Appendix B

Northamptonshire
Pension Fund

Investment Strategy Statement (Published 17 December 2021)

West
Northamptonshire
Council

Appendix B

Northamptonshire
Pension Fund

Contents

1. INTRODUCTION AND BACKGROUND

This is the Investment Strategy Statement ("ISS") of the Northamptonshire Pension Fund ("the Fund"), which is administered by West Northamptonshire Council, ("the Administering Authority"). The Administering Authority has delegated to the Pension Committee ("Committee") the power to determine and maintain the Fund's strategies, policies and procedures, including investment strategy. Implementation of the strategy and the monitoring of performance is delegated to the Investment Sub-Committee, for which the membership is drawn from the Committee.

The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations"). The Regulations state that the Fund's investment strategy must describe how the Fund's money will be invested, the approach to risk, the approach to pooling investments, the policy on how Environmental, Social and Governance considerations are taken into account in investment decisions, and the Fund's policy on exercising rights of ownership including voting rights.

The ISS was approved by the Pension Committee on 15 December 2021, having taken proper advice from its advisers and consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

In accordance with the Regulations, the Committee review the investment strategy at least every three years and without delay after any significant change in investment policy. In practice the Committee review the ISS at least annually.

The Committee seeks to invest in accordance with the ISS any Fund surplus cash that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy Statement (FSS).

2. OBJECTIVES OF THE FUND

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. Pensions and benefits will be met by contributions, asset returns and income.

The Pension Committee works to endeavour that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing.

The Fund is subject to an actuarial review every three years, in preparation for which the Fund, in conjunction with the Fund's Actuary and taking investment advice, prepares a FSS that sets out the strategy to ensure the long-term solvency of the Fund whilst recognising the need for a minimum (where possible and subject to a level of prudence) and, stable level of employer contributions.

The Administering Authority runs the Northamptonshire Pension Fund to make sure it invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth.

3. INVESTMENT BELIEFS

The investment strategy adopted by the Fund reflects the FSS requirements to invest surplus contributions appropriately with the aim that the Fund's assets grow over time with investment income and capital growth by applying the following investment beliefs:

1. The strategic asset allocation is the key factor in determining the risk and return profile of the Fund's investments and recognises that the Fund is a long-term, open scheme that has an obligation to pay benefits that are linked to inflation. The Committee also takes into account the covenant associated with the Fund's employers in deciding how much risk is appropriate.
2. Asset allocation and specifically the headline amounts invested in equities, fixed income and alternatives, will drive risk and return levels.
3. Investing over the long-term provides opportunities to improve returns.
    a. Asset classes that return over a reasonably long duration are suitable for this Fund.
    b. The Fund has a policy of holding investment managers over the longer-term to reduce the impact of transitions and believes in the benefits of compounded returns.

4. Equities are expected to generate returns above the growth of liabilities over the long-term and have an indirect link to inflation.
    a. The Fund predominately holds equities due to the belief that they will provide returns above liabilities over the long-term and this helps to ensure that contribution rates remain affordable for employers.
5. Inflation linked UK Government bonds provide a high degree of liability matching and a direct link to inflation.
    a. Investments in government bonds are not held for return purposes but are held in order to mitigate the risk that contribution rates need to increase significantly should yields fall.
6. Non-Government bonds are expected to provide a return above government bonds and can provide some interest rate protection relative to the liabilities.
7. Alternative assets are expected to generate returns above liabilities over the long-term, which can be linked to inflation, as well as providing diversification benefits.
8. Diversification across asset classes can help to mitigate against adverse market conditions and assist the Fund to produce a smoother return profile due to returns coming from a range of different sources.
9. The Committee favours active management, where there are opportunities for active managers to add value, increasing overall expected return net of fees.
10. Passive strategies provide low cost access to market returns.
11. Responsible Investment including Environmental, Social and Governance are important factors for the sustainability of longer term investment returns.
12. Value for money is defined as recognising net return over absolute cost.

4. SELECTING A SUITABLE STRATEGY

The Committee is responsible for the Fund's strategic asset allocation which is determined via a triennial strategy review as part of the valuation process, but is kept under regular review; noting that strategic changes are an evolutionary process.

The triennial strategy review looks at both qualitative and quantitative analysis, covering the following, which are expanded upon later in the ISS:

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

The Committee utilises a wide range of professional support such as an investment consultant, an independent investment adviser and the Fund's Actuary. As noted above, the Fund's objective is to

pay benefits as they fall due and this requires the build-up of sufficient reserves in advance. At the last triennial valuation in 2019, the Fund was assessed to have a deficit in terms of the reserves needed and so the asset strategy is focused on achieving returns in excess of inflation, without taking undue risk. Having a thorough understanding of the risks facing the Fund is crucial and these are covered later in the ISS.

The Fund's current investment strategy is set out below reflecting agreed changes made in the 2020/21 financial year to increase the allocation to Fixed Income and reduce the allocation to listed equities. Set out below is the high level strategic asset allocation setting out the acceptable tolerance ranges within asset class.

Asset class	Target allocation %	Tolerances%
Equities	55.0%	+/- 5% (50.0% - 60.0%)
Fixed Income	20.0%	+/- 5% (15.0%-25%)
Alternatives	25.0%	+/- 5% (20.0% - 30.0%)
Total target Allocation	100.0%	

The tolerance ranges allow for the short-term natural deviation from the target allocation due to the varying relative performance of each investment type. Exceeded tolerances will be reported in the quarterly performance report to the Investment Sub Committee. Asset class allocations will be rebalanced periodically back to the target allocation.

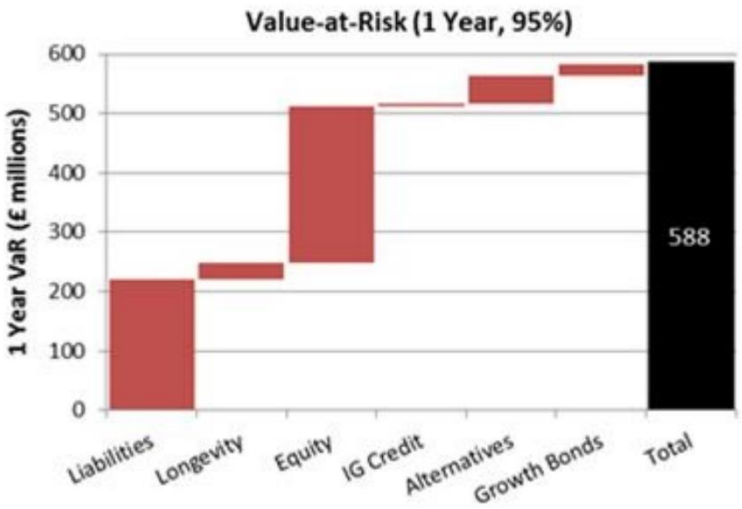
The expected return of the Fund assuming the strategic allocation is maintained is estimated at 3.9% per annum.

5. RISKS

This section considers key investment risks and mitigations.

A. INVESTMENT RISKS

The Committee uses Risk Attribution Analysis to determine the order of magnitude of the main investment risks the Fund is facing. The chart below shows the VaR (Value at Risk, essentially a statistical estimate of the losses that would occur in a 1-in-20 event) facing the Fund, split into impact arising from the major risk categories.



As an additional illustration of risk, the table below shows an indication how a range of events could impact the Fund:

Event	Event movement	Impact on Deficit
Fall in equity markets	20% fall in equities	£296m
Active Manager underperformance	3% underperformance from all active managers	£45m

As shown in both the Value-at-Risk attribution chart and the table above, the two most significant risks that the Fund is running are equity risk and liability risk (arising from interest rates and inflation). The risks associated with active management underperformance of investment assets, whilst not immaterial, is relatively less.

Liabilities (interest rate and inflation) – The largest risk that the Fund faces is in relation to interest rates and inflation. The investment strategy recognises this and looks to increase the allocation to assets that provide protection against falling rates and rising inflation expectations when affordable to do so, which is considered appropriate in the context of the Fund's position as a long-term investor.

Equities – Should equity market conditions deteriorate significantly this will have a negative impact on the funding level. The Fund holds equities in order to provide the necessary returns to ensure that the Fund remains affordable. The Committee believes that the extra returns that are expected to be generated by equities compensates the level of risk equities bring to the Fund, but does believe in diversification, and looks to mitigate equity risk by investing significantly in bonds and alternatives.

Alternatives – The Fund has a significant amount of assets allocated to a range of alternatives, with allocations to property and private equity, amongst others. The risks that these investments bring at an individual level is not insignificant however the Committee believe that over the long term alternatives will provide returns that compensate for the risks being run. Additionally, the level of diversification the assets provide helps to reduce the Funds reliance on returns from equities. Illiquid assets such as property and infrastructure also provide regular cash returns in addition to capital appreciation.

The Fund's portfolio is well diversified across asset classes, geography and asset managers. As different asset classes have varying correlations with other asset classes, the Fund by investing in a range of different investments can minimise the level of risk run to a degree.

Passive Manager Risk – This is the simplest style of investment which places monies purely to track indices with the associated risks of following the full effects of both positive and negative market movements benefiting from the most economical fee rates. This contrasts to active management which is applied to smooth volatility and improve market returns albeit at higher fee rates, the assumption being that the net return after fees is greater than pure passive management.

Active Manager Risk – Active Investment Managers are appointed to manage the Fund's investments on its behalf in the expectation that they will outperform the market but also recognising that their mandates may underperform passive managers. This risk is small relative to other risks; however, the Fund still addresses this risk. Extensive due diligence takes place before investment managers are appointed. The investment managers are also monitored regularly by the Investment Sub Committee, Officers and by the Fund's Advisors. There is a risk that net performance of Active Investment Managers underperforms a passive arrangement over the long-term.

Liquidity risk – It is recognised that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long-term investment horizon, the Committee believes that a degree of liquidity risk is acceptable given the potential for accessing higher returns. The majority of the Fund's assets, however, remain realisable at short notice.

Exchange rate risk – This risk arises from unhedged investment overseas. The Committee believes that a long-term investor can tolerate a degree of short term fluctuations in currency movements, particularly with reference to the Fund's equity portfolio.

B. CLIMATE RISK

The Fund has acknowledged the risk to the Fund of climate change in its Risk Register: "As long-term investors, the Fund believes climate risk has the potential to significantly alter the value of the Fund's investments."

The risks to the value of the Fund's investments arising from climate change arise from exposures to industries or companies that are valued on the basis of business models that may be threatened by climate change, or based upon reserves of assets that may never be realised due to changes in technology, markets and societal habits arising from climate change ("stranded assets"). The incidence and timing of changes in value need to be analysed further to understand the risks to the Fund.

Conversely there may be opportunities to invest in new industries or technologies that assist in mitigating the speed of climate change.

C. DEMOGRAPHIC RISK

The Fund is subject to a range of demographic risks, but with particular reference to investment strategy, the Committee is aware of the potential for the Fund to mature over time as the pensioner liability increases. A mature pension fund is likely to take less investment risk over time and this is

considered at each strategy review. The more mature a pension fund, the more likely it is that investments would need to be realised in order to pay benefits. The Fund is not in that situation at present as cash inflows from contributions and investments are greater than benefit payments. However, this situation is monitored regularly and formally as part of the triennial actuarial valuation and strategy review.

D. CASHFLOW MANAGEMENT RISKS

The Fund is gradually becoming more mature and although it is cash flow positive after taking into account investment income, managing cash flow will become an increasingly important consideration in setting the investment strategy, to ensure that the Fund holds sufficient liquid investments to pay benefits as they fall due.

E. GOVERNANCE RISKS

The Fund believes that there is a benefit to the Fund to be gained from good governance in the form of either or both of an increased return and/or decreased risk. Poor governance can lead to opportunities and risks to be missed, and have a detrimental effect on the funding level and deficit.

Details of the Fund's governance structure can be found in the Governance Compliance Statement.

6. INVESTMENT OF MONEY IN A WIDE VARIETY OF INVESTMENTS

The Fund will invest in a range of investments, diversified by type, class, geographical location and market exposure.

ASSET CLASSES

The Fund may invest in quoted and unquoted securities of UK and overseas markets including:

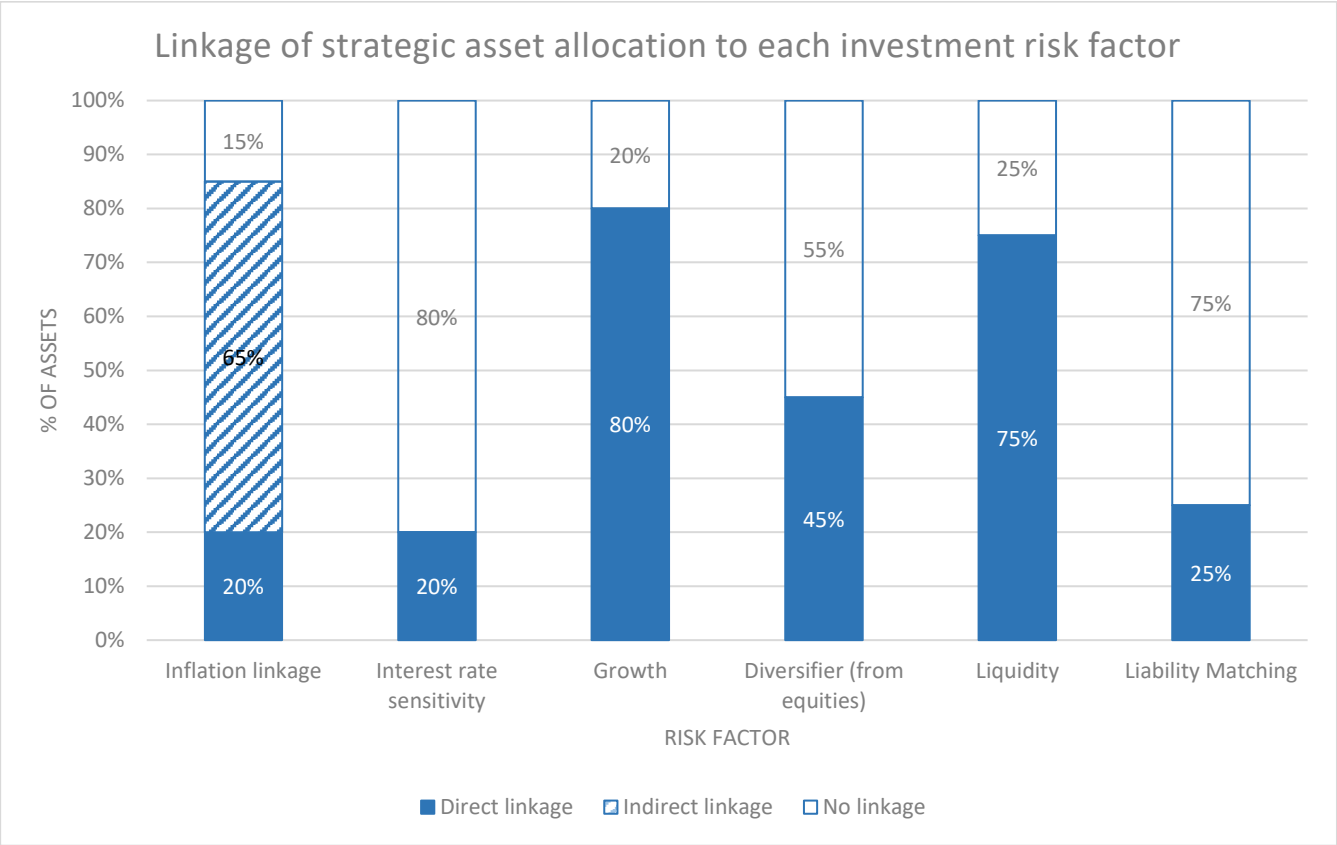
- Equities;
- Fixed interest and index linked bonds;
- Cash;
- Property and commodities, either directly or through pooled funds;
- Private Equity;
- Infrastructure;
- Debt;
- Insurance Instruments;
- Contracts for differences and other derivatives either directly or in pooled funds.

The Fund's target investment strategy is set out below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of Fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007".

The graph below illustrates the linkage of the asset allocation to the key investment risk factors shown in the table above. The ongoing monitoring of the Investment Strategy will review the adequacy of the strategy against these factor risks.

Asset class	**Benchmark allocation %**	**Inflation linkage**	**Interest rate sensitivity**	**Growth**	**Diversifier from equities**	**Liquidity**	**Liability matching**
UK Equities	9	Indirect Linkage over long-term	No	Yes	No	Yes	No
Global Equities	46	Indirect Linkage over long-term	No	Yes	No	Yes	No
Total Equities	**55**						
Government Bonds	10	Direct Linkage	Yes	No	Yes	Yes	Yes
Non-Government Bonds	10	No Linkage	Yes	No	Yes	Yes	Yes
Total Fixed Income	**20**						
Property	10	Direct Linkage	No	Yes	Yes	No	No
Diversified Growth Fund (DGF)	5	Indirect Linkage over long-term	No	Yes	Yes	Yes	No
Alternatives	10	Potentially	No	Yes	Yes	No	No
Total Alternatives	**25**						
Total Target Allocation	**100%**						

The graph below illustrates the linkage of the asset allocation to the key investment risk factors shown in the table above. The ongoing monitoring of the Investment Strategy will review the adequacy of the strategy against these factor risks.



7. ASSET POOLING

The Fund is a member of the ACCESS Pool, formed with ten like-minded LGPS funds to implement asset pooling in response to the Government's LGPS reform agenda. The Government's aim is to encourage LGPS Funds to work together to "pool investments to significantly reduce costs, while maintaining investment performance." The eleven funds submitted the proposal to form ACCESS in July 2016, as the voluntary grouping at that time met the Governments criteria for scale, collectively having aggregate assets under management of at least £25bn.

The full membership of the ACCESS Pool comprises the following pension funds (collectively "ACCESS" or the "ACCESS funds"):

Cambridgeshire
East Sussex
Essex
Hampshire
Hertfordshire
Isle of Wight
Kent
Norfolk
Northamptonshire

Suffolk
West Sussex

All eleven funds are committed to collaboratively working together to meet the criteria for pooling and have signed an Inter-Authority Agreement to underpin their partnership. The ACCESS funds are working in the expectation that, over time, all investments will be pooled apart from where there is a no value for money benefit to pooling a specific investment as identified and agreed by an individual fund.

Asset pooling is intended to provide the benefits of scale that will enable the Fund to meet its Value for Money objective, defined as recognising net return over absolute cost. In the pooled investment structure individual funds will remain responsible for their own investment strategy and asset allocation decisions. The pool will be responsible for selecting a suitable number of Investment Managers in order to meet the requirements of all of the funds' investment strategies.

Link Financial Services ("Link") have been appointed the operator of the ACCESS ACS (Authorised Contractual Scheme – an HMRC approved tax transparent collective investment vehicle), through which the eleven funds invest in liquid listed investments. The ACCESS funds are investigating the structures through which Alternative assets can be pooled.

Northamptonshire will not pool cash held for the efficient administration of the scheme, which is needed to manage cash flow to meet statutory liabilities including monthly pension payroll payments.

8. RESPONSIBLE INVESTMENT POLICY

Background

The Fund is required by the Regulations to include in the ISS:

(a) the policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

(b) the policy on the exercise of the rights (including voting rights) attaching to investments.

Responsible Investment ("RI") has been defined as encompassing both financial and non-financial factors, bringing together environmental, social & corporate governance ("ESG") factors and broader systemic issues, e.g. climate change and sustainable development, along with active ownership (stewardship and voting) as these can have a material impact on financial performance.

The RI Policy that follows has been approved by the Committee following a series of training and information events presented by RI specialists from the Fund's advisers. RI issues have many facets for which authoritative and consistent sources of data are in their infancy. Seemingly simple investment changes may have unintended consequences for the operation of free markets, local communities and the environment as well as the value of the Fund's investments. The Fund needs to take a holistic approach that takes into account how its policies will impact all citizens and communities as well as direct stakeholders of the Fund whilst adhering to the principles of fiduciary duty.

This iteration of the RI policy sets out certain areas that the Fund has prioritised for action which include steps to better understand and produce reporting on the Fund's exposures to ESG risks, primarily from climate change. This analysis will inform the next steps that the Committee need to take and which will be incorporated in the next iteration of the RI policy.

A. RESPONSIBLE INVESTING

The Fund is governed by a Pensions Committee formed of scheme member and scheme employer representatives.

Members of the Pensions Committee have a fiduciary duty to act in the best interests of its scheme members and other beneficiaries in all financial and non-financial decisions. With respect to the Fund's investments, to do this effectively there is recognition of the importance of generating sustainable long-term returns. This involves more than an appraisal of financial factors but also takes into account non-financial factors such as Environmental, Social and Corporate Governance ("ESG") issues, including notably, climate change, which may be financially material to the Fund's investments. There is a growing urgency and continual regulatory development with regard to long-term sustainability issues, such as The Climate Change Act 2008 that legally binds the UK to bring all greenhouse gas emission to net-zero by 2050, and the comprehensive 'apply and explain' requirements for asset owners set out in the UK Stewardship Code 2020. Therefore, it is imperative that ESG and stewardship (or active ownership) considerations are integrated throughout investment processes and that they are taken into account as part of funding and investment strategy setting.

Responsible Investment ("RI") is the integration of ESG issues into investment processes and stewardship practices in the belief this can positively impact financial performance over the long-term and will serve the best interests of the Fund's beneficiaries.

B. RESPONSIBLE INVESTMENT BELIEFS

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

Belief	Explanation
Summary	Environmental, Social and Corporate Governance (ESG) issues, including climate change, create material risks and opportunities which will influence long term investment performance and the ability of the Fund to achieve its investment and funding objectives. Therefore, good ESG and stewardship practices should be integrated throughout the investment process of the Fund.
ESG integration and broad risk management	Effective management of ESG issues is a key determinant of long-term shareholder value and good risk management. Their consideration is part of the Fund's fiduciary duty to beneficiaries. The Fund therefore recognises the importance of its investment managers integrating all material financial and non-financial factors, including ESG considerations, into the decision-making process for fund investments and the ongoing monitoring of these same issues.
Stewardship	Good stewardship can protect and enhance value for companies and markets as a whole. The Fund is committed to being a long-term steward of the assets in

Belief	Explanation
	which it invests. It believes in the importance of investment managers acting as active asset owners through proactive voting and engagement with companies. In addition, the Fund believes that acting collectively with other investors is an effective way to engage with companies.
Climate change risk	The Fund believes that climate change presents risks over the short, medium and long-term that the Fund should better understand and mitigate where possible. Investment action is an important area for the Fund to further develop its approach, including collaborative engagement opportunities. The Fund supports the objectives of the Paris Agreement, and believes that keeping a global temperature rise this century to well below 2ºC relative to pre-industrial levels is entirely consistent with securing strong financial returns. The Fund also believes in a "just transition" to a low carbon economy that ensures fair treatment for employees and communities that would otherwise bear the brunt of industrial change.
Thematic sustainable investments opportunities.	Long-term sustainability trends, including climate change, present opportunities that increasingly require explicit consideration. The Fund should actively consider Investing in strategies that target long-term ESG themes (e.g. energy, water, demographic trends) including those themes set out in the United Nations Sustainable Development Goals (SDGs) on the basis that such opportunities will generate good risk-adjusted investment returns.
Pooling	The Fund is a participating Fund in the ACCESS Pool. The Fund believes that it should work collaboratively with ACCESS to set clear expectations of its investment managers and advisers on how ESG considerations are incorporated into investment activities. ACCESS should offer funds to investors that integrate ESG considerations into their investment process and develop a consistent policy approach to stewardship and climate change. The Committee will ensure that appropriate reporting is available for Pool aligned assets in order that progress can be monitored against the RI Policy.
Ongoing commitment	Responsible investment is a rapidly developing area and the Fund should commit to staying informed, developing its approach and increasing its ambition with regard to these issues.

C. RESPONSIBLE INVESTMENT POLICY

This section sets out the RI Policy based upon the Responsible Investment Beliefs set out in section B, above. The Fund has responsibility for setting its investment strategy and its ambitions on RI.

1. ESG integration and broad risk management

The Fund's investment managers should integrate all material financial factors, including ESG considerations, into the decision-making process for Fund investments and the ongoing monitoring of these same issues.

The Fund recognises the importance of ensuring that Pool level engagement between ACCESS and investment managers in providing appropriate assurance with regard to the investing Funds' policy commitments in this area.

2. Stewardship – exercise of voting rights and engagement

The Fund's investment managers should exercise their rights as owners of investments to actively participate in company level decisions tabled as shareholder votes at General Meetings.

Pool aligned assets should be voted in accordance with the ACCESS Voting Policy on a "comply or explain" basis with voting outcomes regularly monitored.

In addition to proactive voting, the Fund's investment managers should act as active asset owners through engagement with companies where there are concerns over ESG issues. The Fund also believes that acting collectively with other investors, for example, with fellow investors in the ACCESS pool or through membership of the Local Authority Pension Fund Forum (LAPFF) is an effective way to engage with companies. In the event that engagement is not effective the Fund will consider divestment from an individual stock, where agreed with the relevant investment manager that this is appropriate. If the Fund cannot reach agreement with the investment manager on a stewardship issue, it may be appropriate to divest from the manager.

3. Climate Change

The Fund recognises the systemic risk associated with climate change and the views and aspirations of other scheme employers and scheme members.

Climate risk is recorded as a key risk in the Fund's Risk Register - Risk No. 3: "As long term investors, the Fund believes climate risk has the potential to significantly alter the value of the Fund's investments."

The Fund supports the Paris Agreement and a "just transition". The Fund is assessing the current climate-related exposures in its investment portfolio and investigating the feasibility and potential timeframe for achieving a net carbon neutral investment portfolio.

4. Thematic sustainable investments opportunities

The Fund will consider committing to specialist investment funds that target long-term ESG themes (e.g. energy, water, demographic trends) including those themes set out in the United Nations Sustainable Development Goals (SDGs) on the basis that such opportunities will generate good risk-adjusted investment returns.

The Fund will consider committing to "social investments", defined by Government guidance as investments that deliver a social impact as well as a financial return. The Government considers that social investments are appropriate for LGPS funds where a) the social impact is simply in addition to

the financial return or b) where some part of the financial return is forgone in order to generate the social impact but the administering authority has good reason to think scheme members share the concern for social impact, and there is no risk of significant financial detriment to the Fund.

5. Pooling

The Fund and ten like-minded LGPS funds have formed the ACCESS Pool, and are committed to collaboratively working together to meet the Government's criteria for asset pooling. An Inter Authority Agreement has been signed to underpin the partnership.

The Fund will utilise, where relevant and applicable, the scale and inherent benefits of improved governance and stewardship practices that arise from collaboration with partner ACCESS funds to carry out this Responsible Investment Policy.

More information on this initiative can be found on the ACCESS Pool website

D. IMPLEMENTATION

1. ESG integration

The Fund reviews the investment process and ESG practices of all prospective managers at the investment/manager selection stage. The ACCESS ACS Operator, Link Financial Services (LFS), performs a similar assessment of ESG, stewardship and the consideration of sustainable opportunities before any investment manager is appointed to a sub-fund within the ACS.

Assurance will be sought through engagement with investment managers and as part of ongoing reporting and presentations at a Fund and Pool level that the investment managers are appropriately integrating ESG into their investment processes and decision making. If managers are lagging behind their peers and the essence of this Policy, they will be engaged and encouraged to improve.

2. Stewardship - voting and engagement

The Fund has delegated the exercise of voting rights to all investment managers including the ACCESS ACS Operator, LFS, on the basis that voting power will be exercised by them with the objective of preserving and enhancing long-term shareholder value.

LFS requires investment managers appointed to exercise the voting rights attached to investments held in sub-funds in line with its voting policy, agreed by all ACCESS funds. Where investment managers on the platform do not adopt the positions set out in the LFS policy, they are required to provide a robust explanation of the position adopted on a comply or explain basis in each sub-fund prospectus.

The Fund's other investment managers (i.e. those where the investment is not accessed via the ACCESS ACS) are not obliged to follow the LFS policy, but have all produced written guidelines and policies outlining their own stewardship process and practices (including voting and engagement). These managers are encouraged to vote in line with their respective guidelines, in respect of all resolutions, at annual and extraordinary general meetings of companies. As part of its manager selection and monitoring process, the Fund reviews such guidelines and policies and ensures that the practices adopted are aligned with the Fund's own Responsible Investment Beliefs.

The Fund embraces the 12 principles of the Financial Reporting Council's UK Stewardship Code 2020 (the Code). Initial work has been commissioned to perform a gap analysis to identify areas for improving the monitoring of investment managers and further steps necessary to implement a Fund Annual Stewardship Report that meets the standards required to become a signatory to the Code.

LFS also expects that investment managers on the ACS platform will be signatories to and comply with the Code and the United Nations supported Principles of Responsible Investment (UNPRI).

When it comes to engagement, investment managers provided through ACCESS and the Fund's other investment managers not accessed via the platform are expected to engage in constructive dialogue on behalf of the Fund and to use their influence to encourage companies to adopt best practice in key areas. In the event that engagement is not effective the Fund will consider divestment from an individual stock, where agreed with fellow ACCESS investors and the relevant investment manager that this is appropriate. If the Fund cannot reach agreement with the investment manager on a stewardship issue, it may be appropriate to divest from the manager.

3. Climate change

The Fund is assessing the implications of reporting in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures ("TCFD") framework across the four pillars of Governance, Strategy, Risk Management, Metrics and Targets.

The Fund plans to commission an assessment of the systemic risk posed by climate change on an ongoing basis by undertaking climate change scenario analysis. This analysis seeks to understand the climate impact on return at the total Fund and asset class level across different warming scenarios and help the Fund to further its decision-making.

In conjunction with this work to understand the Fund's current climate-related exposures, over the next 12 months (by December 2022) the Fund will investigate the feasibility and potential timeframe for achieving a net carbon neutral investment portfolio to align with the Fund's support of the Paris agreement.

4. Thematic sustainable investments opportunities

Within the Fund's Alternative assets allocation, commitments have been made to Local Investments where these are of investible quality and expected to provide strong returns with the subsidiary benefit of supporting businesses and employment in the region.

The Fund is additionally open to investment initiatives with environmental or low carbon themes or where there is a social benefit, providing they meet the requirements set out in Section C above.

The Fund will always seek to use the ACCESS Pool in the first instance to meet its strategic investment needs, with Alternative asset solutions expected to become available within the pool from late 2021.

5. Pooling

It is expected that the Fund's ability to carry out this Responsible Investment Policy will be enhanced through the ACCESS Pool, due to the inherent benefits of scale and improved governance and stewardship practices that will result from the collaboration.

For the investments that are held within the ACCESS ACS, the Operator, Link Fund Solutions, recognises that it has a responsibility to be an active steward and to promote good corporate governance and management of the companies within the ACCESS sub-funds.

The Fund will support the ACCESS Pool in further developing a pool level Responsible Investment Policy and associated reporting, that will enable all partner Funds to meet their strategic requirements with regards to ESG/Responsible Investment.

E. MONITORING AND REPORTING PROGRESS

1. ESG integration

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

2. Stewardship - voting and engagement activities of the equity managers for their holdings.

All investment managers are expected to report on their voting activity on a regular basis, with ACCESS Pool managers required to report on a monthly basis.

The Fund publishes on its web pages a quarterly summary of the proxy voting undertaken on the Fund's behalf, a wider annual review of the investment arrangements via the Report and Accounts and provides member communications as and when appropriate.

Regarding engagement, the Fund receives regular reporting covering the dialogue between investment managers provided by the ACCESS ACS with companies to encourage best practice in key areas.

Where managers are lagging behind their peers (or expectations of this policy) on voting and engagement activity, engagement will be undertaken with the manager to explain their performance and to encourage them to improve.

In addition, the Fund is a member of the Local Authority Pension Fund Forum ("LAPFF") which aims to protect the long-term investment interests of LGPS beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies through active engagement with management. Further details can be found on the LAPFF website. The Fund receives regular email updates and a quarterly report from LAPFF on engagement activity including the nature and outcomes from those engagement activities.

3. Climate change

The Fund is committed to developing its reporting in this area, including with regards to carbon-foot-printing (for example, carbon intensity, fossil fuel reserves and potential emissions) and scenario analysis.

The reporting of carbon exposures in investment portfolios is a relatively new development and as such not all investment managers provide data on a comparable basis. The ACCESS Pool provides a basic report on sub-funds held in the ACCESS ACS but complete data is not yet available.

ACCESS are currently developing their reporting requirements in this area and the Fund is actively supporting this development in order that the requirements of this Responsible Investment Policy can be met.

The Fund will also be developing an approach to assessing climate change scenario analysis in order to understand the climate impact on return at the total Fund and asset class level across different warming scenarios and help the Fund to further its decision-making.

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

4. Thematic sustainable investments opportunities

The Fund's investments in thematic investments will be reported in the Fund's Annual Report.

Reporting will be developed as appropriate to measure progress against the sustainable objectives of each investment.

5. Pooling

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

For and on behalf of the Pension Committee of West Northamptonshire Council as Administering Authority of the Northamptonshire Pension Fund.