareholder Agreements.
- South Tyneside Council is the administering authority for the Tyne and Wear Pension Fund and so is responsible for ensuring there is the necessary shareholder oversight including taking independent legal advice when required.

In all, the Fund considers its interests to be aligned with that of the pool, in working in the best interests of its members, and the mechanism by which it can exert influence on BCPP to be appropriate.

Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Context

The Fund has a well-established process in place to identify and consider market-wide and systemic risk, with further detail provided below.

The Investment Team, Committee, Investment Panel, investment managers and the investment consultant monitor global markets to ensure systemic risk and specific risks are properly considered. TWPF works with the investment consultant and scheme actuary to develop investment and funding strategies which address a range of risks outlined in the risk management framework including:

- Climate risk – TWPF views climate change risk as a materially important factor that could significantly impact its long-term investment performance given the effects it could have on global financial markets and has produced a climate change policy to assist in managing this risk.
- Governance risks – TWPF considers risks inherent in operational changes within the Fund's structure and takes steps to mitigate such issues.
- Asset risks – TWPF acknowledges the individual risks associated with investments and the process of delegating a significant part of investment decision making to its investment managers. To manage these risks, practices such as counterparty reviews, quarterly monitoring and having a robust governance framework in place are quoted as key mitigations. The strategic use of risk constraints, portfolio diversification and a rigorous manager selection process provide additional risk mitigation.
- Funding risks – TWPF was fully funded as of the latest valuation, but specifically addresses the risk of potential increases in the funding gap with mitigating actions such as regular meetings with the actuaries and Scheme employers, reviewing the funding strategy and obtaining guarantees and bonds from participating employers where appropriate and possible.

The key risks mentioned above are recorded in the Fund's Risk Register and are reviewed quarterly. The Committee delegates the quarterly review to the LPB and the Fund's officers but reviews the Risk Register on an annual basis[15].

A full Risk Management and Audit report was presented to the LPB and Pension Committee in March 2024. There were no changes to the previously reported risks, with the exception of raising GMP reconciliation risk from Moderate to High due to McCloud remedy implications.

Market-wide and systemic risks are managed through the Fund's risk management framework which highlights the impact of these risks on asset returns, value of liabilities and therefore funding position. Market risks considered include inflation, interest rates, equity, credit and currency risks. Climate change is a systemic risk currently given particular focus.

[15] Latest version of TWPF's Risk Register is available here https://www.twpf.info/media/3681/Short-form-risk-register/pdf/Executive_Summary_Risk_Register_March_2023_FINAL.pdf?m=638161223182730000

Market-wide and systemic risks are risks are identified through various means:

- Triennial investment and funding strategy reviews (via its investment consultant and actuary)
- Investment reviews and funding updates during the valuation periods (via its investment consultant and actuary)
- Regular investment reporting (via its investment managers)
- Review of new regulations and guidance provided by the Scheme Advisory Board and other industry bodies
- Points raised by members at meetings of the Pensions Committee, Investment Panel and Local Pension Board.

With these inputs, the Fund's officers consider risks identified and decide which additions and amendments are made to the risks and mitigants identified in the Risk Register and subsequent service plans. The Risk Register is then reviewed quarterly by the LPB. The Fund is satisfied that in this way, its service providers feed in and discuss risks with key decision makers for the Fund and ensure that market-wide and systemic risks are identified and efforts taken to address these, thereby promoting well-functioning financial markets.

The impact of risks on the Fund is assessed in detail in the triennial investment and funding strategy reviews, with the former focusing on the asset portfolio and the latter on the liabilities. Interim reviews of investment strategy, including reappraisal of market/systemic risks, are undertaken as necessary but at least once in the inter-valuation period. Impacts are evaluated using both quantitative, asset-liability modelling ("ALM") and qualitative assessments. Both provide insights into potential future funding outcomes across a very wide range of scenarios, each of which are defined in terms of the future path of market/economic risk factors such as growth, inflation, interest rates and currencies. The range of scenarios considered include extreme scenarios designed to model the impact of systemic risk factors such as climate change, banking crises and war. Market risk cannot be eliminated, because the Fund needs to take such risk to generate a return on investments, but the level of exposure to both market and systemic risks is carefully controlled in line with the Fund's return requirements and risk appetite.

The primary mitigant of market and systemic risks generally is diversification. The Fund has an investment portfolio which is well diversified by:

- Asset class – over recent years the Fund has reallocated capital from equities to income-producing assets such as infrastructure and high yield debt to diversify risk. As indicated in the latest Investment Strategy Statement[3], following the latest comprehensive strategy review the Fund is still undergoing significant transitions into diversifying private market commitments.
- Geography – in most asset classes, the Fund invests globally to reduce concentration risk in individual markets. With regards to the index-tracking equity allocations managed by LGIM, the Fund is invested in separate regional mandates specifically to have more control and avoid concentrating the allocation in the North American region, which is a risk carried by world-wide market capitalization passive equity funds.
- Manager – in each asset class, the Fund invests with more than one investment manager and/or makes use of passive management techniques to reduce manager performance risk.

Activity

Investment risks are considered on a quarterly basis by the Investment Panel with input from the Fund's investment consultant. The Investment Panel is also responsible for reviewing the Fund's exposure to market and systemic risks at each quarterly meeting, at which an update on relevant market and evolving economic developments is considered. At each meeting, the Panel considers whether additional actions are necessary to mitigate these risks. Potential actions include tactical changes to the Fund's asset allocation designed to strengthen downside protection.

Some of the Fund's investments are designed to mitigate specific risks. For example:

- Inflation: The returns on the Fund's investments in equity, real estate and infrastructure (62% total assets) are sensitive to inflation, so these asset classes can mitigate the impact of inflation over the long-term.
- Interest rates: The Fund invests in private debt and multi-asset credit (11.3% total assets), asset classes which contain a high proportion of floating rate instruments which provide protection against rising interest rates.
- Exchange rates: The Fund invests in assets that are denominated in currencies other than Pounds Sterling (GBP)(65% of assets denominated in other currencies). As part of the investment decision making, currency risk is considered as part of the risk and return profile. The Fund does not seek to hedge all currency exposure, instead taking the view that while these effects may result in return volatility over shorter time periods, currency risk is assumed to be a zero-sum game in the long run. In consultation with the Investment Consultant the Fund does operate a passive currency hedge on its US Dollar equity exposures based upon a predetermined exchange rate range and this position is reviewed by the Investment Panel at each quarterly meeting.
- ESG factors and climate risk: All the Fund's managers are required to take ESG factors, including climate change, into consideration in their investment decision making and stewardship activities. In addition, approximately 50% of passive equities are managed against benchmarks which explicitly tilt exposure to companies with that show strong characteristics based upon the investment managers assessment against 34 ESG metrics such as lower greenhouse gas (GHG) emissions and/or companies providing decarbonisation solutions.
- Counterparty risk: The Fund holds most of its assets in pooled funds, limiting the amount of cash held to what is required to meet benefit obligations and expenses. Cash is managed internally and this is governed by a treasury management policy, which is in line with the CIPFA code of practice, and aids in minimising custodian counterparty risk.

The Fund recognises that ESG issues, including climate change, can impact the Fund's financial performance. As such, the Fund published a Climate Change Policy in December 2023[16] which summarises its beliefs relating to climate change and its potential to materially impact the Fund over the long term, relevant metrics for assessing risk and progress towards targets, expectations of asset managers to report against these, incorporation of these considerations in setting the investment strategy and identifying new allocations, risk management, and the role of engagement and stewardship. In relation to stewardship, this includes the role of engagement over the long term, the role of LAPFF to engage directly with companies and submit shareholder proposals as part of its role

[16] TWPF's Climate Change Policy is available here: https://www.twpf.info/media/2522/Plans-and-Policies-Climate-Change-Policy/pdf/TWPF_Climate_Change_Policy_2023_Clean.pdf?m=1701705811603

in Climate Action 100+ and 'Say on climate', use of voting rights and assessment of alignment of engagement activity (such as assessment of LGIM's Climate Change Pledge) and BCPP's Transition Pathway Initiative approach). This work also sets a target for the Fund to be aligned with Net Zero by 2050 or sooner.

Furthermore, the Fund is supported in identifying climate risks and assessing its impacts on the Fund's assets under multiple climate scenarios, delivered by its investment advisor, Hymans Robertson. This, and together with the output of its annual TCFD reporting (detailed in Principle 7), is considered in the Fund's investment strategy decision making.

To ensure that the Fund aligns with its Net Zero target over time, it has developed a Net Zero roadmap[17], which was designed in line with the IIGCC framework and is included in the Fund's service plan. The roadmap sets out targets and objectives, including interim targets to monitor progress, the Fund's approach to measuring climate risk, engagement with managers and expectations of them, voting and implications for the investment strategy.

To ensure that climate risk is mitigated where possible, the Fund considers investment opportunities which align with the low carbon transition, as part of investment strategy and structure (selection) considerations. The Fund receives investment advice on this from Hymans Robertson.

The Fund, working with its Partner Funds, engages with BCPP to design and develop investment strategies that meet its needs and are aligned with its investment beliefs. As noted above, through its routine meetings with investment managers, attended by its investment advisors, the Panel is updated on evolving economic developments, allowing discussion and shared monitoring of emerging systemic risks. Additionally, the Fund challenged BCPP in 2024 on risk issues identified with tracking performance error limits on specific funds, as a result of engagement, the manager made changes to improve its operating model.

The Fund's investment managers engage in initiatives and collaborations across their industries and sphere of influence, to address systemic risks. These are detailed in Principle 10.

The Officers and Panel also receive training from its investment advisor on emerging economic trends, in addition to receipt of thought leadership papers relating to the industry.

The Fund does not deal directly in financial markets but does expect its managers to act responsibly when doing so, and to participate in industry-wide initiatives such as the Stewardship Code, Principles for Responsible Investment (PRI), Net Zero Aset Managers Initiative and the ESG Data Convergence Initiative (EDCI) which aim to promote well-functioning financial markets.

Outcomes

In recognition of the potential impacts of climate risk on the Fund's assets, the Fund has developed a Climate Change Policy, Net Zero target and Net Zero roadmap, and actions are recorded in the Fund's Service Plan. This supports annual TCFD reporting which monitors risks and supports investment decision making for investment strategy and selection. The effectiveness of this approach is monitored through regular governance reviews.

The Fund continued to invest in equity strategies that explicitly incorporate climate metrics in the portfolio construction process.

[17] TWPF's Net Zero roadmap is available here: https://www.twpf.info/media/4939/Net-Zero-Roadmap/pdf/TWPF_Roadmap_2023.pdf?m=1701705390787

The Fund remains alert to risks to the global financial system and responds quickly in the event of systemic risks arising. The main activity showcasing the Fund's proactiveness in identifying and responding to systemic and market wide risks over the period included modelling of the impact of inflation on the Fund's assets and liabilities. This was added to the Fund's routine investment health check delivered by the Fund's investment consultant at the Committee's request to explore options to better prepare the investment strategy to sustain the higher levels of inflation observed over 2022 and 2023 in the eventuality of these persisting over a longer period of time.

Hymans Robertson conducted the analysis and presented the results to the Officers in Q4 2023. Further training for the Committee on the strategic options to mitigate inflation risk and potential impact of higher than expected inflation on the Scheme's funding position was undertaken in February 2024. The result of the strategy modelling showed that the Fund's strategic allocation provides a suitable level of inflation protection over the long-term and thus the Committee members decided to not adjust the investment strategy to address this risk given it had a relatively limited effect on the current allocation.

In all, the TWPF are satisfied that its organisational structure and active participation in discussions with market participants and service providers are robust and allow the Fund to address concerns as they arise. In particular, the Committee and Risk Register formalises risks that are considered relevant to the Fund and where these can be managed, actions are defined in the Service Plan to do so. This process has proved effective to date, with the Fund successfully mitigating the impact of market anomalies such as the sudden decrease in UK Gilts valuations in autumn 2022 or the sustained higher-than expected inflation observed over recent years.

Principle 5

Signatories' review their policies, assure their processes and assess the effectiveness of their activities.

Context

The Committee receives an annual Governance Compliance Report issued by the Head of Pensions which clearly states that it is a matter of good governance to keep key policy documents under review and to update them periodically. This report details the Fund's compliance with the Department for Levelling Up, Housing and Communities (DLUHC) regulations and guidance for pension funds, which focuses on governance issues. Stewardship aspects such as the execution of voting rights, representation to the BCPP Joint Committee meetings and manager monitoring duties (among many more) are mentioned and supervised in this yearly report to the committee[18].

The Fund maintains a Policy Tree control document which sets a clear timetable for policy reviews and updates. Policies are updated on a cycle as deemed appropriate for each policy. The Pension Fund Committee regularly considers the policies due for review in line with this timetable.

Activity

On an annual basis, including 2023/24, the Fund's Corporate Governance and Responsible Investment Policy, Climate Policy and ISS are all reviewed. These were deemed suitable during the year and minor changes were implemented. Other policies reviewed include the Fund's Communications Policy and the 2024-2027 Service Plan, which were reviewed and approved at a Special Committee Meeting on 30th t January 2024. The Funding Strategy Statement is reviewed on a tri-annual basis, or more frequently when deemed appropriate. This document was last updated in December 2023.

As set out in Principle 2, the Fund is supported in its assessment of its governance activity by Isio. Isio were selected because of their deep experience in RI, in particular supporting LGPS funds and therefore are able to take a view based on experience in similar LGPS funds. The Fund has a Governance and Funding Team which has oversight of the risk register, regulatory compliance (including TPR Code), procurement and audit assurance recommendations. An annual audit plan is agreed by senior officers as appropriate with work allocated to Isio and the internal audit team.

Additionally, to ensure that reporting is fair, balanced and reasonable, the Fund's reporting is subject to two additional levels of democratic oversight beyond the Investment Panel via the Pension Committee and LPB oversight. Isio also conduct a regular independent review of these activities. Where possible, Committee reports generated by the Fund are presented in public and are open to attendance, which is actively encouraged with interest groups who have corresponded with the Fund.

The Fund also undertakes an annual review of compliance with the Pensions Regulator's Code of Practice. This exercise was last undertaken in March 2024 and showed almost complete compliance.

[18] The latest Governance Compliance Report from January 2024 is available here: https://www.twpf.info/media/2974/Governance-Compliance-Statement/pdf/Governance_Compliance_Statement_January_2024.pdf?m=638424875636000000

Outcome

The latest governance audit from January 2024 confirms that the Fund is compliant with all the DLUHC Guidance Compliance Standards. Of the actions taken over the year, the Fund was successful in its submission to become a UK Stewardship Code signatory. The review of current policies, and the process for review ensures that policies, remain effective, fit for purpose and up-to-date.

In order to ensure our Stewardship Reporting is fair, balanced and reasonable rigorous oversight and challenge is in place. Reports are prepared by the Fund's Officers in conjunction with the Investment Consultant who has significant experience of preparing similar reports for LGPS funds. Reports are then subject to senior management oversight including assessment against previous feedback and drafts are shared with the Investment Panel for scrutiny and feedback. The Stewardship Report is published at the earliest opportunity and scheme members and stakeholders are able to comment through the Fund's communication channels. As a Local Authority, the legal and democratic structures ensure all policies and public documents are subject to significant levels of review and probity.

Principle 6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Context

TWPF is a defined benefit (DB) LGPS scheme, responsible for the pensions of over 184,000 members across more than 300 employer bodies. Over 69,000 members are currently in receipt of their pensions. Of the members not yet in receipt of their pension, over 62,000 are active members with a further 52,000 deferred members.

As at 31 March 2024, the Fund's total assets were c£13.2bn, with investments spread across a number of asset classes and geographies shown below.

Asset Class	Geography	%
Equities	UK	7.27
	North America	9.22
	Europe	6.55
	Japan	4.08
	Asia Pacific	3.11
	Emerging Markets	3.22
Factor Based Equities	Global	6.65
Fixed Interest	UK Gilts	1.20
	Sterling Non Govt	18.88
	Global Multi Asset Credit	4.51
Private Equity	Global	11.08
Property	UK	9.89
Infrastructure	Global	5.75
Private Debt	Global	6.75
Climate Opportunities	UK	1.02
Cash		0.82

The average member age is c.55 years, so the Fund has adopted an investment horizon of 20 years in setting its investment strategy. However, the Fund has obligations to its members which extend from the present day over a much longer period, which is considered when managing its assets. The Fund's investment strategy is set out in the Investment Strategy Statement and summarised in the Investment Report within the Annual Report and Accounts (Appendix II includes the 2022/2023 Investment Report as the 2023/2024 version is being produced at the time of submission).

As a defined benefit scheme, the Fund's communication with beneficiaries primarily consists of enquiries and feedback regarding benefits. Beneficiaries who are aware that investment risk sits with the employer tend to have limited engagement on Stewardship. However, the Fund is proactive in using the website and employer AGMs to communicate how it carries out its Stewardship role. Because of the disparate nature of a multi-employer fund, collective representation via employer representatives and trade unions is the best method of understanding the needs of beneficiaries. A range of reactive routes as described enables individuals to contact the fund with specific concerns. The evaluation of this multi-faceted approach is undertaken by feedback from multiple sources, such as elected members and scheme representatives and trade unions representatives. Rather than self-evaluation, which is subject to confirmation bias, the Fund encourages openness in raising concerns from wherever that may come. This includes members of the public, with no direct relationship as a beneficiary, commensurate with the Fund's local profile and reflective of the community.

The Fund's Communications Policy sets out how the Fund communicates with members, prospective members, employers, representatives of members and other interested parties.

TWPF is committed to seeking the views of its members and employers, facilitated through:

- The Fund website which has information for members and employers including contact details to allow members and employers to ask questions and provide feedback. The Fund also has a Member Services Team accessible via telephone helpline and email channel.
- Employers can raise issues at the annual general meeting and also by contacting the Employer Services Team.
- Individual meetings for scheme members (including trade unions) and employers are available on request.

Membership of the Committee and Board includes employer and member representatives. Through the Committee and Board meetings held, these representatives have the opportunity to comment on and help inform the Fund's approach to stewardship. This is the primary mechanism by which member and employer views on stewardship are taken into consideration.

The Fund proactively communicates with scheme members in a variety of ways, including via:

- Annual benefits statements.
- The Annual Report, which includes a summary of stewardship activities.
- Engaging with trade union representatives through committee and LPB roles.
- Ensuring public disclosure of the Fund's governance and key policy documents on the Fund website.
- Presentations about the LGPS, which are usually arranged through Fund employers.

The Fund communicates with employers in a variety of ways, including:

- The website has a dedicated area to provide information for employers.
- Employers are invited to attend the Annual General Meeting, which is a formal seminar-style event with several speakers covering key issues such as investment performance as well as topical LGPS issues. Employers are always provided with the opportunity to ask questions.
- The Fund publishes an Annual Report, which includes a summary of stewardship activities.

The Fund is very proactive in overseeing its investment managers on stewardship matters, this includes ensuring agreed investment policies are being implemented. Should any investment manager not be implementing the agreed approach, then officers would seek to understand the reasons why and how appropriate remedial action can be taken. Any areas of concern would be escalated appropriately and reported to Pensions Committee.

Activity

The Pension Fund records the engagement it receives from scheme members and other stakeholders on all investment matters including stewardship.

On occasion, letters are received from scheme members, lobby groups and some employers in the Fund. All letters received are tracked and controlled within the Fund's CRM system and responses are provided where possible at Head of Service or Chair level as appropriate. TWPF used the queries raised to hold meetings between Fund officers and key stakeholders to better understand and consider their perspectives and to share more about the work undertaken to develop the Fund's climate policy[19] and investment strategy to mitigate climate risks, and the rationale for the approach taken.

The Fund has proactively engaged with its membership and employers on stewardship matters. This has included:

- Hosting a workshop for the Fund's largest employers on responsible investment in which the approach of the Fund and key fund managers was set out.
- Meetings and communication with senior management and climate change officers at a number of employers,
- Meetings with members regarding responsible investment.
- Engaging in communications with members and employers on responsible investment issues.
- Publishing significant amounts of information on the Fund's website, including the policy framework, for the Fund's approach to responsible investment.
- Using the press to make key responsible investment announcements.

Given the increased focus on responsible investment, combined with increasing expectations from members and employers, the Fund has created the new role of an Investment Manager to bring greater resilience to this area. This will help contribute towards enhanced engagement going forward.

[19] The Fund's Climate Change policy is available here https://twpf.info/media/2522/Plans-and-Policies-Climate-Change-Policy/pdf/TWPF_Climate_Change_Policy_2023_Clean.pdf?m=1701705811603

As noted in the Activity section of Principle 1, as part of its service plan the Fund will prioritise the development of its members communication strategy over the 2024/5 year. The Fund is also developing a regular newsletter for communicating with key stakeholders. Amongst other things, this will provide information on stewardship activity.

Outcomes

The Committee is satisfied that the actions taken to understand the needs of its beneficiaries are appropriate and met.

Going forward, TWPF has plans to develop its member engagement strategy further, as detailed in the 2024-27 Service plan.[20] This is scheduled to take place before March 2025.

Furthermore, recognising the importance of public reporting on the progress made to reduce the Fund's carbon footprint, the Fund produced its second Taskforce for Climate-related Financial Disclosure (TCFD) report in 2023 (in respect of FY 22/23)[21]. Further information on how this report fed into the Fund's investment decision-making process is provided in Principle 7. The report was made publicly available for members to access. TWPF is now working towards publishing a third TCFD report covering 2023/24 activities. Metrics will be monitored, updating the report as necessary to meet Department for Levelling Up, Housing and Communities' (DLUHC) TCFD reporting requirements.

In October 2023 the Fund put out a press release[22] to announce that the 2023 carbon footprint published in its TCFD Report will show that emissions are 40% lower than the Fund's 2019 baseline. Alongside highlighting this achievement, the Fund also reported its successful application to becoming a signatory of the FRC's UK Stewardship Code.

The Fund is working on ways to continue to improve communication with members and employers. This will include enhanced communication on responsible investment / stewardship. Over the next 12 months, this will include:

- A holistic review of member engagement.
- The introduction Member and Employer Engagement Strategies.
- Production of a regular newsletter for members and employers.
- Production of a regular Stewardship Report, which will be made available on the Fund's website.

[20] The plan can be seen in more detail here https://www.twpf.info/media/2980/Pensions-Service-Plan-2024-2027/pdf/Annex_A_Service_Plan_2024-27.pdf?m=1706896800230
[21] The Fund's 2022/2023 TCFD report can be seen here https://twpf.info/media/4940/Task-Force-for-Climate-Related-Financial-Disclosure-TCFD-Report/pdf/Task_Force_for_Climate_Related_Financial_Disclosure_TCFD_Report_2021-22.pdf?m=638066348575170000
[22] The press release is available here https://www.twpf.info/article/21448/Responding-to-Climate-Change

Principle 7

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

Context

The Fund's approach to ESG is described in the ISS and Corporate Governance and Responsible Investment Policy, where it is "recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns." Through policies and challenge and engagement with investment managers, TWPF sets stewardship priorities and objectives that are in line with its approach. The process of ensuring a mutual agreement starts from the manager selection phase, with ESG commitments and prior records being key aspects considered during due diligence. Once a suitable asset manager is selected, expectations in terms of ESG targets are formally communicated upon appointment and monitored on an ongoing basis.

TWPF expects its managers to incorporate ESG factors into their investment process and stewardship activities and to demonstrate the outcomes being achieved. As a result, managers' research and analysis capabilities, approach to ESG integration, stewardship policies and processes are key considerations in the appointment process for all prospective managers. Managers are also expected to identify and communicate material ESG issues relating to the Fund's investments. The Fund monitors the investment and stewardship activities of all its managers, including those investing in private markets, through the quarterly reporting and manager review process.

TWPF is invested globally in equities, fixed income, property, infrastructure, and other assets across both public and private markets. The activity section below describes the Fund's general approach to stewardship and investment across asset classes, including in the design and award of mandates. The outcomes section offers selected case studies to demonstrate how the award of mandates, manager integration of stewardship, investment by managers and monitoring of managers, has been implemented in practice.

Activity

Officers and Pensions Committee consider the relevant responsible investment and stewardship policies of investment managers during the manager selection process. Officers and the Investment Panel then meet with the appointed managers on a regular basis and are provided with updates on responsible investment matters. Officers and the Investment Panel challenge the managers on activities should there be any points of concern. Furthermore, through reporting on its managers' activity when completing the report for the UK Stewardship Code, the Officers, Investment Panel and the Committee review how the manager's activity is aligned with its RI beliefs.

Integrating stewardship and investment in pooled arrangements

As a partner fund within BCPP, the Fund is able to provide input to the design of investment vehicles and policies that govern the pool. The Fund carries this out primarily through the Officers Operations Group ("OOG"). Representatives of the Fund attend all OOG meetings, discuss issues and give input to both Elected Members and Border to Coast as required. The OOG meets bi-monthly, part of the meeting being attended by Border to Coast, part in closed session. The Fund ensures that it has proper representation at all OOG meetings in order to ensure its views are accounted for.

BCPP's Head of RI works with colleagues from partner funds (including the Fund) to shape its RI policy via workshops and dedicated meetings of the OOG on ESG issues to ensure managers focus their stewardship in accordance with partner fund policies. Information from managers is shared with the BCPP investment team to increase and maintain knowledge and ensure voting and engagement is not detached from the investment process.

BCPP delegates investment management to a range of underlying investment managers. Here, RI is incorporated into the external manager appointment process including the 'request for proposal' (RFP) criteria and scoring and the investment management agreements. The RFP includes specific requirements relating to the integration of ESG by managers into the investment process and to their approach to engagement. Information on monitoring of the investments is provided under Principle 8.

BCPP's Joint Committee is constituted from the 11 Pension Fund Chairs and meets quarterly now that Border to Coast is established and functioning. It is the collaborative vehicle through which the individual Partner Funds provide collective oversight of the performance and direction of Border to Coast. Its remit includes oversight of progress towards the pooling of Partner Fund assets. Two scheme member representatives, elected by Local Pension Boards of the 11 Partner Funds, also attend as non-voting members of the Committee.

The Chair and Vice Chair of the Joint Committee are elected by the members of the Joint Committee on an annual basis. Secretariat functions to support the Joint Committee are provided through South Yorkshire Pensions Authority. Tyne & Wear Pension Fund act as host authority for all other matters, and full representation is ensured at all meetings.

Integrating stewardship and investment in Equity assets

TWPF holds a well-diversified selection of publicly traded equity mandates, with active UK, Global and emerging market equities managed by BCPP, Japanese equities held through Lazard and other Asia Pacific equities managed by TT International. Passive listed equity investments are held through LGIM. Furthermore, the Fund invests in private equity through Lexington Partners, Coller Capital, HarbourVest, Pantheon, Morgan Stanley, Neuberger Berman, Capital International and Partners Group.

For listed equities managed directly by LGIM, ESG data and research from specialist providers is used alongside general stock and sector research to inform engagement and voting undertaken on the Fund's behalf.

Over the past two years the Fund has collected data from the quoted equity and bond managers on the climate metrics of each mandate and how they compare to an appropriate index or benchmark. This information is incorporated as part of a regular monitoring action and ensures the Fund engages with them on this subject. As part of the data collection the managers have been asked to provide the top 3 exposures under the following headings:

- Carbon emissions by company in each Portfolio
- Fossil fuel exposures by company in each Portfolio
- Companies with the highest green revenues

The active managers are asked to provide the investment rationale for holding these positions in light of the Fund's Climate Change Policy and an explanation of how each position will improve its climate metrics including timescales. The same data is also collected for the passive mandates with updates on engagement activity. This information is collected each quarter and the managers are challenged to ensure the rationale remains valid and demonstrable progress is being made. The Pensions Committee receives a report each quarter summarising the exposures and highlighting any material changes. The Committee considered this input as part of its review (to be considered by the Committee in April 2024) of its equity mandates and have selected investments with a lower emissions profile and robust process for decarbonising the portfolio.

For private equity investments, to ensure managers are adequately integrating ESG factors within their decision-making and stewardship activities, TWPF holds positions on Advisory Boards[23] to advocate for effective consideration of these issues. Private markets managers can be, and typically are, much more "hands on" and TWPF sees it as its role to steer managers' stewardship focus via Board seats. Advisory Board positions are unpaid and form a key part of the arrangements for private market investments. As of the time of publishing this submission, TWPF held seats on the advisory boards of eight private asset managers covering private equity, infrastructure, private debt and global property.

Integrating stewardship and investment in Debt assets

The Fund invests in traditional and index-linked gilts via LGIM, listed credit via LGIM and BCPP as well as private debt via Pemberton, HPS Partners, Pantheon and BCPP.

The Fund recognises that debt managers lack the control rights afforded to shareholders but can still have significant influence over portfolio companies. The ability to influence is based on borrowers' obligations in bond/loan agreements and lenders rights to act such as enforcing security interests in the event of default. The Fund expects its managers to use that influence to improve investment outcomes. Specifically, it expects managers to take ESG factors into account when underwriting new debt investments and in ongoing stewardship activities. These expectations are defined in mandate specifications and taken into consideration in the selection of new managers/funds. They are reinforced through regular review meetings with directly appointed managers. BCPP does likewise for managers it appoints, as detailed above for equity investments.

Integrating stewardship and investment in Property assets

The Fund invests in both commercial and residential property mandates. TWPF requires its managers to take a wide range of ESG factors into consideration in their acquisition, development and ongoing management of properties.

The commercial property mandate is managed by Abrdn, representing the largest property allocation of the Fund. Alongside regular performance and monitoring activities, the manager provides reporting on ESG aspects such as their progress towards Net-Zero targets. Furthermore, Abrdn is actively involved in providing training on Stewardship within real estate investments, to assist the Fund's Officers, Board and Committee members in adequately evaluating the mandate's credentials. At the latest training, held on 28th February 2024, Abrdn informed the officers that TWPF's investments with the manager have been improving their Global Real Estate Sustainability Benchmark ("GRESB") score in each of the past three years. The overall GRESB score awarded to the manager for its 2023 activities was 78%, seeing Abrdn ranked in the top quartile of its peer group. The GRESB score is built up from an assessment over two components – management and performance. The current management score of 29/30 is a testament to the manager's dedication to improving ESG factors in its property funds,

[23] A full list of funds for which TWPF uses Board appointments to positively influence the approach to stewardship and ESG issues can be found in Appendix 1.

which is a key reason the Tyne and Wear Pension Fund's Committee chose Abrdn as a reliable partner for their segregated commercial property mandate.

TWPF commissioned an external consultant to assess the impact of climate risks on the property portfolio. This led to the development of a net zero pathway for the portfolio which sets out the current carbon footprint and timescales for emissions reduction. The report also identified interventions required to reduce energy consumption and carbon emissions which will be updated and monitored annually.

The residential property mandates are managed by Abrdn, Hearthstone and Henley. Key factors considered include energy efficiency/carbon footprint, the quality and affordability relative to local incomes of the homes offered and the quality of services provided to tenants. The Fund receives annual impact reports from selected managers which are prepared by an independent specialist and detail the environmental and social impacts delivered by the investments. There reports are reviewed to monitor progress and to understand best practice.

Outcomes

The case studies below provide other examples of how stewardship and investment are integrated into the management of the Fund's assets, and how this has therefore best served the Fund's beneficiaries.

Case Study: Integrating stewardship and investment in pooled actively managed listed equity holdings
Mandate: UK Equity Alpha, BCPP
Background
Shell and BP are significant contributors to Border to Coast's financed emissions, which the manager is seeking to reduce in order to meet net zero commitments. BCPP have determined that both companies have set insufficient medium-term emission reduction targets. They are also concerned about BP's backtracking on its climate targets which were put to a shareholder vote last year, and Shell's failure to meet every indicator of the Climate Action 100+ Net Zero Benchmark for the alignment of capital expenditure with net zero.
Actions taken
Border to Coast wrote to, and held meetings with, BP and Shell discussing the above-mentioned concerns and advising that they would be voting against the re-election of the board Chairs in line with their strengthened climate voting policy and voting for independent shareholder resolutions in support of a Scope 3 emissions reduction target aligned with the Paris Agreement. In April 2023, as part of engagement escalation, the manager signalled their concern by joining other pension funds to publicly pre-declare their votes ahead of the AGMs, attracting significant press coverage[24].

[24] An example of article on the matter is available here: https://www.ft.com/content/fb180e33-b18d-414d-aa32-3fbba6bc92bb.

Outcomes
Despite further pressure being applied by the Tyne & Wear Pension Fund and other Local Government Pension Funds through LAPFF, the votes were unsuccessful in decreasing the oil producers' intermediary net-zero targets (less than 20% support). Meetings were scheduled with Shell and BP to ensure adjustments continue to be discussed.

Case Study: Integrating stewardship and investment in pooled index-tracking listed equity holdings
Mandate: RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund (OFC), LGIM
Background
LGIM believe that failure to address the issues of income inequality and poverty can pose a material risk to investee companies. Their focus is on in-work poverty. This includes workers within a company's direct operations and workers within their supply chains. Some of the risks to a company in perpetuating poverty wages include lower morale and productivity, higher levels of absenteeism and presenteeism, higher rates of staff turnover which results in recruitment and training costs, increase in theft and reputation loss. Income inequality can also represent a major risk for companies: according to the US Bureau of Labor Statistics, the cost of absenteeism to businesses in the US in 2018 was US$150 billion per year, and it has been estimated that employees who are demotivated, burned out, or unproductive due to other health reasons cost US$1,500 billion per year. Over 2023, LGIM broadened their corporate engagement on income inequality. They launched their first engagement campaign, which carries with it a voting sanction for those companies that fail to meet a set of minimum expectations. They primarily targeted the food retail sector, as they believed these companies to be generally more resilient due to the community service they provide, and financially less impacted by the COVID-19 pandemic than other sectors. It is also a sector with a high proportion of its workforce earning low wages.
Actions taken
LGIM identified 15 supermarket retailers in developed economies as targets for this campaign. They have chosen these companies because of their size and influence. The companies are: • North America: Costco, Kroger, Target and Walmart • UK: Tesco, Sainsbury • Europe: Ahold Delhaize, Carrefour, Casino, Metro • Japan: Lawson, Seven & I, Aeon Co. • Australia: Woolworths, Coles The manager wrote to these companies setting out their expectations of them and the timeframe in which they expect these criteria to be met. Their expectations for the companies' operations are to develop a strategy to deliver and define a living wage, and address pay gaps.

Outcomes
LGIM plans to engage directly with these companies over the coming year in order to assess progress. If, by 2025, these companies have failed to provide the disclosures set out in the minimum expectations the manager will: • Vote against the re-election of the Chair or Chair/CEO or President • Pre-declare their voting intentions. The Fund welcomes this positive outcome and the manager's intention to progress the engagement.

Case Study: Integrating stewardship and investment in pooled listed fixed income holdings
Mandate: Corporate Bond Fund, LGIM
Background
Volkswagen is one of the largest automotive manufacturers in the world, with production facilities across multiple regions. Volkswagen has a particularly large presence in China, where it has been present since the 1980s. China comprised just under 40% of the company's global vehicle deliveries in 2022. Volkswagen opened a plant in Urumqi, Xinjiang in 2013 via one of its joint ventures ('JV'). Over recent years, multinational corporations have faced allegations of using forced labour in their operations in this region. In late 2022, MSCI responded to allegations of forced labour by assigning a red controversy flag to Volkswagen. As part of its engagement, LGIM is looking to: 1. Understand the nature of Volkswagen's presence in Xinjiang and how it enforces its governance practices via the JV; 2. Work with the company as they identify a solution to obtain the removal of the red flag from the external agency; 3. Determine long-term solutions to prevent future governance controversies relating to human rights- or labour-related practices.
Actions taken
LGIM has maintained a regular and continuous dialogue with the company for many years regarding strategic direction and other governance questions, e.g. following the 'Diesel-gate' scandal in 2015. Since MSCI assigned a red flag controversy in late 2022, LGIM increased their dialogue with the company further, and have engaged on the question of human rights and the company's presence in Urumqi with senior management including the CFO and head of treasury, as well as investor relations. Communication has taken place via multiple communication channels, including in person, conference calls and written correspondence.

Outcomes
LGIM's engagement with Volkswagen has been well received and TWPF's Committee is happy that the company has taken the issue very seriously and acted to attempt to resolve the situation in a proactive and pragmatic manner. Following multiple discussions with investors, Volkswagen resolved to obtain an independent audit of its JV plant in Xinjiang, which was conducted in December 2023. This audit has been conducted by a high profile and well-respected body and appears to address the main concerns around operations at the plant. The completion of the audit resulted in MSCI subsequently removing its red controversy flag. As a result of the removal of the red flag, it is now possible for a greater proportion of LGIM funds to participate in new bond issuances. The manager will continue to engage with Volkswagen on the Fund's behalf on the subject of human rights and other governance topics, including the long-term future of the plant in Xinjiang and retain an open dialogue with the company and its management. LGIM's Stewardship team will continue also to exercise voting rights at the company, in line with their published policies and expectations, to escalate where appropriate. The Fund welcomes this positive outcome.

Case Study: Integrating stewardship and investment in residential property
Mandate: Secure Income Fund (UK residential property), Henley
Background
In 2021 and 2022, TWPF increased its exposure to UK residential property by making commitments to a number of investment managers active in the affordable and social housing sector. Whilst the primary objective of all these investments is to generate a financial return, social impacts including increasing the volume and quality of housing stock accessible to less well-off members of the community were an important consideration.
Actions taken
The Henley Secure Income Fund invested in five bungalows in Gloucester as part of its Specialised Support Housing (SSH) scheme for vulnerable adults. All five bungalows are managed by Trinity Housing Association Ltd, with care provided by Rehability UK. For most of the properties, a combination of the resident's family and the local authority cover housing costs. Nevertheless, Rehability reported that the rent was accessible to most income groups. As part of regular reporting TWPF expects Henley to regularly visit and ensure appropriate standards of living are offered to all tenants living in any of the Secure Income Fund's properties. Particular attention is expected when tenants are from a vulnerable category, such as in the case of the Gloucester residents. After visiting the Gloucester bungalows in 2023 the manager reported that most of the residents on site have high care and support needs, averaging several hours per day. All residents are allowed to

decorate their properties in whatever way they like, creating welcoming and comfortable homes. Despite having high care needs, residents are encouraged to live as independently as possible.
Outcomes
TWPF's committee learnt about the stories of two residents living in the Gloucester bungalows, as reported by the manger: Resident 1 has autism and lived in a secure residential facility for 20 years before moving to the Gloucester property two years ago. Since moving, she has done things that her family did not think she'd ever be able to do, such as go to the supermarket once a week and go to a disco for people with special needs. Her home has been decorated slowly to not be overwhelming, but she chose her own colours and has created a happy environment. She has a swing in the garden, which is important for her mental health, and a picnic table, which she asked for. Resident 2 has autism and schizophrenia. He has been at the property for approximately six years, decorated his home with pictures and painted in his garden. He has ambitions to increase his independence to the point where he can work. Rehability helped him to access a volunteer role in a charity shop and, and though he had to pause this because of mental health problems, the CP hopes to work with him to find another position. He has a carer on site a few hours a day to help him keep house and live increasingly independently. His family lives nearby and he stays with them approximately once a fortnight. The Henley Secure Income Fund is now exploring options to invest in the Tyne and Wear area. In particular, the fund acquired and finalised the development of a new facility in Newcastle. Tyne and Wear Pension Fund's Committee communicated its support for the new development to the manager and have already been on a site visit in Q3 2023. The Committee members believe the development will have a meaningful positive societal impact in the region.

Case Study: Integrating stewardship and investment in infrastructure equity (private markets)

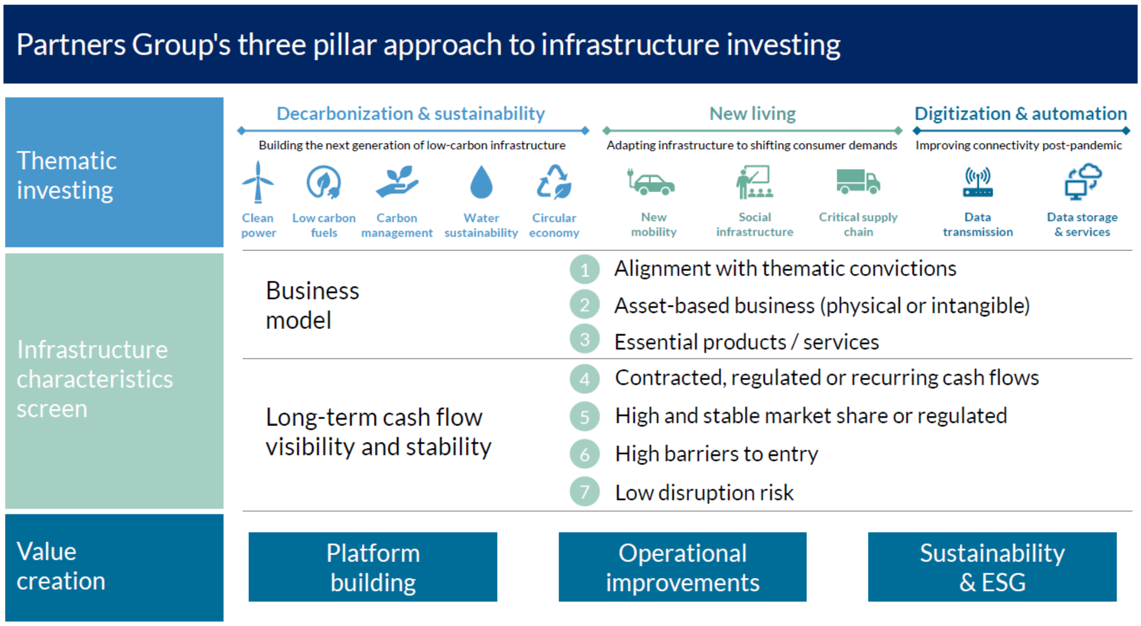
Mandate: Infrastructure equity, Partners Group

Background

Partners Group is the most significant infrastructure manager employed by the Fund, with c.£420m committed across six mandates. Given their long-term commitment to sustainability, being UN PRI signatory since 2008 and recently becoming a UK Stewardship Code signatory as well (2023), the manager is in a good position to provide strong stewardship of the Fund's assets.

TWPF consider the stewardship role of private market, illiquid, allocations when considering a new investment. At this stage, the Fund considers the stewardship and responsible investment capabilities of the investment manager. The Fund does recognise, however, that its role as an investor in private market funds may allow it more influence as a capital stewards as it may be whole or a significant minority owner of a company. With this, the Fund meets with its asset managers and carries out site visits where possible, to try and engage and influence during the investment period of the fund.

Partners Group is a thematic investor, allocating a large proportion of funds to renewable infrastructure projects, in line with the below figure, as presented by Partners Group to the Pensions Committee and LPB at the site visit in 2023. The manager's value creation philosophy incorporates sustainability and ESG developments, showcasing a clear commitment to stewardship across its underlying holdings.



Actions taken

In June 2023 the manager signed a purchase deal for Energielenker, a leading German biogas and biomethane platform, including 45 plants generating 600 GWh p.a. biogas and biomethane

production, essential for Germany's grid stability and supporting Europe's decarbonization and gas independence targets. The manager saw the potential for this investment both in terms of return and its positive impact on the environment. At a meeting with the Investment Panel Partners Group detailed that the investment thesis for this holding was to scale the business into a leading biogas and biomethane player in Europe, through a combination of expanding the current platform, securing further long-term contracts for input waste streams and exploring new CO_2 commercialisation opportunities. The manager also detailed that all the activities planned for Energielenker are expected to have a positive environmental impact.
Outcomes
On 8 June 2023, Partners Group signed the acquisition of Energielenker, with the official closing taking place in late summer 2023. Overall, the Fund is satisfied with the manager's approach to integrate stewardship as a key consideration for any new investment opportunities.

Principle 8

Signatories monitor and hold to account managers and/or service providers.

Activity

TWPF monitors its investment managers and service providers, to hold them to account as described in more detail further below. Where expectations are not met, the Fund considers avenues for escalation, as set out in Principle 11, in reflection of its pursuit of long-term partnerships and preference to engage meaningfully to mitigate the need for divestment or change in service providers.

Asset managers

Asset managers provide monthly and quarterly performance reports which are received and reviewed by the Investment Team. Review includes compliance with investment management agreements. Quarterly investment performance is reported with detailed commentary to the Investment Panel and Pensions Committee. Asset performance monitoring is undertaken by a third-party provider to validate the information provided by managers. This includes detailed stock attribution analysis of the active listed equity portfolios which provides information which is used in the regular meetings with investment managers. If a manager's performance raises any concern, more frequent information is shared with the Investment Panel and Committee. TWPF have regular one to one review meetings with all major investment managers and there are two manager review sessions at each Investment Panel. The rolling programme of manager meetings including attendance at Investment Panel is updated and agreed annually.

TWPF asks its managers to provide ESG metrics and benchmarks and explanation of variances. For example, managers are requested to provide information to allow monitoring of the impact of their decisions on the Fund's GHG emissions including Weighted Average Carbon Intensity (WACI) and green revenues. Furthermore, an ESG questionnaire was sent out to managers to request broader information on how they practically approach ESG issues in investment and stewardship practices, allowing for an informed evaluation of the manager's adequacy on their approach to Responsible Investment and stewardship. Managers are also required to present to the Investment Panel on a regular basis, which provides the Committee with the opportunities necessary for further scrutiny of performance and asset stewardship.

The Fund's main listed and private markets asset managers provide high quality ESG reports on a quarterly and annual basis which allows the Investment Team to monitor the activities being undertaken on behalf of the Fund and ensure they are in line with the Fund's own beliefs and policies.

An increasing proportion of the Fund's assets are managed through BCPP. Enhanced monitoring arrangements have been implemented which reflect the importance of this relationship to investment outcomes. These include:

- A Joint Committee representing all partner funds which oversees the investment performance of all BCPP investments.
- A senior officer group, comprising Chief Finance Officers at all partner funds, contributing to strategic direction for the pool.

- An Officer Operations Group ("OOG") set up to monitor and influence the day-to-day operational activities of the company. This is achieved through regularly meetings and specific topic workshops.

- All Committee and Board members are invited to attend the BCPP annual conference to enhance their understanding of the operation and governance of the Pool.

- Regular meetings between BCPP and Fund Officers to discuss specific mandates.

On a quarterly basis BCPP provide portfolios analysed against MSCI ESG Weighted Score and the MSCI ESG rating along with the ESG Rating Distribution (AAA to CCC). In a commentary BCPP feature an investment each quarter to describe its nature, ESG rating risk, ESG impacts and direction of travel to ensure TWPF is satisfied their approach aligns with the Fund's expectations. BCPP also provide a quarterly Carbon Commentary for each portfolio describing any developments in the quarter. It features an investment, describing its nature, carbon impacts, initiatives it is involved in and direction of travel.

In relation to stewardship activities, BCPP also hold a quarterly RI meeting with Partner funds to provide updated on policy development and highlight voting and engagement activity. Representatives of the Fund attend these meetings and were comfortable that over the reporting period, the rights and responsibilities of the Fund as a shareholder and investor are carried out in a satisfactory manner on its behalf. Where the Fund identifies concerns, these are raised in the meeting or fed back via the OOG and / or Joint Committee.

BCPP's appointed managers are required to provide quarterly reports that include:

- Descriptions of how RI issues are integrated into the investment processes and the materiality of such issues to portfolio performance.

- Summaries of engagement activity outcomes during the review period.

- Details of investments that are considered to have high RI related risks.

- Voting records for the review period, analysed between UK and Global, showing the proportions and numbers of votes cast, and summaries and explanations of instances where:

    - Voting rights were exercised in a manner that was inconsistent with a policy.

    - Voting rights were exercised against company management.

    - Managers abstained from voting.

    - Voting rights were not exercised.

To effectively monitor and challenge BCPP's external managers, BCPP have developed a manager monitoring framework to use across all equity, fixed income and multi asset credit and private markets managers. This allows assessment of managers on a quarterly basis on ESG integration and stewardship, noting any progress, improvements and direction of travel. TWPF in turn engages with BCPP on their scrutiny of managers. This output is used alongside the information from the ESG and carbon screens which are conducted on a quarterly basis to feed into the quarterly meetings and annual reviews held by BCPP's External Manager Team. Managers are challenged on holdings which score poorly on ESG and carbon metrics with detailed rationale required to support the investment. A separate annual ESG review is also held with each manager led by the RI Team to look at each manager's approach to RI integration. Where expectations are not met, BCPP observes an eight step means of escalation to elicit effective change through positive engagement.

The Fund requests that all the investment managers, including BCPP, share a copy of their Internal Controls Assurance Report (AAF Report) or equivalent. This is reviewed by the Fund and any issues raised are discussed with the manager and referred to Internal Audit if necessary.

LAPFF regularly issues alerts on upcoming votes that are significant in terms of ESG matters for organisations owned by the wider LGPS group. TWPF is represented on the LAPFF executive committee by the Principal Investment Manager and thus the Fund has a direct influence on what issues alerts are issued for and the direction of LAPFF. TWPF circulate these alerts to all relevant investment managers and request a response in terms how the manager is intending to vote and an explanation where this is not in line with the alert. The Pension Committee is kept informed of LAPFF alerts and other high profile engagement activity on a weekly basis, via a Chair's Weekly Briefing note. This is sent to all committee members. Officers also disseminate LAPFF alerts to all relevant asset managers who are not LAPFF members. Managers are challenged on their approach as part of the quarterly monitoring meetings and more immediately where appropriate.

As noted in the Fund's latest TCFD Report and reflected in the Service Plan the Fund has been encouraging its Private Markets managers to improve the quality and coverage of its climate metrics data and develop suitable and robust reporting climate reporting to clients. This has led to a notable improvement in the climate data used for the 2023 carbon footprint although there is still significant to progress to made and the Fund will maintain its pressure on the managers in this area.

Other service providers

The Fund has set objectives against which to assess the performance of the investment advisor. The performance of the investment advisor is assessed by the Pensions Committee against these objectives on an annual basis. During 2020 the investment advisor contract was put out to tender to ensure value for money.

TWPF uses the Byhiras portal established by the LGPS Scheme Advisory Board (SAB) to monitor investment managers fees and charges in the Code of Transparency template (CTI) format. Most of TPWF managers have provided data to the portal. The remaining managers have been requested to provide data to the site. The information gathered on investment costs is collated and incorporated into the Fund's Annual Report and Accounts. At the start of each financial year the Fund estimates a budget for all investment costs which is approved by the Pension Committee. The actual costs are reported against the budget to the Pension Committee and any significant variances are highlighted as well as being challenged with the investment manager.

ClearGlass were also appointed to review the CTI templates provided by each manager to give assurance on their accuracy. The Fund used this information in 2023 in discussion with BCPP to better understand its cost structures. BCPP used ClearGlass templates and communicated a broadly favourable outcome from the analysis.

The Fund has also participated in the annual CEM Benchmarking exercise for many years on both the Investment and Administration side. The results of the benchmarking are used to monitor trends and comparisons with a peer group and the results are presented annually to the Pension Committee and Local Pension Board. The performance and service levels of the Global Custodian are reviewed annually, and a report is presented to the Pension Committee highlighting the results and any areas of concern.

In 2023 BCPP partner funds commissioned an external review of BCPP Global Equity Alpha sub-fund managers. The aim of the review was to ensure that pooling is done effectively and to gain a better understanding of the managers' value-deriving process.

Outcomes

The services delivered to the Fund over 2023/4 have met TWPF's needs (i.e. they support the Fund in delivering to the needs of fund beneficiaries) and therefore the Fund has not taken any remedial action within the last year.

However, the Fund has continued to challenge its managers on their investment decision making and stewardship of specific assets. During FY 23/24, for example, the Fund:

- Challenged BCPP on Manager Alpha Skill characteristics. Collaborating with all the affected BCPP partners, TWPF and North Yorkshire Pension Fund led on engaging analytics, to analyse the BCPP Global Alpha portfolio. These findings were shared with BCPP to help improve the risk modelling outcomes.
- Continued to challenge Lazard (Active Japanese Equities) on their investment in Nippon Steel, one of the highest emitters of greenhouse gases in the portfolio. Previously, the manager defended the investment based on the actions the company is taking its decarbonisation plans. Since, the manager has sold the position on investment grounds, reflecting a tactical positioning on this holding.
- The Fund considers how to address the GHG emissions of holdings in its portfolio. In this respect, the Fund met with LGIM to understand developments of multi factor equity products which better deliver lower financed emissions. Similarly, the Fund considers how opportunities could be developed via BCPP.

Last year, we noted that a constraint on the Investment Team is the capacity to continue to monitor the increasing range of ESG reporting being provided by the asset managers. Since, the Fund has added resourcing to the team, which includes these responsibilities, as set out in Principle 2.

As part of TCFD reporting and reporting carried out via BCPP, the Fund has more ESG and emissions data available to support decision making. Where areas of improvement have been identified, the Fund engages with its appointed asset managers to ensure a better and more comprehensive picture in terms of their climate impacts and related risks is provided to TWPF.

As BCPP has completed its "establishment phase", Partner Funds have commenced a review of the governance and oversight arrangements for the company itself, but also to enhance oversight of investment performance. Officers from TWPF are playing a leading role in this project which commenced in 2023/24 and the new arrangements are being implemented in 2024/25.

Principle 9

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

Activity

As set out in the ISS, TWPF believes that well governed companies that manage their businesses in a responsible manner will produce superior returns over the long term.

TWPF appoints external investment managers and sets clear expectations for engaging with issuers on behalf of the Fund.[25] In summary, all of the investment managers are expected to:

- Support the UNPRI (United Nations Principles for Responsible Investment) and to work towards the production of appropriate climate metrics to enable the Fund to monitor its overall position,
- Use best efforts to apply the principles of the UK Stewardship Code to both UK and overseas holdings,
- Continue to develop their policies and report changes to the Fund,
- Vote wherever practical to do so, and in a manner that establishes a consistent approach to the issues (in order that company directors fully understand the manager's views and intentions),
- Abstain or vote against management recommendation, where an issue arose through engagement and the manager has been unable to reach a satisfactory outcome through active dialogue. The manager should inform the company in advance of their intention, providing reasons for doing so,
- Deliver quarterly reporting providing summaries of engagement activity outcomes and voting records.

The Fund's equity and debt managers, public and private, engage with portfolio companies on its behalf. Engagement takes many forms depending on the asset class, including meetings with company management, filing shareholder resolutions, voting, taking up Board seats in private companies, participating in creditor committees, etc. The Investment Team ensures all managers, including those appointed directly and those engaged by BCPP, adopt an approach to engagement which is consistent with TWPF's expectations.

TWPF is an active participant in the BCCP Responsible Investment Officers Operations Group (known as RI OOG). We participate both in the meeting and challenge outcomes with follow up via the client relationship management team. In 2024 we engaged on timescales for the operating environment to disclose voting data. Additionally, the approach to engagement is a key consideration in the selection of new managers/funds, and expectations are reinforced through the quarterly reporting and manager

[25] Engagement also takes place on behalf of the Fund via the Local Authority Pension Fund Forum (LAPFF) of which TWPF is a member, including the Vice Chair of TWPF Pensions Committee sitting on the executive of LAPFF. LAPFF forms part of our collaborative engagement efforts to work with other Pension Fund investors (see disclosure against Principle 10).

review process. As noted in more detail against Principle 8, each of the Fund's managers reports quarterly, highlighting areas where engagement has helped to drive change.

In terms of selecting and prioritising engagements, BCPP chooses to focus on several key areas to ensure meaningful changes can be made in collaboration with the underlying funds, with the themes being reviewed every three years[26]. Since 2021, BCPP has had four priority areas which guide and prioritise engagement: low carbon transition, diversity of thought, waste and water management and social inclusion through labour management. TWPF share with BCPP the belief that companies which prioritise these themes have the potential to drive positive outcomes across environmental, social and governance factors, which will ultimately have the most material financial impact on its investment portfolios in the long term. The themes are also used to determine priorities in working with BCPP's voting and engagement partner, Robeco, in considering which collaborations to join on TWPF's behalf (see more on collaboration under Principle 10). BCPP's voting policy was updated in 2023 with key changes to voting intentions relating to climate change and diversity.

In October 2023 BCPP presented a report to its member funds on the level of oversight over LGIM's responsible investment processes. The report highlighted the progress made in aligning responsible investment policies and processes between BCPP and LGIM. Border to Coast acknowledged LGIM's commitment to progressing ESG engagement through the manager's policies, resourcing, investment processes, collaborative efforts, as well as its increased commitment to further progress engagement on climate change issues. This report showed that the two largest managers employed by the Fund are very well aligned with the Fund's responsible investment beliefs and are equipped to adequately implement any engagement activity when required.

Selected case study examples of such engagements are offered in the Outcome section below to illustrate how these engagements have met the Fund's expectations from managers working on its behalf.

Where possible, the Fund's Officers aim to personally meet with managers to ensure engagement expectations are met. An example of a direct Committee engagement is evidenced by the pictures below from November 2023, when the Officers met with Partners Group, one of the Fund's infrastructure managers, to discuss the local social and economic benefits yielded by having an offshore wind turbine installation ship operating in the Tyne & Wear region.

[26] BCPP's Responsible Investment Policy is available in full here https://www.bordertocoast.org.uk/wp-content/uploads/2024/01/Border-to-Coast-RI-Policy-2024-FINAL-External-PDF.pdf?_gl=1*14heu4r*_up*MQ..*_ga*MTY3MTgxMTYxMS4xNzEwNDQxODcw*_ga_KKJQ3HKXSW*MTcxMDQ0MTg2OS4xLjEuMTcxMDQ0MjAwNC4wLjAuMA.

TWPF
Tyne and Wear
Pension Fund

Picture 1 and 2: Tyne and Wear Committee visiting Partners Group underlying investment.

The Fund actively monitors and influences through discussions with other stakeholders in collaborative environments. TWPF continues to use its influence in LAPFF to guide the agenda and work plan of LAPFF. Furthermore, the Fund aims to work with the other BCPP partner funds in order to develop a suitable approach to evidencing engagements within the pool's private markets mandates. The Committee believes that a better picture on private market engagements would assist in further progressing responsible investment efforts.

Outcomes

The table below presents an overview of ESG engagements reported by BCPP, highlighting their work with underlying companies within pooled investments towards improving their Environmental, Social and Governance practices.

Engagement by Issue	Environ-mental	Social	Govern-ance	ESG General	Business Strategy	Global Controversy	AGM	Total
External Managers	162	61	123	66	129	0	0	541
Robeco	109	56	51	60	0	19	18	313
LAPFF	309	319	41	29	2	0	0	700
Border to Coast	93	53	2	0	0	0	0	148
Total	**673**	**489**	**217**	**155**	**131**	**19**	**18**	**1702**
Percent	**39.5%**	**28.7%**	**12.7%**	**9.1%**	**7.7%**	**1.1%**	**1.1%**	**100.0%**

Specific examples of engagement covered by the summary above can be found below:

Engagement with Samsung Electronics on governance issues
Mandate: Pacific Index Fund, LGIM
Background
Samsung Electronics is a South Korean electronics conglomerate.
Actions taken
Robeco, acting on behalf of BCPP partner funds, has been engaging with Samsung since 2017 on issues including improving disclosure of its non-financial strategy, capital expenditure, and board composition. Robeco combined singular as well as collaborative engagement with other investors.
Outcomes
Since the beginning of the engagement, Samsung has increased the diversity and number of independent directors on its board. All key investment decisions are now reviewed by the entire board, with board sub-committees composed entirely of independent directors. Samsung furthermore started to publish its strategy for each of its businesses and has strengthened its environmental reporting. The Fund believes that these changes ensure the company is in a better position for effective decision-making, thereby enhancing and protecting the shareholder value.

Engagement with Procter & Gamble and Nestle on Biodiversity
Mandate: RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund (OFC), LGIM
Background
Alongside writing to financial institutions regarding their role in supporting positive developments on biodiversity and climate change, LAPFF has also sought to understand approaches to biodiversity at companies in other industries. For example, Procter & Gamble was recently reported to have removed policy commitments not to buy wood pulp from degraded forests. This action comes three years after a majority of investors supported a non-binding shareholder resolution at the company's AGM requesting that Proctor & Gamble assess how it could improve efforts to eliminate deforestation and forest degradation in its supply chains. LAPFF also aimed to find out more about Nestlé's approach to regenerative agriculture.
Actions taken
LAPFF has written to Procter & Gamble regarding this engagement. LAPFF also wrote to Nestlé, who hosted the Forum at its chair's roundtable in March 2023. The request seeks to discuss the company's plans for regenerative agriculture and how it contributes to the company's pathway to halve its greenhouse gas emissions by 2030 and reach net-zero by 2050.

Responses will be assessed and engagement progressed as necessary.
Outcomes
In Progress: Deforestation is becoming an increasingly important topic for LAPFF members and wider investors, particularly as the Taskforce on Nature-related Financial Disclosures (TNFD) published its final recommendations in September 2023. TNFD will have implications for a wide range of market participants. LAPFF will monitor how relevant companies incorporate the TNFD recommendations and will seek to engage those lagging behind on biodiversity and deforestation.

Engagement with Mondelez on cocoa forest restoration
Mandate: Global Equity Alpha, BCPP
Background
Mondelez is one of the world's largest US snacks companies. With many of their products based on chocolate, the company is a major importer of cocoa, one of the five key forest-risk commodities.
Actions taken
Robeco, acting on behalf of BCPP partner funds, has been in an ongoing dialogue with the company, pushing them in particular on integrating forest restoration efforts within its operating model, thereby protecting the sustainability and viability of this element of its supply chain.
Outcomes
In 2023, under the company's new sustainable cocoa sourcing models, Mondelez has for the first time included clear off- and on-farm restoration targets. While affected areas continue to be insignificant compared to the company's sourcing footprint, the Fund sees this as a first step to a more ambitious biodiversity approach which will lead to a more sustainable business model for the company over the long term.

Engagement with Disco Corporation
Mandate: Japanese Listed Equities, Lazard Asset Management
Background
Disco Corporation is a Japanese manufacturer of precision tools, especially for the semiconductor production industry. Lazard met with the company to learn more about its climate alignment, disclosures and executive compensation.

Actions taken
The discussion with the manager focused on the following topics: • Climate Alignment Assessment: The company's targets for reducing greenhouse gas emissions (Scope 1 & 2) to zero by 2030 and Scope 3 emissions to zero by 2050. • Resource management: Disco Corp.'s plans to achieve 90% recycled water usage by 2040. • Governance: The recent changes in the company's board structure and committees, as well as its efforts to improve board diversity and remuneration policies. Disco set targets to reduce scope 1 and 2 GHG emissions to zero by 2030 (against 2020 levels) and scope 3 GHG emissions to zero by 2050. The company plans to achieve this by first reducing electricity consumption via a process that encourages employees to reduce the electricity usage that apply to them. The company will then increase supply of renewable energy. For scope 3 emissions, which mostly come from customers' use of products, Disco. is considering efficient product design. Regarding water usage, Disco Corp. has a group target to achieve 90% recycled water by 2040. The company already uses recycled water for machines and bathroom/toilets.
Outcomes
The manager was satisfied that Disco has demonstrated openness to addressing ESG concerns and has already implemented or is assessing several initiatives to improve its climate impact. The company has acknowledged the need for better disclosure and is considering publishing an integrated annual report to provide more comprehensive information on its financial and sustainability performance. Lazard will follow up on the company's progress in Q3 2024, focusing on the following areas: • Implementation of the Sustainability Procurement Policy and supplier audits. • Efforts to improve board diversity and independence. • Incorporation of ESG metrics into remuneration policies. • Establishment of an ESG Committee. • Progress in achieving emissions reduction and resource management targets. • Improvements in disclosure through the publication of an integrated annual report. TWPF are satisfied that the manager effectively identifies companies with which to engage and carries out engagement in an effective manner.

Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers.

Activity

The Fund believes that collaborative engagement is an effective way of ensuring good stewardship. Whilst the TWPF is a large pension fund, working collaboratively with others is far more likely to deliver positive outcomes. The Fund works collaboratively through the Local Authority Pension Fund Forum (LAPPF) and through its fund managers (including BCPP and LGIM).

TWPF has been a long-standing member of LAPFF which engages directly with companies on behalf of the Fund and other LGPS funds on a range of ESG issues from executive pay and reliable accounts to a just transition to a net zero economy. This allows the Fund to amplify its voice in its engagement efforts. TWPF proactively collaborates through LAPFF.

The Fund is represented on the LAPFF executive and Officers attend meetings which help to shape the Forum's work programme.

TWPF's involvement in LAPFF is one of the main conduits TWPF uses to participate in collaborative engagements to influence issuers. LAPFF's Climate Change Investment Policy Framework[27] is designed to support funds as they develop their investment strategies and associated policies to address the financial risks of climate change. The Framework and LAPFF engagement support TWPF's Climate Policy. Outside LAPFF activity, TWPF expects its appointed asset managers to work collaboratively with other investors to enhance their influence. For example, BCPP participates in collaborative engagement that has been instigated by its managers, through its membership of LAPFF, or with the Cross Pool Group. As BCPP manages assets on behalf of eleven local government pension funds (including TWPF), this already provides highly effective collective engagement. BCPP is partnered with several organisations including LAPFF on a range of issues, Climate Action 100+, the 30% Club which promotes board and senior management diversity, Institutional Investors Group on Climate Change (IIGCC), Investor Mining and Tailings Safety Initiative, LGPS Cross Pool RI Group, and the Transition Pathway Initiative (TPI). Similarly, LGIM is a member or supporter of multiple industry-wide organisations and initiatives, including the 30% Club, Climate Action 100+, IIGCC, TPI, UN PRI (UN Principles for Responsible Investment), FAIRR (Farm Animal Investment Risk and Return), ARE (Asia Research & Engagement), NZAM (Net Zero Asset Managers Initiative) and many others[28].

Both LGIM and BCPP are key managers acting in collaborative efforts on behalf of the Fund. LGIM manages the assets of a very large number of other UK pension schemes which strengthens the influence it has on the underlying issuers through engagement on behalf of the wider LGPS market. The Border to Coast Pensions Partnership collects inputs from 'Partner Funds' such as TWPF through workshops and regular meetings, ensuring its policies and engagement activities reflect the values and policies of its members. Through their collective influence, the two managers ensure that TWPF's views are adequately accounted for and relayed to underlying public market equity and bond issuers.

[27] The Framework can be seen here https://lapfforum.org/wp-content/uploads/2020/11/2020-LAPFF-Climate-Change-Investment-Policy-Framework.pdf
[28] The full list of initiatives LGIM is part of can be found on page 34 here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/active-ownership/active-ownership-report-2022.pdf

In addition, three of the main private equity managers employed by TWPF are members of the Initative Climat International (iCI) (HarbourVest, Pantheon, Coller Capital), ensuring that appropriate stewardship practices are used with the Fund's private equity assets. The iCI is a global, practitioner-led community of private equity firms and investors that seeks to better understand and manage the risks associated with climate change[29]. The Fund expects, supports and encourages its managers to participate in such collaborative engagements on its behalf.

Amongst other activity with initiatives, we have become a member of Pensions for Purpose (a platform that supports the pensions industry in accelerating the flow of capital towards impact investments, creating positive outcomes for people and the planet) as we support the ambition and focus on real-world outcomes that the initiative strives for.

We also follow Carbon Tracker (a think tank that examines the impact of the energy transition on capital markets and the risks of fossil fuel investments) as a means of insight and counterpoint, feeding into the Fund's assessment of systemic climate risks.

Outcomes

Specific examples of collaborative engagement covered through the Fund's involvement in LAPFF and by the asset managers can be found below:

Engagement with EasyJet on the company's transition plan
Mandate: UK Equity Alpha, BCPP
Background
Border to Coast has joined the IIGCC Net Zero Engagement Initiative (NZEI) and is co-leading engagement efforts with easyJet. The IIGCC engagement programme is seeking comprehensive Net Zero Transition Plans from 107 target companies, including a net zero commitment, aligned GHG reduction targets, emissions performance disclosure, and credible decarbonisation strategy.
Actions taken
Following assessment of easyJet's transition plans and response to the IIGCC NZEI questionnaire, a meeting was held in November 2023 to discuss its emission reduction targets and decarbonisation strategy.
Outcomes
The manager considered the response to be satisfactory, with a well-below 2 degrees aligned Science Based Targets initiative (SBTi) target and comprehensive transition plan. Further disclosure has been requested on the feedstock and sustainability of Sustainable Aviation Fuels, and on the contributions of transition measures to meeting its targets. Engagement with easyJet continues.

[29] The iCI was originally launched as the iC20 (Initiative Climat 2020) in 2015 by a group of French private equity firms to contribute to achieving the Paris Agreement's objectives. The iCI has since expanded internationally and now counts some 212 firms representing over US$3.4 trillion in AUM, as of 1st October 2022.

Engagement with water companies
Mandates: Corporate Bond Fund, LGIM and Sterling Investment Grade Credit Fund, BCPP
Background
LGIM believe that in its current form, water systems present a long-term systemic market risk that is financially material for investors such as the Fund; it is therefore a specific area where they are focusing their activities in the Investment Stewardship team, and within their Global Research and Engagement Groups (GREGs). The water industry in England and Wales, in particular, is facing a number of environmental issues, many of which have received frequent press coverage. From pollution and monitoring of outflows, water security and infrastructure investment, to high levels of debt and evolving regulation, there are a number of financially material challenges that the manager has identified for engagement within the GREGs. As a major lender in the sterling corporate bond market, LGIM believe they have a responsibility to push for positive change at underperforming companies. Similarly, BCPP have engaged with water utility companies, acknowledging the crucial environmental role of water and the widely reported concerns relating to this sector in the UK.
Actions taken
With regards to engagement, LGIM has joined a collaborative working group that is being led by the Investor Forum focused on short-, medium- and long-term concerns regarding the UK water system. The collaborative engagement is crucially approaching the topic at both a corporate and policy and regulatory level. To date, exploratory meetings have been held with United Utilities, Severn Trent and Pennon Group. Topics discussed with these companies have included UK water infrastructure and investor concerns. LGIM have also met with other large investors in the sector to help understand broader concerns and formulate expectations. LGIM directly engages when companies are marketing bonds, and also amplifies its voice through its leading role at UK industry body The Investment Association. On a related note, BCPP joined a collaborative engagement initiative with the UK water utility sector coordinated by Royal London Asset Management. Focus areas include sewage pollution, water leakage, climate change mitigation and adaption, biodiversity, antimicrobial resistance, and industry collaboration. Border to Coast is leading the engagement with Yorkshire Water and Northumbrian Water on behalf of the collaboration. In October, BCPP met with Yorkshire Water to discuss their assessment of the Company against sector expectations. Discussion focused on areas the manager had identified as priorities: pollution and maintenance of good asset health; sustainable water abstraction; and biodiversity targets and net gain. Northumbrian Water has responded to engagement with further disclosure on BCPP's priorities, which is currently being assessed.
Outcomes

Yorkshire Water recently announced that it is bringing forward sewage infrastructure investment in Scarborough and surrounding area, an area BCPP engagement has highlighted as in need. The outcomes of LGIM's engagements will help form the basis of expectations for the sector going forward, enabling the manager to work with industry stakeholders towards solutions and improvements. In regard to BCPP, the manager will continue to lead engagement with Yorkshire Water and Northumbrian Water to strive for further improvements in the companies' infrastructure.

LAPFF Technology Voting Alerts
Mandate: Future World North America Equity Index Fund, LGIM; Global Equity Alpha, BCPP
Background
LAPFF has issued voting alerts largely supporting ESG shareholder resolutions filed at technology companies over the last few years and did so again this year. In LAPFF's experience, US companies do not have a culture of engaging with investors in the way that UK and Australian companies do. Therefore, while voting alerts are part of an engagement escalation strategy in most markets, LAPFF often issues voting alerts as an initial point of engagement with US companies with which it deems there are ESG or financial concerns. LAPFF continues to have concerns about corporate governance and social practices at large US technology companies.
Actions taken
LAPFF issued voting alerts for Amazon, Tesla, Meta Platforms, and Alphabet, supporting shareholder resolutions on platform content and improved corporate governance practices, among others. These are holdings in a number of equity mandates in which the Fund invests. Prior to issuing voting alerts, LAPFF sends the draft alerts to the target companies for comment. If the companies comment, LAPFF includes the company comments in the alert issued to its members.
Outcome
In Progress: On this occasion none of the technology companies receiving voting alerts provided comments or responses to LAPFF. LAPFF continues to seek ways to engage these companies meaningfully in relation to the issues of concern to LAPFF and the Tyne and Wear Pension Fund.

Engagement on human rights within the mining industry
Mandate: RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund (OFC), LGIM

Background
While LAPFF is continuing to engage with Anglo American, BHP, Glencore, Rio Tinto, and Vale on their human rights practices, LAPFF has picked up a new mining company engagement with Grupo Mexico. These are holdings within the LGIM RAFI fund. LAPFF has been approached by community members affected by a 2014 leak at one of the company's tailings ponds in Sonora, Mexico. The main objective of these engagements is to ensure that the companies understand that any failure to respect human rights and environmental impacts could have financial consequences for them and for their shareholders. One of the main milestones LAPFF is looking for is how well the companies acknowledge and engage with the workers and communities they affect. Effective stakeholder engagement is important to LAPFF both as a human rights imperative and because it can expedite less costly solutions to operational, reputational, legal, and financial concerns at companies.
Actions taken
LAPFF is pleased that both the Anglo American and Vale groups in the PRI Advance initiative have recognised the importance of stakeholder engagement. There are plans for both groups to engage with relevant affected stakeholders. LAPFF met a Grupo Mexico representative for the first time in 2023. LAPFF Chair, Cllr Doug McMurdo, spoke with an investor relations contact, who he found to be open to the engagement. It was interesting to hear that the company has been approached by a number of investors in relation to environmental, social, and governance (ESG) issues of late. This increase in attention on ESG issues might not be a coincidence as the company is one of those chosen for inclusion in PRI's Advance human rights initiative.
Outcomes
As with many mining companies, LAPFF's view is that Grupo Mexico has a number of processes in place, some of which appear to be sound on paper. However, there appears to be significant work to be done in practice. Once again, the company accounts of its human rights practices and the community accounts differ drastically. In relation to its PRI engagements, LAPFF has reached out to a couple of non-governmental organisations and community representatives on behalf of the Anglo American PRI Advance group to see if they would be willing to meet the group. There have been positive responses. **In Progress:** Cllr McMurdo is now seeking to speak with the Sonora community group affected by Grupo Mexico's operations. As LAPFF has done in other such engagements, it will use the community and company perspectives to form a view of how to encourage improved human rights practices at the company. LAPFF will now work to set up the community meetings for both the Anglo American and Vale PRI Advance groups. The Fund is satisfied that its managers are using their influence through initiatives and collaborations to engage on sectors that present environmental and social challenges.

Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers.

Context

TWPF supports active management aimed at enhancing the value of the underlying investments and this is set out in its expectations of the managers that it appoints. TWPF believes that managers, who have both the knowledge and experience, are best placed to determine the course of any escalation required for a successful intervention.

We are satisfied that the escalation policies of the managers that manage the majority of the Fund's assets are fit for purpose and aligned with their expectations. Border to Coast, for example, has a clearly defined eight-step process, and representatives of the Fund were able to provide input in the design of this policy through its role as a Partner Fund. In brief, BCPP believe that engagement and constructive dialogue with the companies in which it invests is most effective, and where engagement is deemed to be unsuccessful, escalation may be necessary (i.e. through collaboration with other institutional shareholders, voting on related agenda items at shareholder meetings, attending a shareholder meeting in person and filing/co-filing a shareholder resolution), and if the investment case has been fundamentally weakened, the decision may be taken to sell the company's shares'[30].

Meanwhile, LGIM embed escalations through their policy. Their engagement strategy includes clear timeframes and the firm prefer to set measurable target to assess progress, so where this falls short, escalation may be required. An example of this might be to vote against the chairperson of a board to express dissatisfaction. Like BCPP, LGIM does not rule out redeeming holdings in select funds where companies are unresponsive and the investment case is weakened.

Where an issue has arisen through engagement, and a manager has been unable to reach a satisfactory outcome through active dialogue, an abstention or vote against a company management's recommendation for given resolutions and TWPF supports manager discretion in doing so on its behalf. TWPF expects managers to inform the company in advance of their voting intention, with reasons.

As a Fund, TWPF makes clear its expectations of managers on engagement and where portfolio companies fall short of expectations, escalation is considered on a case-by-case basis. Expectations are set in mandate specifications and the manager's approach to stewardship including escalation is one of the factors considered when new managers are selected. Escalation decisions and activity are monitored through the quarterly manager reporting/review process.

TWPF also supports and participates in class actions to safeguard assets when a manager is unable to resolve issues through voting or direct communication. Managers must seek direction from the Fund when the Fund has informed them that it is involved in a class action against a company. The decision on participation is governed by a protocol that has been approved by the Pensions Committee. The class action protocol clearly defines the role of two US-based law firms, Grant and Eisenhofer ("G&E") and Robbins Geller Rudman & Dowd LLP ("RGRD"), to identify class actions where the Tyne and Wear Pension Fund is a potentially affected party of the alleged violation. The decision on whether to progress with a formal complaint is taken by the Head of Pensions and the Head of Legal Services once the

[30] Extracted from the BCPP Responsible Investment Policy, page 10 here https://www.bordertocoast.org.uk/wp-content/uploads/2022/03/RI-Policy-2022.pdf

impact on the Fund has been examined[31]. The outcome section details progress made on two of the Fund's ongoing class action suits.

TWPF also expects its debt managers to take appropriate action when portfolio companies default on their obligations in bond or loan agreements. Escalation may include enforcing enhanced information rights, interest margin step-ups and/or security interests with a view to protecting the Fund's interests. Where appropriate, managers will be expected to enter negotiations with company management regarding a debt restructuring or to take control of the company and refinance it.

The Pensions Committee has discussed the issue of divestment in several areas of investment previously. The policy of active engagement with companies is considered a more productive approach to effecting change, rather than divestment. This is reflected in the Fund's investment beliefs, as noted in disclosure against Principle 1. However, TWPF does recognise that managers may use divestment as a last resort where engagement or other escalation is deemed to be unsuccessful.

Activity

The Fund continued to make progress on the three class actions it is currently engaged in, against Toshiba, BHP Billiton and Volkswagen. More detail on the latter two engagements are given in the outcomes section below. There were no new class actions initiated over 2023/2024.

No other significant activity was carried out by the Fund in relation to escalation over the period. The Panel actively considers directing votes where possible in instances where engagement is not effective.

Outcomes

TWPF works with managers to discuss escalation strategies, drawing on a range of options as noted above. Where the managers and / or the Fund have concerns, discussions will take place about how matters can be escalated.

The case studies below provide examples of the manager's approach in action and relate to equity interests (though as noted above, the Fund expects its fixed income managers to escalate as appropriate).

During FY 23/24, for example, the Fund's managers demonstrated escalation as part of its stewardship activities:

Class Action against Toshiba Corporation
Mandate: Future World Japanese Equity Index Fund, LGIM
Background
Toshiba Corporation is a Japanese multinational electronics company headquartered in Minato, Tokyo, Japan. Its diversified products and services include power, industrial and social infrastructure systems, elevators and escalators, electronic components, semiconductors, hard disk drives (HDD), printers, batteries, lighting, as well as IT solutions. At the Committee meeting on 14 June 2016, it was decided that the Fund would join a group action against Toshiba in Japan. The group action is co-ordinated by G&E and relates to financial

[31] The TWPF class action protocol is available here https://www.twpf.info/media/2999/Class-action-protocol/pdf/Class_Action_Protocol.pdf?m=637922632134370000

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impropriety by senior management at Toshiba. The basis of the claim is that, following the global recession in 2008, senior management at Toshiba mandated “creative accounting” in order to make Toshiba look financially stronger than it actually was. This practice lasted for several years before coming to light in 2015. Senior management at Toshiba have resigned in light of the revelations. The Fund’s loss is estimated to be in the region of £1,000,000, although this is subject to market fluctuations in the Toshiba share price. G&E (and their fellow funders) has fully indemnified the Fund against any costs.
Actions taken
A complaint was filed on 22 June 2016, in Tokyo Civil Court on behalf of all institutional Investors who purchased Toshiba Corporation common stock during period 1 January 2008 to 11 September 2015. A further complaint filed on behalf of a different group of investors was filed on 3 April 2017. At a hearing on 13 June 2017, the Court informed all parties that it would grant the request to consolidate the two actions and the cases would proceed together. At a hearing on 22 February 2018, Toshiba indicated that it would not be disputing that it made false statements but that it plans to dispute (1) impairment losses; and (2) retrospective adjustments. The first case hearings took place on 1 and then 22 October 2020, during which each side briefly summarised their arguments for the presiding judge. At a hearing on 13th July 2021 the Court directed parties to consider settlement. Whilst this appeared to be a promising development, the parties became entrenched on two issues: • The methodology for calculating damages; and • Who were the appropriate plaintiffs, the underlying shareholders or the custodians and sub-custodians who were listed in Toshiba’s register of shares. These two issues have dominated proceedings since 2021 and have been the subject of many hearings in the last two years.
Outcome
Despite the lack of progress in recent years, in 2023 the Court has stated that it will be looking to make a judgment on this case, if the parties are unable to reach a settlement soon. The case remains ongoing, and Officers will continue to monitor the position.

Group action against Volkswagen
Mandate: RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund (OFC), LGIM
Background
The use of so called "cheat devices" in certain Volkswagen vehicles has been very widely reported. Once the conduct of Volkswagen came to light in September 2015, the share price in Volkswagen fell significantly causing a loss to investors. The Fund's loss has been estimated to be in the region of €2,500,000 - €5,500,000 (approximately £1,900,000 - £4,300,000) depending upon the method of calculation used. There are different methods available for calculating loss in Germany and this will be an issue for the German court to determine. The Fund has joined a group action litigation against VW seeking to recover financial losses incurred.
Actions taken
Hearings in the group action case commenced on 10 September 2018. Three judges will hear evidence and decide the case. The court expressed its preliminary opinion that there were significant indications that VW had violated its disclosure obligations for claims arising out of purchases after 10 July 2012. Separate to the group action litigation, VW is also facing challenge from other sources, including: In September 2019, German prosecutors charged the CEO of Volkswagen with misleading investors in withholding information about the scandal to prop up VW's share price. On 25 May 2020, VW announced it would pay $9million to end legal proceedings against the Chairman and CEO who were accused of market manipulation. The payment by VW ends the case with no admission of wrongdoing, however, the charges originally brought in September 2019 remain active against VW its former CEO and over 30 executives. Additional charges were filed against VW managers in September 2020 alleging the fraud began as early as November 2006, further supporting the theory of the case. VW has also been ordered to pay compensation to owners of vehicles with defeat devices. The ruling allows owners to return the vehicle to VW which will serve as a template for roughly 60,000 consumer suits still pending. VW said it had paid out a total of $750 million to more than 200,000 claimants in Germany to settle a consumer group litigation, although it was setting aside $830 million in total for that settlement. On 17 December 2020, the European Court of Justice ruled that VW broke European law by installing defeat devices to cheat on emissions tests. The ECJ held that "a manufacturer cannot install a defeat device which systemically improves during approval procedures, the performance of the vehicle emission control system and thus obtain approval of the vehicle". Germany is bound by rulings of the ECJ and therefore this decision prevents VW from arguing that the defeat devices were allowable to "protect" the engine. Limited hearings continued due to COVID-19. In these hearings the Court examined whether Porsche should remain a defendant. The Brunswick Court determined that Porsche shall remain a

defendant in so far as Porsche aided and abetted VW's fraud. Hearings scheduled through the spring and summer of 2021 were cancelled due to COVID-19. On 18 November 2021, the Court issued a 30-page resolution in the group action litigation, taking the opinion that the decision to install defeat devices in vehicles for the U.S market constituted 'inside information' that should have been made known to the capital market as early as 2008. In hearings in June 2022, the court reviewed submissions from the parties regarding Volkswagen's Board of Management's knowledge of the illegal defeat devices and entertained a discussion of whether, and if so how, to take evidence on this "knowledge" issue.
Outcome
The Court has since acknowledged that assessing whether Volkswagen's Board of Management possessed knowledge of the illegal defeat devices was taking more time than expected and the Court was still compiling the individual facts, which required the taking of evidence. On 7th March 2023, the Court issued an Order of guidance stating that the collection of evidence on Volkswagen's management board's knowledge of the installation of defeat devices was necessary to determine liability. The Court noted that a decision on that issue would not be issued for some time and, therefore, recommended that the model parties enter into settlement negotiations. On 24th March 2023, the court issued a further notification indicating that those settlement negotiations were not successful. The case remains ongoing and there is no sign of settlement. The case will likely continue for the foreseeable future. Officers will monitor the position and keep Committee informed of material progress.

Principle 12

Signatories actively exercise their rights and responsibilities.

Context

TWPF recognises that voting rights are one of the most significant sources of influence on equity investments and are essential to protect the interests of the Fund's employers and beneficiaries. The Fund defines voting policies in its Responsible Investment policy (approved by the Committee on 1 December 2023), which sets out its views and processes to act upon these. In summary, the policy[32] sets out the Fund's views that:

- Voting rights deserve the same duty of care as any other investment decision. Their effective use protects the interests of investors.
- The Fund requires its managers to vote with the Fund's shares wherever it is practical to do so.
- It is important that voting is carried out in an informed manner, and so these responsibilities are carried out by the Fund's investment managers, who are considered best placed to undertake it. However, the Fund engages with managers to ensure its expectations on voting are clear, and managers are required to demonstrate they have adhered to the Fund's policy.
- A consistent approach to voting is important for company directors to fully understand the asset manager's views and intentions.
- Voting can be an effective tool for escalation in engagement.

Further detail on the specific expectations of asset managers in carrying out stewardship activities are summarised under Principle 8 and Principle 9.

Additionally, the Fund expects voting records to be provided that show absolute and proportion of votes cast, and brief explanation of significant votes (defined as votes exercised in a way that is inconsistent with a policy, against management, abstentions or where not exercised).

To ensure that the managers are following agreed guidelines on proxy voting, TWPF requires managers to complete a voting template detailing their approach to voting. The template is requested annually and covers aspects such as client consulting, voting process, voting statistics over the year and more details on votes perceived as 'most significant'. During the process of collating its report for the UK Stewardship Code, the Fund assesses the voting activity of its managers in meeting the expectations set.

As a founding member and partner fund of BCPP, TWPF has influenced the *BCPP* Responsible Investment *Policy* and Corporate Governance and *Voting Guidelines*[33]. Voting rights must be exercised in a manner that establishes a consistent approach to the issues, in order that company directors fully understand the managers' views and intentions.

[32] Full Corporate Governance and Responsible Investment Policy available here https://twpf.info/media/2520/Corporate-Governance-and-Responsible-Investment-Policy/pdf/2023.12.01_Corporate_Governance_and_Responsible_Investment_Policy.pdf?m=1701704890543
[33] BCPP's Corporate Governanec and Voting Guidelines available here https://www.bordertocoast.org.uk/publication/corporate-governance-and-voting-guidelines-2023/

TWPF has a stock lending programme in place with its custodian and may also participate in programmes arranged by certain of its managers. Stock is to be recalled from loan where the Fund's voting rights are required to be exercised on contentious issues.

The Fund considers stewardship responsibilities in fixed income investments to the same extent as it does for its equity holdings. As such, the private and public debt managers are required to engage with and promote sustainability in the underlying companies as early as possible in their investment process. Reporting on stewardship to the Fund's officers is expected on a regular basis, alongside performance reporting and other common updates. Examples of fixed income managers engaging with underlying companies are provided in the Outcomes section below

Activity

TWPF ensures that its managers are effectively exercising their proxy voting duties[34]. This is done by scrutinising the managers' voting policies and records and checking these are consistent with the Fund's beliefs and voting practices. The Fund actively requests managers to complete the Pensions and Lifetime Savings Association (PLSA) Voting Questionnaire, which aims to ensure that managers realise their significant role and responsibilities as stewards of capital. The questions gather an overview of the voting process and distinction criteria for 'most significant' votes as well as statistics on votes submitted over the year and several details on significant votes. For example, Lazard and LGIM voted on 100% of the votes they were eligible to participate in 2023, implicitly representing TWPF in the process.

The Fund expects its private markets managers to exercise their shareholder or lender rights to the same extent as it does its public markets managers. To ensure that such responsibilities are met, TWPF actively seeks involvement through positions held on advisory boards, as indicated previously at Principle 10. Taking on advisory board seats allows the Fund to exert its influence and make its stewardship preferences clear to the managers. TWPF is consequently well-represented by its private market managers when they take board seats in underlying funds / companies and actively engage with the individual management teams. An example of this is set out in a case study relating to Partners Group mandates under Principle 7. The Fund will consider over 2024/5 how it might influence BCPP to better engage and record progress for its private market funds and how this is then reported back to partner funds.

To ensure the Fund's shareholder rights are exercised appropriately, regular proxy voting reports are requested from all publicly listed equity managers. The statistics corresponding to the equity funds held throughout 2023 for the year to 31st December are presented in the table below.

[34] Voting policies are available online for BCPP https://www.bordertocoast.org.uk/wp-content/uploads/2023/01/Corporate-Governance-Voting-Guidelines-2023.pdf?_gl=1*rqpb2h*_up*MQ..*_ga*MTI0NzkyMTA0Ni4xNjgwNjIwODE0*_ga_KKJQ3HKXSW*MTY4MDYyMDgxMy4xLjEuMTY4MDYyMDgzOC4wLjAuMA., LGIM https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/equal-voting-rights-tagged.pdf, Lazard https://www.lazardassetmanagement.com/docs/-m0-/16376/LazardProxyVotingPolicyAndProcedures.pdf and TT International https://www.ttint.com/documents/149/Proxy_Voting_Policy.pdf

Mandate	Number of meetings attended	Total resolutions voted on	Total resolutions not voted on	Votes for management	Votes against management or abstained	Percentage of votes against or abstained
BCPP UK	198	3,050	0	2,811	239	7.8%
BCPP Global	365	4,454	61	3,745	648	14.6%
LGIM	13,975	146,318	0	108,604	35,010	23.9%
Lazard	54	706	0	674	32	4.5%
TT	94	620	0	562	58	9.4%
Total	**14,686**	**155,148**	**61**	**116,396**	**35,987**	**23.2%**

Note: Q1 2024 voting statistics not published, thus the statistics for are 3-month lagged at time of submission and publication.

Furthermore, a meaningful proportion of the votes have been cast to abstain or vote against management recommendations, demonstrating that managers are voting objectively, taking into consideration the Fund's views and service provider recommendations. The large number of votes show the impact of TWPF across the public equity markets.

Following recent improvements to workforce resource, consideration is being given to enhancing the Fund's processes for scrutiny and accountability for votes cast on its behalf by asset managers, in addition to the consideration that it gives to regular reporting of voting statistics and the consideration of stewardship policy alignment between asset managers. Further reporting will be developed in 2024 to provide greater insight to the Pensions Committee on significant topical voting and engagement issues across the ESG spectrum.

The Fund's Stewardship policy is designed to reflect the wide range of asset classes and different manager arrangements that produce effective Responsible Investment outcomes. As the Fund continues the process of transitioning all suitable assets to BCPP by March 2025, it has previously been accepted that adoption of BCPP's approach to RI best served its Stewardship requirements. This is subject to overlay of collaborate action, in particular via LAPFF, where BCPP is also a member and reports weekly back to partner funds on their vote actions and activities having due regard to LAPFF alerts. For passive and factor-based investments the Fund ensures that LGIM are advised on LAPFF alerts. Monitoring and challenge as appropriate is carried out by the Fund's officers.

Setting expectations in Private Markets is a more accretive process, as the ESG approach develops. The Fund's priority having set itself a challenging Net Zero target, was to engage with Private Market managers to improve climate metric reporting and likewise challenge the underlying investee companies to develop the operating environment to support a reduction in carbon emissions.

With regard to Property the fund has been proactive in commissioning a net zero pathway for its directly held assets and has sought to implement initiative such as EV charging and solar panels either as a landlord or through supporting tenant actions.

This flexible approach to setting voting policy and manager actions has enabled the fund to adjust to both a changing set of RI priorities, manager arrangements and asset mix.

Outcomes

Amazon
Mandate: Global Equity Alpha, BCPP
Background
Amazon operates an online retail and e-commerce business while also offering services such as streaming. At its 2023 AGM, BCPP supported 14 shareholder proposals and opposed four.
Votes and rationale
Out of the 14 supported proposals, five were related to BCPP's social inclusion and labour management focus. These resolutions asked for reports on working conditions, pay gaps, employee freedom of association assessment, and considering employee salaries in executive pay decisions. Implementing these requests could improve treatment and reduce labour-related risks. For example, the working conditions proposal aimed to investigate if demanding performance targets contribute to injury and turnover rates. The manager also opposed four shareholder proposals. One requested a report on climate risks in employee retirement plans, which they found beyond shareholder scope. Another regarding a public policy committee seemed unnecessary, as the manager believes ESG oversight lacks quality more than quantity. Lastly, two proposals aimed to hinder ESG efforts.
Outcomes
The shareholder proposals on freedom of association and working conditions both received 35% support. Gender and racial pay proposals received 29%, employee to executive pay comparisons 7%, and hourly employee board representation 18% support. These results show ongoing investor focus on labour rights at Amazon. The two anti-social proposals received 1.6% and 0.8% support, highlighting low backing for such proposals despite their increasing prevalence. The proposals on climate risks in retirement options and a public policy committee got 7% and 6% support, respectively.

Microsoft Corporation
Mandate: Future World North America Equity Index Fund, LGIM
Background
At the Annual General Meeting on 7th December 2023 resolution 13: Report on Risks Related to AI Generated Misinformation and Disinformation was put to vote for the shareholders. Management recommended an against vote for this issue. The issue identified by LGIM is company transparency regarding risks related to AI-generated misinformation and disinformation, an important topic in the realm of social media, and one which comes under the broad scope of the manager's 'digitisation' stewardship theme. As one of the largest tech

companies in the world, Microsoft's approach to these issues has the potential to set the benchmark across the industry more broadly.
Vote and rationale
Having engaged with the company to discuss its approach to the risks described in this resolution, LGIM consider at the time of the vote that the company is a leader in the disclosures, governance processes and mitigation steps it is taking on risks posed by its operations from generative AI. The manager therefore took the decision not to vote in favour of this shareholder resolution. This was considered a significant vote as it relates to one of the manager's core stewardship themes (digitisation).
Outcome
The resolution only achieved 21.2% support. Artificial Intelligence will continue to be an important issue and Microsoft's position as leader in its industry brings with it the responsibility to take appropriate actions regarding governance, risk and transparency on this issue. LGIM will continue to engage with Microsoft on AI-related transparency.

Glencore
Mandate: Global Equity Alpha, BCPP
Background
Glencore extracts and trades commodities including metals, minerals, oil, and coal.
Votes and rationale
Glencore operates in emission-intensive sectors, facing climate risks that require effective management to preserve shareholder value. With this in mind, BCPP deemed the progress outlined in the Company's climate report to be insufficient. BCPP supported the shareholder proposal calling for a 2024 climate transition plan to include disclosure on whether the Company's planned thermal coal production is aligned with the Paris Agreement, and the extent to which it is inconsistent with the IEA Net Zero scenario timelines for phasing out thermal coal for electricity generation.
Outcome
30% of shareholders voted against the Company's climate report, while 29% supported the shareholder resolution, evidencing a large contingent of Glencore investors seeking to improve the Company's management of climate-related risks.

NextEra

Mandate: Global Equity Alpha, BCPP

Background

NextEra is a U.S. based energy company providing electricity through its significant fossil gas, wind and solar capacity.

Vote and rationale

BCPP supported the Board Chair despite the Company not meeting the Climate Action 100+ Net Zero Benchmark indicators 1, 2, and 3.

NextEra was deemed to fall short of meeting CA100+ criteria for net zero ambition and credible GHG reduction targets. However, the 'Zero Carbon Blueprint', published by NextEra after the CA100+ assessment, aims for 'real zero' by 2045 with significant interim emission reduction targets. These targets are expected to fulfil CA100+ requirements when assessed in the future. NextEra is investing significantly in green hydrogen production to achieve its ambitious decarbonisation goals without offsets and, after analysing the Blueprint and engaging with management, BCPP were comfortable in supporting the Chair at this year's AGM.

Outcome

NextEra’s Chair received 91% support with 9% voting against re-election.

The Fund welcomes the publication of a transition plan.

PVR Limited

Mandate: Asia Pacific Listed Equities, TT International

Background

The vote concerned electing Haigreve Khaitan as director. TT voted against management’s recommendation.

Vote and rationale

The manager had concerns about the candidate, Haigreve Khaitan, because he was overboarded due to his director position on 7 public company boards. He is a Partner and heads the Corporate / M&A and Private Equity practice at the eponymous Khaitan & Co. where he advises companies, boards of directors and financial institutions on M&A, PE investments, corporate governance, corporate restructuring and other corporate and securities laws matters. While he may have been highly knowledgeable in his field, he was already serving on 6 public company boards, and he would also sit on three board committees at PVR.

Outcome

The vote resulted in 26% dissent - The special resolution for the appointment of Mr. Haigreve Khaitan did not get the requisite majority of votes, but the votes cast in favour of the resolution still exceeded the votes cast against the resolution. Therefore, the appointment of Mr. Haigreve Khaitan as an independent director was made under Regulation 25(2A) of LODR Regulations. He retired from the board in February after his 1-year term concluded.

Toyota Motor Corp.
Mandate: Japanese Listed Equities, Lazard Asset Management
Background
At the 14th June 2023 meeting the manager voted on a shareholder resolution seeking requesting more transparent reporting on corporate climate lobbying aligned with Paris Agreement.
Vote and rationale
Lazard voted for this shareholder resolution, against management recommendation. The manager deemed that an evaluation of how the company's lobbying activities align with the Paris Agreement goals would provide information that would allow shareholders to better evaluate the company's risk related to its lobbying activities.
Outcome
The shareholder proposal failed to garner majority support. Outcomes stemming from voting decisions and engagement are incorporated into Lazard’s investment process, further enhancing long-term value for TWPF. The manager will continue to engage with the company on enhancing ESG reporting.

Pemberton engagement with private debt issuers
Mandate: Private debt, Pemberton Asset Management
Background
The Company (anonymised) is a leading international manufacturer of chocolate products and cocoa derivatives headquartered in Spain and focused on the private label segment across Spain, Germany, France, Belgium, USA and Canada. The company’s impact on the environment was considered by Pemberton as part of the diligence process, including its commitment to sustainability, its CO2 and other chemical emissions, and packaging. As an existing portfolio company since 2019, the company has regularly completed and submitted the annual ESG compliance review and will continue to complete this annually. This review includes KPIs that can be used to monitor improvements.
Engagement and actions taken

The Borrower Group is currently incentivised to improve its ESG performance through a margin ratchet on its loan subject to third-party certification. As a result it maintains a competitive sustainability agenda and above-peer results around Environmental and Social issues, being carbon neutral since 2019 and is continuously pushing towards increased levels of sustainable sourcing.
Outcome
The company has significantly reduced GHG emissions (below most top competitors) and is the first player offsetting by 100% its scope 1 and 2 carbon footprint. The use of sustainable packaging and renewable energies has expanded (above 95% recyclable/compostable packaging), and it has managed to successfully reduce its overall water consumption and waste production. These criteria have allowed the company to achieve a Gold Medal in EcoVadis assessment, placing it in the 96th percentile in the industry. They also continue to collaborate with research centres and universities to develop more organic, vegan, reduced sugar, Better-for-You product options. Going forward, the company has a clear roadmap for 2026 and 2030 with quantifiable objectives including 100% sustainable cocoa levels by 2030, 100% renewable energy usage by 2026 and B-Corp certification in 2022.

Engagement with UK Banks on a Just Transition
Mandate: Sterling Investment Grade Credit Fund, BCPP
Background
Just transition is the integration of social risks and opportunities, and a place-based lens, into decarbonisation strategies. It enables investors to address systemic threats to long-term stability and value creation and is a key consideration for Border to Coast in our Responsible Investment and voting policies.
Engagement and actions taken
In June 2023, BCPP announced a new programme of engagement, including joining the Financing a Just Transition Alliance, which is coordinated by the London School of Economics Grantham Institute and has 50 institutional investor members.
Outcome
The pensions pool will be collaborating with Royal London Asset Management to engage four UK banks. Banks have a key role to play in the low carbon transition, both via capital allocation and support for customers to transition. BCPP and its members will develop investor expectations of banks on just transition and engage in support of coverage in climate policies. Border to Coast will also pilot engagement with an emerging market energy utility to explore just transition in an emerging market context.

Appendix I

TWPF Advisory Board Representation

Partners Group Funds	Partners 2006 Direct
	Partners Global Infrastructure Fund 2009
	Partners Group Direct Infrastructure 2011
	Partners Global Infrastructure Fund 2012
	Partners Group Direct Infrastructure 2015
	Partners Global Infrastructure 2018
	Partners Direct Infrastructure 2020
	Partners Asia Pac. & Em. Mkts 2009
	Partners Secondary Fund 2009
	Partners Global Real Estate 2011
	Partners Direct Real Estate Fund 2011
	Partners Asia Pac. Real Estate 2011
	Partners Real Estate Secondary 2013
	Partners Real Estate Income 2014
	Partners Global Real Estate 2013
	Partners Real Estate 2014
	Partners Real Estate Secondary 2017
	Partners Global Value Real Estate 2019
	Partners Real Estate Opportunities 2019
	Partners Real Estate Secondary 2021
HarbourVest Funds	HVP VII Buyout
	HVP VII Mezzanine
	HVP VII Venture
	HVP Direct Fund 2004
	HIPEP V Partnership

	HIPEP V Direct
	HVP VIII Buyout
	HVP VIII Venture
	HVP Direct Fund 2007
	HVP Direct Fund 2013
	HIPEP VII Partnership
	HVP X Buyout
	HVP X Venture
	Dover Street IX
	Co-Investment IV
	HIPEP VIII Partnership
	HVP XI Combined Fund
	Co-Investment V
	Dover Street X
Pantheon Funds	PEURO IV
	PEURO VI
	PASIA VI
	Pantheon Access Euro 2016
	Pantheon Access USD 2016
	Pantheon Private Debt PSD II
	Pantheon Private Debt PSD III
Infracapital Funds	Infracapital I
Foresight Funds	Foresight Regional Investment 4 LP
HPS Funds	HPS Core Senior Lending Fund
Abrdn Funds	Aberdeen Standard UK PRS LP
Hearthstone Funds	Hearthstone Residential Fund 1 LP
	Hearthstone Residential Fund 2 LP

Appendix II

2022/2023 Investment Report (Extracted from Report and Accounts)

INVESTMENT REPORT

INTRODUCTION

The Investment Office of the Pensions Service manages the investment and financial control of the Fund.

The formal investment objectives are:

- To invest the Fund money in assets of appropriate liquidity to produce income and capital growth that, together with employer and employee contributions, will meet the cost of benefits
- To keep contributions as low and as stable as possible through effective management of the assets.

INVESTMENT STRATEGY

The investment strategy is derived from Asset Liability Modelling (ALM) that uses data from the triennial valuations. This examines the Fund's financial position, the profile of its membership, the nature of its liabilities and an analysis of projected returns from differing investment strategies. This exercise is undertaken by the Investment Advisor, Hymans Robertson, based on liability data provided by the Actuary, Aon.

During 2022, the Committee undertook a review of the Investment Strategy alongside the 2022 Valuation. As part of the 2022 review, Hymans Robertson undertook an Asset Liability Modelling exercise and applied the results from this process across a range of different potential investment strategies.

The analysis showed that the current strategy remained appropriate. However, it also identified some opportunities to switch assets from Growth to Income assets, which is a continuation of the Fund's longer term de-risking of the strategy which commenced in 2019. The changes also provided a good opportunity to increase allocations to lower carbon asset classes, which is supportive of the Fund's carbon emission reduction targets. This included a 3% allocation to a Climate Opportunities fund from Border to Coast and increases in the allocations to Infrastructure and Private Debt.

At Pensions Committee in September 2022, the following long-term strategy for the Fund was agreed.

Growth Assets (43.0%)

- 34.5% in quoted equities
- 8.5% in private equity

Income Assets (34%)

- 9.0% in UK property
- 4.0% in global property
- 6.5% in private debt
- 6.5% in infrastructure
- 3.0% in climate opportunities
- 5.0% in multi asset credit

Protection Assets (23%)

- 22.0% in bonds
- 1.0% in cash

By the end of March 2023, the Fund had made the required changes to the long-term asset allocation and made significant progress in increasing the allocations to the private markets asset classes (climate opportunities, private debt and infrastructure). It was recognised, however, that building up these allocations out of equities would take several years to implement.

An interim health check of the strategy is planned for 2023/24 to ascertain whether the current strategy remains appropriate and whether any adjustments are needed.

QUOTED EQUITIES AND BONDS

The Fund uses a range of investment managers in relation to its quoted equity and bond assets. The mandates cover both active and passive strategies.

With regards to the Fund's active mandates, most of the assets are managed through the Fund's pooling partner, Border to Coast. Although, it should be recognised that the Fund still has some direct equity mandates with other managers.

The passive allocation is managed by Legal and General Investment Management. Whilst the passive assets with Legal and General are not formally part of the investment pool run by Border to Coast, they have been subject to a joint procurement exercise with the other ten funds in Border to Coast. This has helped deliver the benefits of pooling through reduced fees, and these assets have therefore been categorised by the Fund as "pooled assets".

In July 2020, the Fund switched 6% of assets from the market cap passive investments with Legal and General to a range of passive funds called Future World funds. These Future World funds incorporate 34 different environmental, social and governance (ESG) factors into the investment process, including carbon emissions. It is believed that, over time, tilting a portfolio towards companies scoring well on these factors should result in outperformance compared to a more traditional index.

The managers and mandates are set out in the following table:

MANAGER	PORTFOLIO
Under Pooling:	
Border to Coast	**Active Management** - UK Equities - Global Equities - Sterling Investment Grade Credit - Multi Asset Credit
Legal and General	**Passive Management** - UK Equities - Europe ex UK Equities - US Equities - Emerging Market Equities - Japanese Equities - Asia Pacific ex Japanese Equities - Fundamental Global Equities - UK Index-Linked Gilts - UK Gilts - Corporate Bonds **Future World Equities** - UK - Europe ex UK - US - Emerging Market - Japanese - Asia Pacific ex Japanese
Outside of Pooling:	
	Active Management
JP Morgan	Emerging Market Equities
Lazard	Japanese Equities
TT International	Asia Pacific ex Japan Equities

PROPERTY

The updated ALM study in 2022 confirmed that the long-term strategic allocation to property should be 13.0%. This is comprised of 7.0% to UK direct commercial property, 2.0% to UK residential property and 4.0% to global property.

The main UK commercial property exposure is primarily through a mandate managed by Abrdn. This was valued at £520.7 million at the year end. The Fund also inherited two property unit trusts following the merger with Northumberland County Council Pension Fund. Together these were valued at £51.9 million, bringing the total within UK commercial property to £572.6 million, representing 4.6% of the Fund. The underweight position relative to the 7.0% strategic weighting is attributable to the slow pace of investment due to concerns over pricing in the property market.

The allocation to UK residential property was established in 2016/17. This was initially through a fund managed by Abrdn. Two funds managed by Hearthstone were added during 2018/19, and 2020/21 respectively. In 2021/22, a review of the residential property portfolio was undertaken, and a decision made to make commitments to two further funds. The first was the Henley Secure Income fund which specialises in supported living and the second was the CBRE Affordable Housing fund. In 2022/23 a further commitment was made to the M&G Shared Ownership fund to further diversify the portfolio. At the year end, the Fund had £166.6 million, or 1.3%, invested in residential property with a further £131.1 million of capital committed. This is below the 2.0% strategic weighting. The pace of investment continues to be dependent on identifying suitable investment opportunities.

The global property programme had been built up to the target level of 5.0% through investment into funds provided by Partners Group, however, following the merger, the proportion of the total Fund invested in global property fell as Northumberland did not invest in global property. The programme with Partners Group includes fund of funds, direct and secondary investments. The proportion of the Fund invested through this programme was 4.3% at the year-end, valued at £536.5 million. This is a little overweight compared to the new strategic allocation of 4.0% but this will be addressed through reduced future commitments.

INFRASTRUCTURE

The Fund made its first investment into infrastructure in 2006. A review of the approach in 2010 set an allocation of 2.5%, which was achieved largely through investment in funds offered by Partners Group. Between 2017 and 2019, the Fund diversified its infrastructure programme through investments with Infracapital, Pantheon and AMP Capital.

Following the merger with Northumberland, further Infrastructure assets with Antin, GIP and Pantheon were transferred into the Fund. This helped to further diversify the programme.

In 2019/20, the Fund made its first commitments and investments in infrastructure with Border to Coast. In 2022/23, the Fund committed £250 million to the Border to Coast Infrastructure programme. Most, if not all, future commitments to infrastructure will be made through Border to Coast.

The 2022 review of the Investment Strategy increased the strategic allocation to 6.5%. At the year end, the total investment in Infrastructure was valued at £644.6 million, representing 5.2% of the Fund. The increased allocation will be built up over the next few years.

PRIVATE EQUITY

The programme is well developed and diversified across providers, geography, industry and vintage years. For many years, the main focus of the programme was investment into fund of funds with HarbourVest and Pantheon.

The Fund also made investments into secondary funds managed by Lexington Partners, Coller Capital and HarbourVest, and into direct and co-investment funds managed by HarbourVest, Pantheon, Capital International, Partners Group and Lexington. In 2020, as a result of the merger with Northumberland, further assets were transferred into the Fund managed by Pantheon, Morgan Stanley and Neuberger Berman.

In 2019/20 the Fund made its first commitment to the private equity programme launched by Border to Coast. A further commitment of £225 million has been made in 2022/23. As with infrastructure, most, if not all future commitments to private equity will be made through Border to Coast.

At the year end, £1,348.4 million was invested in private equity, equal to 10.8% of the Fund. This is above the strategic weighting of 8.5%.

PRIVATE DEBT

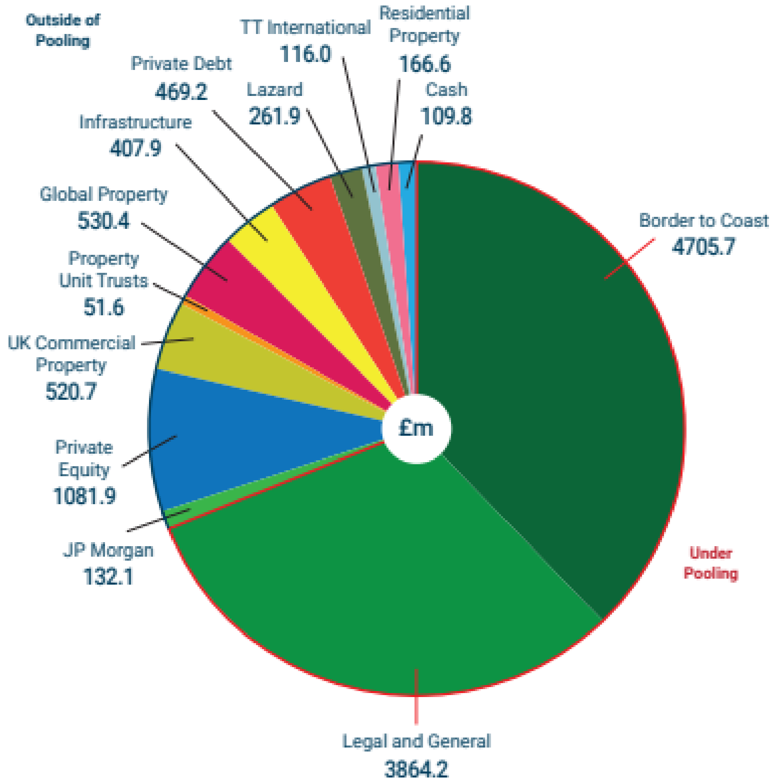
The Fund made its first investments into private debt in 2018. This was through funds managed by Pemberton and HPS. In 2019/20, the Fund also made commitments to funds managed by Pantheon and Border to Coast.

Initially the target allocation was 3.5%. The 2022 review of the Investment Strategy increased this target allocation to 6.5%.

Good progress towards building up this allocation has been made. In total, at the year end, the Fund had £749.7 million invested in private debt, being 6.0% of the total value of the Fund. In 2022/23, commitments of £300 million were made with Border to Coast to help increase the allocation to the target weighting, although it is recognised that this may take several years.

ASSETS UNDER MANAGEMENT

The value of assets with each manager and in the alternative investment programmes at the year end is shown below:



Tyne and Wear Pension Fund

INVESTMENT MANAGERS' OBJECTIVES AND RESTRICTIONS

The Pensions Committee has set objectives and restrictions for the investment mandates, with the aims of ensuring a prudent approach to investment whilst allowing each manager to implement their natural investment style and process.

In addition to the specific restrictions on each mandate, all managers are required to comply with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The investment managers have been set performance targets, mostly based on appropriate indices, which generally require outperformance over three year rolling periods. Annual downside targets or tracking error targets have also been set.

The UK property portfolio had for several years a target based on a long-term return of Retail Price Index plus 4%. The UK residential property portfolio had an absolute target return of 7%. However, a decision was taken to amend these targets and align them with each other. The new target for these asset classes, from 1st April 2021, is the Consumer Price Index plus 4%.

Absolute return targets are in place for the private equity, infrastructure, global property and private debt programmes.

CUSTODY

Northern Trust was appointed in 2002 to provide custody services for the Fund. The service has been market tested and benchmarked regularly to ensure that it remains competitive.

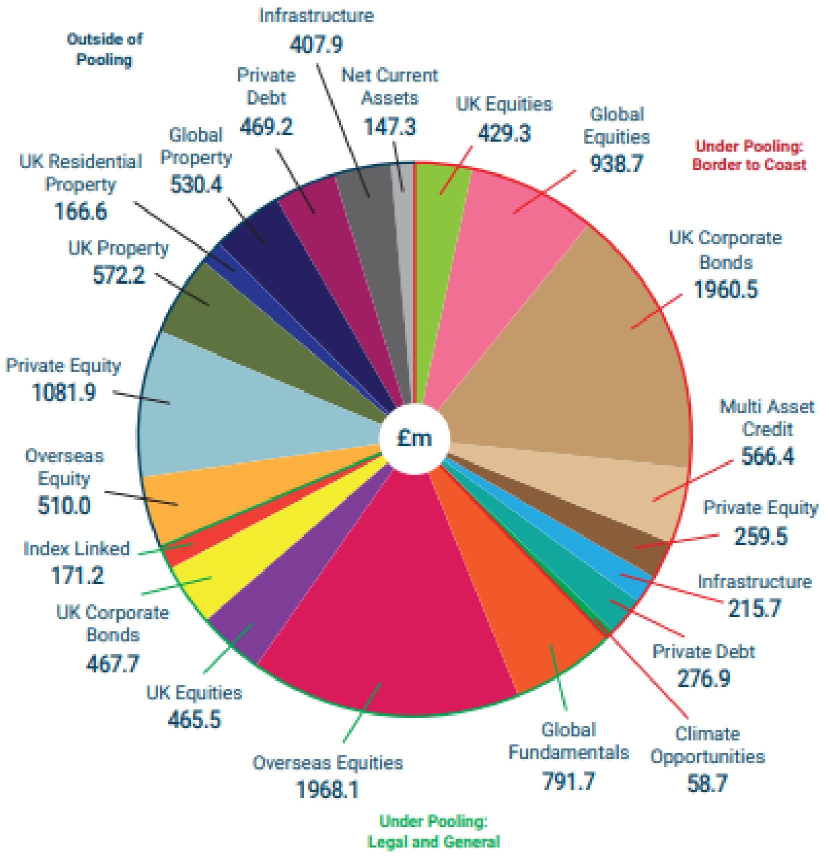
As at March 2023, Northern Trust was providing custody services for approximately £265.3 million of segregated assets held in one mandate.

ASSET ALLOCATION

The asset allocation is maintained within pre-determined ranges around the strategic benchmark. Action is considered to bring the Fund back within these ranges when a breach occurs. Legal and General provides management information to assist with this process.

The active managers that invest in more than one market are permitted to take tactical asset allocation decisions within their portfolios. This provides additional scope for managers to outperform their targets.

The asset allocation as at March 2023 is shown below:



Tyne and Wear Pension Fund

PERFORMANCE MEASUREMENT

The Fund has used a fund-specific benchmark for performance measurement since January 2002.

The analysis is undertaken by Portfolio Evaluation, an independent specialist performance management company.

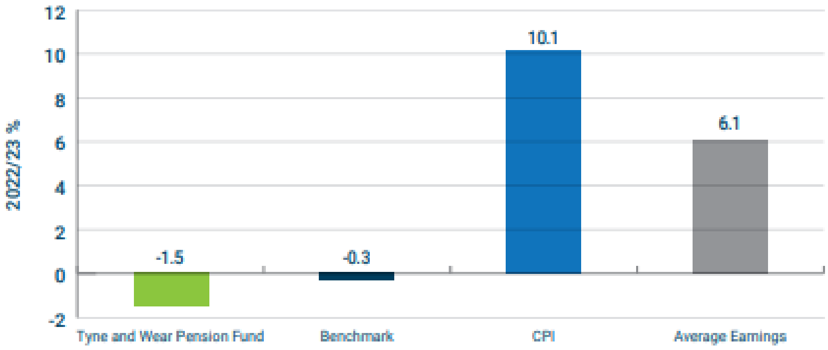
MARKET CONDITIONS AND INVESTMENT RETURNS FOR 2022/23

The first half of the year was negative as the implications of the Russian invasion of Ukraine led to a dramatic rise in energy prices and hence inflation which created significant economic volatility. As the year wore on, global markets stabilised but, in the UK, the LDI crisis and subsequent political fallout saw major falls in the value of lower risk assets.

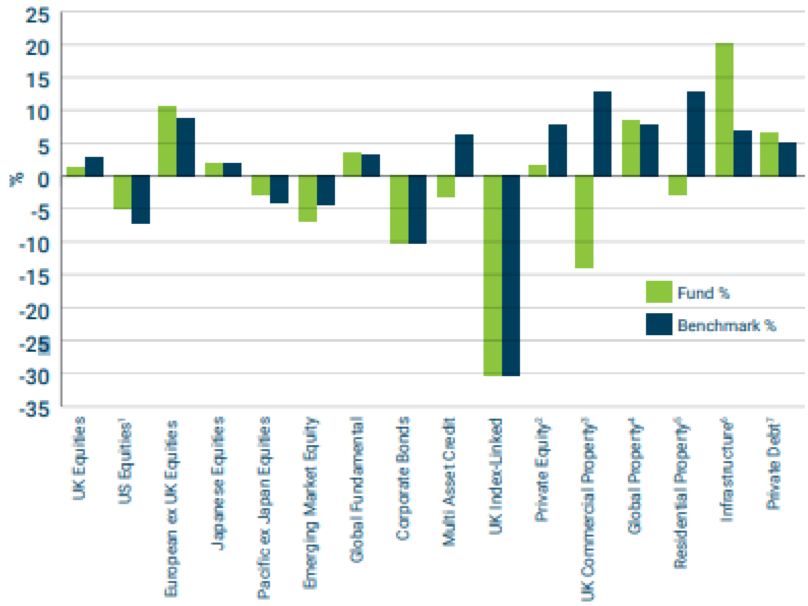
Over the year it was generally a challenging investment environment with most major asset classes in negative territory but notably the expected safer assets suffered the greatest losses. There was a wide dispersion of returns across investment markets. The UK and European equities were the strongest performers with North America, Asia and Emerging Markets delivering negative returns. Globally fixed income was also negative with UK Gilts significantly underperforming. Property markets globally produced reasonable returns but the UK market, driven by higher interest rates saw a major valuation correction.

Against this market background, the Fund's total return in 2022/23 was -1.5% (after adjusting for all fees and expenses), which was 1.2% below its benchmark return of -0.3%.

Inflation, as measured by the Consumer Prices Index, which has risen in importance as a measure for the Scheme, was up by 10.1% over the year. Average Earnings increased by 6.1%.



The chart below shows the Fund's returns across the investment markets for 2022/23.



1 The return for US Equities is based on a split of 60% unhedged and 40% hedged against sterling benchmarks.
2 The return for private equity is shown against an absolute return benchmark of 8% per annum net of fees.
3 The benchmark for UK commercial is CPI plus 4% per annum. The market return for property during the year as measured by MSCI for the Medium Life and Pension Fund Universe was 21.5%.
4 The benchmark for global property is shown against an absolute return of 8%.
5 The benchmark for residential property is CPI plus 4% per annum.
6 The benchmark for infrastructure is shown against an absolute return benchmark of 7% per annum net of fees.
7 The benchmark for private debt is shown against an absolute return benchmark of 5% per annum net of fees. Investment commenced during the year so the benchmark reflects the part year position.

The underperformance relative to the benchmark for the year came from UK Property, notably Commercial Property. Infrastructure was the best performing asset class where valuations held up strongly across volatile markets.

A number of the quoted equity markets underperformed the benchmark. The returns from Corporate Bonds were negative in absolute terms but they did about match the benchmark, although Multi Asset Credit struggled in negative markets to reach its cash plus benchmark.

The returns from the passive strategies were satisfactory.

The return from the private equity programme is measured against an absolute return benchmark of 8% per annum net of fees. This long-term benchmark has been adopted to seek to reduce the volatility of returns relative in absolute terms. It is believed that this approach is more appropriate than the use of an index-based benchmark. The positive 1.8% return for the year is materially below the 8.0% benchmark but the longer-term returns continue to be positive.

TWPF
Tyne and Wear Pension Fund

The UK property mandate produced a negative return of -14.0% which was well below the CPI based benchmark of 12.8% and significantly behind the previous year. During the year, the market return from property, as measured by the MSCI Medium Life and Pension Fund Universe, was -13.2%.

The return from the infrastructure programme is measured against an absolute return benchmark of 7% per annum net of fees. This long-term benchmark has been adopted to seek to reduce the volatility of returns in absolute terms. It is believed that this approach is more appropriate than the use of an index-based benchmark. The positive 20.3% return is well above the 7% benchmark.

The global property programme was introduced in mid 2010 and is comprised of funds run by Partners Group. It has an 8% absolute return benchmark. It has outperformed its benchmark for the year, with a return of 8.5%. This has been a year of consolidation following strong returns in the previous year.

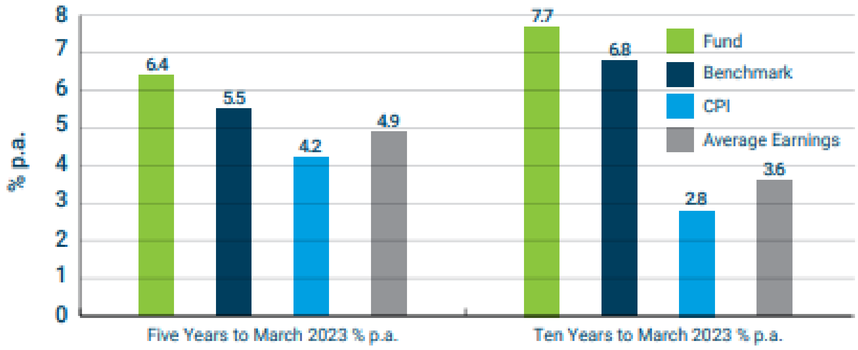
The performance figures for residential property and private debt are shown for completeness but very little reliance can be placed on these performance numbers to date due to the relatively short period that these investment programmes have been in place.

Note: The performance figures for the past three years are net of fees and expenses. The performance data for earlier years are net of fees and expenses on private market investments but gross of fees and expenses on quoted equities and bonds. All returns to 31st March 2020 are based on the pre-merger Tyne and Wear Fund only and the newly merged and combined Fund thereafter.

LONGER TERM PERFORMANCE

Pension fund returns are generally assessed over at least five-year periods. This is to avoid taking too short term a view of investment performance, bearing in mind market cycles.

The chart below shows the Fund's annual returns over five year and ten-year periods against Benchmark and the Consumer Prices Index.



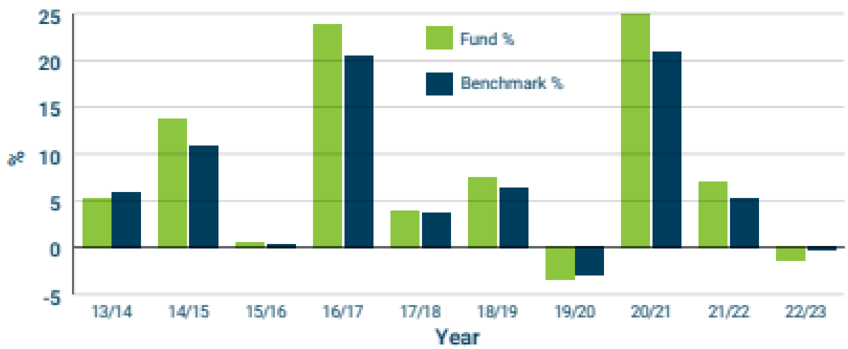
Note: All longer term return are based on the pre-merger Tyne and Wear Fund prior to 31st March 2020 and the newly merged and combined Fund thereafter.

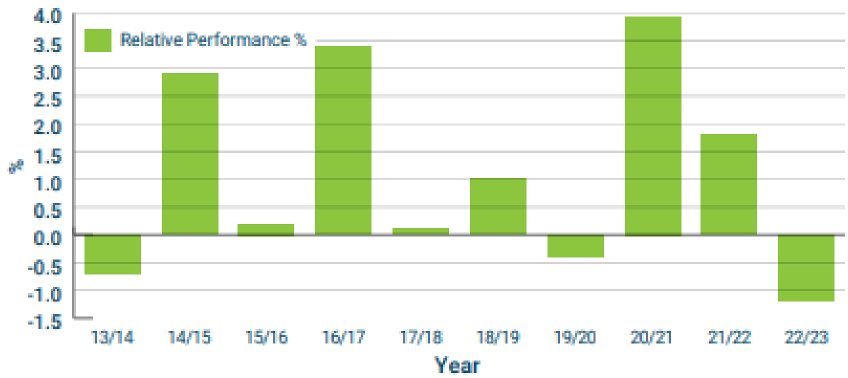
The five-year return is 6.4% per annum and is above the benchmark return of 5.5% per annum. The ten-year return is 7.7% per annum and is also above the benchmark return of 6.8% per annum.

The returns for both periods are well above the increases in the Consumer Prices Index and in Average Earnings.

ANNUAL PERFORMANCE OVER TEN YEARS

The annual performance of the Fund over ten years is shown in the following charts. The Fund has underperformed its benchmark for the year but has outperformed for seven of the last ten years.





TWPF Tyne and Wear Pension Fund

LONGER TERM PERFORMANCE OVER THE VARIOUS ASSET CLASSES

The table below shows the Fund's returns over the main investment markets for the three and five year periods up to 31 March 2023.

The Fund is unable to report performance over the individual asset classes for the ten-year period due to changes in the Fund's investment structure and benchmarks during that period.

	Note	THREE YEARS		FIVE YEARS	
		FUND %	BENCHMARK %	FUND %	BENCHMARK %
Fund		**9.6**	**8.3**	**6.4**	**5.5**
UK Equities		13.5	13.8	4.8	5.0
US Equities	1	18.4	17.5	13.4	13.1
European ex UK Equities		17.4	16.0	8.5	8.1
Japanese Equities		9.9	7.9	4.5	4.1
Pacific ex Japan Equities		13.5	15.7	5.3	6.7
Emerging Market Equities		6.6	8.3	2.5	2.0
Corporate Bonds		-2.4	-3.1	-0.2	-0.9
UK Index-Linked		-9.2	-9.2	-4.1	-4.1
Private Equity	2	24.7	8.0	20.5	8.0
UK Property	3	5.1	9.6	4.9	8.3
Global Property	4	5.5	8.0	5.8	7.8
Infrastructure	5	14.2	7.0	12.8	7.0

1 The benchmark for US equities is a mixture of hedged and unhedged against sterling indices, from 2021/22 the Fund used a position of 40% hedged against sterling and 60% unhedged. All earlier years are 100% unhedged.
2 The return for private equity is shown against an absolute return benchmark of 8% per annum net of fees.
3 The benchmark for UK property is CPI plus 4% per annum from 2021/22. Prior to this it was RPI plus 4%.
4 The benchmark for global property assumes that an individual fund will deliver a zero return for the first three years to allow for J-curve. An absolute return benchmark of 8% per annum net of fees is then assumed.
5 The benchmark for infrastructure assumes that an individual fund will deliver a zero return for the first three years to allow for J-curve. An absolute return benchmark of 7% per annum net of fees is then assumed.

Overall, the most of the Fund's equities and bond assets have produced positive returns relative to their benchmarks. However, the main driver to the Fund's good returns over the three and five year periods has been the alternatives programmes.

The private equity returns of 24.7% per annum for three years and 20.5% per annum for five years are well ahead of the benchmark of 8.0%.

The UK property portfolio has now underperformed its inflation plus benchmark over the three year and the five year period due to the significant negative return in the most recent year.

Whilst the global property programme produced a strong return in 2022/23, over the three and five year period it is below the benchmark. This is because performance suffered due to the impact of Covid on the property markets.

Returns for the infrastructure programme were well above the absolute return-based benchmark for both the three and five year periods.

MANAGEMENT EXPENSES

The Chartered Institute of Public Finance and Accountancy (CIPFA) issues recommended accounting guidance on the production of the Pension Fund Report and Accounts. Best practice guidance is that Investment Management Expenses should not reflect fees and expenses that are incurred by underlying investment vehicles, invested in by other investment vehicles. The Fund has no control over these underlying investment vehicles, the costs of which CIPFA refers to as "Tier 2" fees and expenses.

This is typically seen in private market fund of fund investments. The figures included below under tier 2 fees have been calculated from information supplied by each of the Fund's investment managers.

CIPFA guidance states that as the Fund has no overall control over "tier 2" expenses, they should be omitted from the Investment Management Expenses section included within the financial accounts of the Fund. Rather, they should be included for information purposes within this section of the Annual Report.

The table below shows both the Investment Management Expenses, as shown in the accounts, and the "Tier 2" fees and expenses excluded from the accounts.

31 March 2022 £m		Fund Account note	31st March 2023 £m
81.057	Investment Management Expenses	11	59.224
49.246	Tier 2 Fees and Expenses		39.679
130.303	**Total Investment Management Expenses**		**98.903**

The table shows that the "Tier 2" fees and expenses for 2022/23 are £39.679 million (£49.246 million for 2021/22). This gives an overall cost for Investment Management Expenses of £98.903 million for 2022/23 (£130.303 million for 2021/22).

The decrease from the previous year relates almost entirely to the Fund's private equity investments. Performance fees were significantly below those of previous years as valuations came under pressure in the face of a global slowdown. This impacted both the direct performance fees and also the "Tier 2" performance fees of the underlying managers.

Border to Coast fees increased as the amount of assets invested with them grew, and this will continue for the next few years as further private market commitments are made. Nevertheless, the Fund should see more fee savings through investing in private markets with Border to Coast rather than external managers.

POOLING OF INVESTMENTS

During 2017/18 the Fund, along with eleven other local authority pension funds created an investment management company called Border to Coast Pensions Partnership Limited.

Whilst there were initially twelve funds (including Tyne and Wear) that created and owned Border to Coast, following the merger of the Fund with Northumberland County Council Pensions Fund, there are now only eleven funds involved.

The intention over time is for this company to assume responsibility for the day-to-day management of the Fund's assets. This will include the appointment and monitoring of the performance of the external investment managers.

The Pension Fund will retain responsibility for setting the investment strategy and asset allocation and will monitor the performance of Border to Coast.

SET UP COSTS

Set up costs have been shared between the Border to Coast partner funds, including the Tyne and Wear Pension Fund.

Set up costs have been shared between the Border to Coast partner funds, including the Tyne and Wear Pension Fund. The set-up phase commenced in late 2016/17 and came to an end in the first quarter of 2018/19. Border to Coast's investment operations commenced in July 2019. The set-up costs noted below cover costs incurred by both Tyne and Wear Pension Fund and Northumberland County Council Pension Fund prior to merger.

The breakdown in set up costs are shown in the table below:

	2022/23	
Set Up Costs	**Total expenditure £'000**	**Cumulative £'000**
Recruitment	0	34
Legal	0	54
Procurement	0	72
Other Support Costs	0	4
Staff Costs	0	124
Other Costs	0	528
Total Set Up Costs	**0**	**816**

OTHER COSTS

In addition to these setup costs there were shared purchase costs for two classes of shares. A £1 Class A share was acquired by the Council, representing its ownership stake in Border to Coast, and is held at cost.

£833,000 of Class B shares were also acquired initially, representing the Fund's contribution to Border to Coast's regulatory capital requirement, as an investment company regulated by the Financial Conduct Authority. These Class B shares are treated as an investment.

On 1st April 2020, the Fund merged with the Northumberland County Pension Fund to form one larger Fund. This resulted in a redistribution of the share ownership to reflect the fact that there were now only eleven shareholders and not twelve. As a result of this merger the Fund acquired an additional £75,728 of class B shares bringing the total holding to £908,728.

During the year, the Fund made investments into the new Climate Opportunities Fund launched by Border to Coast in April 2022.

The Fund has also made new commitments during the year totalling £650 million to the Private Equity, Infrastructure and Private Debt programmes managed by Border to Coast. The Fund's existing investments in closed ended funds (private markets) will remain outside of the Fund for the remaining life of these investment vehicles.

At the year end the assets under management at Border to Coast were valued at £4,705.7 million (£4,110.4 million in 2021/22) and 37.9% (32.3% in 2021/22) of the Fund. A further proportion of the Fund's assets will transfer to Border to Coast as new equity and property funds are developed.

The Fund's passively managed investments with Legal and General will remain outside of direct management of Border to Coast because the legal structure in which they are held (life policies) is considered the most cost effective currently available. The Fund has, and will continue to benefit from, collaborative procurement with other funds in Border to Coast on these passive investments. Under the definition of pooling, these assets have been classed as 'pooled' based upon the collaborative pooling approach and the use of pooled fund structures.

The total pooled assets of the Fund with Border to Coast and Legal and General is £8,569.9 million (69.0%) which is a slight decrease from 2021/22 £8,848.1 million (69.6%) due to the fall in value of listed assets over the year.

The costs and savings which the Fund believes can be attributable to pooling since the inception of this initiative are shown in the table below. Where the Fund has budgeted for costs (either set up or operational) which relate to pooling and savings, these are also shown.

	2021/22		2022/23	
	Actual		Actual	
	In Year £'000	Since Inception Cumulative to date £'000	In Year £'000	Since Inception Cumulative to date £'000
Set up costs	0	816	0	816
Ongoing operational costs	658	4,083	846	4,929
Transition Costs	0	5,725	0	5,725
Fee Savings	(4,332)	(17,171)	(5,065)	(22,236)
Net cost/(saving)	**(3,674)**	**(6,547)**	**(4,219)**	**(10,766)**

The table shows that the Fund has already benefitted from savings from pooling and these savings are forecast to increase into the future.

The pooling proposal approved by Government in 2016 included a forecast of costs and savings. This showed that setup and transition costs were expected to be recovered over a six to seven-year period. The current situation is that the Fund is already in a net saving position which is significantly ahead of schedule. This should remain the case going forward.

It should be noted that the Fund is likely to continue to make changes to its investment strategy in the coming years, which will result in further movement of assets and transition costs. This activity will also take account of asset movements in relation to pooling.

South Tyneside Council

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