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East Sussex Pension Fund

Environmental, Social, and Governance Statement (including Climate Change)

October 2019

Executive summary

Responsible Investment ("RI") is a subject that the Fund's Pension Committee ("the Committee") take seriously. Environmental, social and governance factors are considered throughout the Committee's decision-making process, including their approach to provider and mandate selection.

This Statement sets out the Committee's RI approach, with a notable focus on the Fund's exposure to fossil fuels. The Statement's Sections are aligned to the Committee's approach to considering RI (we have also included a Background section and a glossary).

Background

The Committee has a legal requirement to invest the Fund's assets in order to seek returns and help it meet its legal obligations to provide pensions for members over the long term. There is also a requirement that contributions by employers are stable and affordable over time.

The Fund is a member of the ACCESS LGPS Pool. In investing the assets, the Committee has to comply with the statutory LGPS investment regulations, as well as relevant guidance issued by MHCLG.

Objectives, beliefs and policies

Generating sustainable long term investment returns is the Fund's primary objective. To provide a general framework for investment decision-making, the Pensions Committee has developed a set of investment beliefs. These beliefs are set out in the Fund's ISS and are reviewed by the Committee on a regular basis. A number of these beliefs apply specifically to the consideration of ESG issues and Responsible Investment in its wider sense.

The Fund prefers a philosophy of engagement, which it believes to be a more effective approach in addressing ESG concerns and driving long lasting change. To be effective, collaberation is best done in conjunction with other parties such as the ACCESS pool or the LAPFF (Local Authority Pension Fund Forum).

Investment strategy

The Fund invests its assets, with the help of its advisers, across a range of asset classes such as equities, bonds, and real estate. Asset allocation decision is expected to be the Fund's main driver of returns and risk over the long term. ESG factors are taken into account when considering the Fund's investment strategy.

Investment managers
The Fund uses both active and passively managed strategies, with the Committee seeking to achieve a balance between cost and return. Active and passive managers have a duty to act as responsible investors and are expected to act as good stewards for the companies they invest in or lend to.

All of the Fund's managers are required to report their engagement activity on a regular basis and exercise the voting rights in relation to the Fund's investments as far as practical.

Manager selection on the Fund's behalf is in the process of being transferred to the ACCESS pool.   If the Fund wishes to influence manager selection in the future, it will typically need to co-operate with other pool members.

Monitoring and Reflection
Table 1 in this report shows that the Fund's actual fossil fuel exposure (at 30 June 2019) was £167.8 million or 4.5% of the total assets under management. The Fund's active equity manager has a policy of not investing in oil and gas stocks for investment reasons. There is £138.1 million of exposure from the Fund's passive strategies, some of which follow low carbon indices (see comment below), but all of which have some fossil fuel exposure. There is some additional exposure from other sources such as the two absolute return managers, corporate bonds, and private equity.

The Fund allocated some of the passively invested assets to a low carbon mandate in 2018, the UBS Climate Aware fund. This was a positive step, but, although within its tracking error, this passive mandate has underperformed its benchmark. As a consequence, the Fund is monitoring its progress and will consider raising exposure when it has greater confidence in the fund's capacity to perform.

The Fund continues to engage with fossil fuel companies, collaboratively with other investors, and is considering a search for an active sustainable mandate in the expectation of making some positive financial return from climate change.

We will continue to take Responsible Investment seriously and will keep our members updated on our progress.

Yours sincerely

Cllr Gerard Fox, Chair of the East Sussex Pension Fund

East Sussex Pension Fund

Section 1: Background

Fund overview

The East Sussex Pension Fund ("The Fund") exists to provide pension benefits to 74,000 members and their dependents on behalf of 133 employers. It has a legal requirement to invest its assets in order to seek returns to ensure that it can meet its legal obligations to provide pensions for members over the long term. There is also a requirement that contributions by employers are stable and affordable over time. The Fund is a member of the ACCESS LGPS Pool. In investing the assets, the Fund has to comply with the statutory LGPS investment regulations, as well as relevant guidance issued by MHCLG. In relation to the consideration of ESG issues, the Fund also has to be mindful of issues arising in relation to fiduciary duty as clarified in 2014 by the Law Commission and guidance from MHCLG on how the Fund should set out its policies in its Investment Strategy Statement (ISS). The Fund has also chosen to adhere to the Stewardship Code.

The Fund is cognisant that its members as primary stakeholders to the pension fund have views on environmental, social and governance ("ESG")"matters, and climate change in particular. This statement is therefore designed to explain how the Fund will seek to address these while meeting its primary purpose of providing pensions for its members in the long term.

Governance

The Pensions Committee, which has delegated responsibility for administering the Fund, has a fiduciary duty to ensure that long term ESG considerations including climate change are factored into decision-making. The consideration of ESG issues is relevant at all stages of the investment decision-making process; from the setting of objectives and beliefs, agreeing the high level investment strategy and detailed asset allocation, through to the appointment of investment managers and monitoring of their portfolios and engagement activities.

Climate change

The Fund understands the urgency of the need to address climate change following the release of the Intergovernmental Panel on Climate Change (IPCC) Special Report on Global Warming in 2019[1]. This sets out the likely consequences of global warming of 1.5 degrees Celsius and the additional damage that global warming of 2 degrees Celsius could cause. Following the publication of this report there is understandable interest in what pension funds and other financial market participants are doing to uphold their responsibility to help reduce carbon emissions.

[1] https://www.ipcc.ch/sr15/

Section 2: Objectives, beliefs and policies

Objectives

Generating sustainable long term investment returns is essential for the Fund, and its asset allocation decisions are made in consultation with its advisers with that as its primary objective.

Beliefs

In order to provide a general framework for investment decision-making, the Pensions Committee has developed a set of investment beliefs. These are set out in the Fund's ISS and are reviewed by the Committee on a regular basis. A number of these beliefs – set out below - apply specifically to the consideration of ESG issues and Responsible Investment (RI) in its wider sense.

- *We will apply long-term thinking to deliver long-term sustainable returns.*
- *We will seek sustainable returns from well-governed assets.*
- *We will use an evidence-based long term investment appraisal to inform decision-making in the implementation of RI principles and consider the costs of RI decisions consistent with our fiduciary duties.*
- *We will evaluate and manage carbon exposure in order to mitigate risks to the Fund from climate change.*

In light of these beliefs, and given the legal, regulatory, and practical constraints noted above, the Committee with its advisers has considered a number of possible routes to reduce carbon exposure within the Fund, including divestment, engagement, the use of low carbon indices and allocating to actively managed 'sustainable' funds.

The Committee currently regards full divestment from fossil fuels as an inferior option, as it is only possible as a one-off action and is likely to have limited effect. When shares in the relevant companies are sold, the Fund loses its ability to influence the company to change its business model, and the new shareholders are likely to be less interested in putting pressure on the company.

Collaberations
The Fund prefers a philosophy of engagement, which it believes to be a more effective approach in addressing ESG concerns and driving long lasting change. To be effective, it is best done in conjunction with other parties such as the ACCESS pool or the LAPFF (Local Authority Pension Fund Forum). Participation in the pool will increase the Fund's ability to influence positive action among the companies it invests in and accelerate the transition to a sustainable pathway, but the need to bring other pool members along the journey will be paramount. The Fund is additionally a signatory through its membership of the LAPFF and its Active and Passive Manager's to [2]Climate Action 100+. The Fund believes that collaborative engagement creates a valuable opportunity to exert continued pressure on complanies to align their business models in order to make a successful transition to a low carbon economy.

To take one example, although renewable energy is growing at a considerable pace, it is not growing fast enough to overtake and replace the supply of world energy from coal, gas and oil. There are some cases in which it is difficult to substitute oil and gas for renewable energy. The Fund believes that engagement with them is the best way to persuade them to adapt their business models to be a positive force for change.

Some examples of the work of Climate Action 100+ include:
- ESPF investment manager Ruffer co-led the Climate Action 100+ working group engagement with Imperial Oil Limited, focused on the companies greenhouse gas emission reduction targets, forecasts of future oil demand and increasing disclosure stressing compliance with Task Force on Climate-related Financial Disclosures (TCFD)
- ExxonMobil: successful shareholders resolution to disclose short, medium and long term greenhouse gas targets that are aligned with the Paris Agreement. Additional disclosure on providing disclosure of the company's operations and products were part of this resolution.
- Gold Fields: enagaging on greenhouse gas emission reduction targets, tailings dams and using renewables instead of traditional sources of energy.
- Agreement with Glencore to cap coal production
- A management resolution by BP to align business strategy with Paris goals
- Agreement with Shell to reduce Scope 3 emissions intensity

There may be instances where companies refuse to address concerns on engagement, the Fund has instructed its managers to vote on its behalf on ESG matters. Voting can be an effective tool if companies do not respond to collaborative engagement.

[2] www.climateaction100.org

Section 3: Investment strategy

The Fund invests its assets with the help of its advisers across a range of asset classes, such as equities, bonds, and real estate. The asset allocation decision is the main driver of returns and risk to the Fund over the long term.

The Committee are considering a number of options in relation to the current strategy. One route, for the Fund to mitigate climate change, effects is to invest in sustainable actively managed strategies. This involves the Fund allocating to managers and strategies whose portfolios aim to benefit from climate change and can be expected to deliver superior returns in the long term. These might include both renewable energy and also companies developing products and processes to replace those which are responsible for carbon emissions. From the Fund's perspective investing in this way aligns the desire to mitigate climate change with its own imperative to generate financial returns. However, it should be noted that this is not necessarily a strategy of investing in the 'greenest' companies; it may be one of investing in rapidly improving ones.

The further route is to use low carbon indices. As noted below, given that the bulk of the Fund's fossil exposure lies in its passive investments, this is the Fund's chosen route in the short term. Low carbon indices involve using an index which aims to deliver similar returns to a standard index, but with lower allocation to carbon intensive companies. However, there are significant issues with the data used to construct these. The first is that the data provided by underlying companies to index providers is not all audited or certified, nor are there agreed international standards. This significantly compromises the reliability and comparability which the Fund (or index provider) can place on it.

Secondly, there are no internationally regulated definitions of what constitutes a low carbon fund,and inevitably different asset managers interpret them in widely different ways. Products may be marketed as being climate friendly or fossil free which have exposure to coal either directly or through the value chain of consitituent companies within the index. This points to a lack of harmonised globally accepted definitions of ESG and investment products that consistently align to these criteria.

To rectify these problems will require the concerted involvement of the major financial index providers and passive managers in order to create an auditable framework to measure in standardised terms the carbon output from a portfolio of assets. Without this transparency it is difficult to assess accurately the carbon intensity of an index and the Fund is unable to exercise its fiduciary duty where investment risks cannot be quantified or are not transparent.

Section 4: Investment managers

Manager selection on the Fund’s behalf is in the process of being transferred to the ACCESS pool comprising eleven LGPS Funds. The Government has required all LGPS Funds in England and Wales to transfer implementation to one of eight pools in order to achieve economies of scale and reduce costs. If the Fund wishes to influence manager selection in the future, it will typically need to co-operate with other pool members, as it will no longer have the ability to make unilateral decisions.

The Fund currently uses managers of both active and passive strategies in its portfolio in order to balance considerations of cost and return. Both active and passive managers have a duty to act as responsible investors and are expected to act as good stewards for the companies they invest in or lend to.

However, the decisions on how and how much to reduce carbon exposure lie with different parties: the manager in the case of active mandates, the index provider and the Fund (by choice of index) for passive mandates.

Active managers are able to act on their assessment of long term sustainability by using their judgment to invest in or divest from particular companies or assets. The Fund does not believe it has the resources to make a better judgement than its managers, and therefore does not try and over-ride them in anyway.

Passive managers, on the other hand, are invested in an underlying index chosen by the Fund, and have no discretion to deviate from it. The Fund is able, with advice from its advisers, to decide which index is used, and is actively considering greater use of low carbon indices. There are an increasing number of the latter available, but they tend to be significantly more expensive than traditional passive strategies, and are also dependent on carbon data from the underlying companies which is not certified or audited (discussed in more detail in the previous Section).

All of the Fund’s managers are required to report on their engagement activity on a regular basis and exercise the voting rights in relation to the Fund’s investments as far as practical. This will contine to be the case when assets are invested through the ACCESS pool.

Section 5: Monitoring and reflection

Table 1 below shows that the Fund's actual fossil fuel exposure (at 30 June 2019) was £167.8 million or 4.5% of the total assets under management. The Fund's active equity manager has a policy of not investing in oil and gas stocks for investment reasons. There is £138.1 million of exposure from a combination of passive strategies, some of which follow low carbon indices, but all of which have some fossil fuel exposure. There is some additional exposure from other sources such as the two absolute return managers, corporate bonds, and private equity.

As can be seen, passive equity strategies therefore account for the bulk of the Fund's carbon exposure, and are where the Fund can most easily reduce its carbon exposure. The option of using low carbon indices is therefore the Fund's chosen focus in the short-term.

However, as noted above, the data behind low-carbon indices cannot yet be considered reliable, and does not meet the standard of evidence-based appraisal, whereby the Fund could commit a major part of its investments to low carbon passive strategies. The lack of dependable data is an unquantifiable risk, and the Fund would not be carrying out its duties if it invested without fully understanding all the investment risks that it holds.

In practice the Fund allocated some of the passively invested assets to a low carbon mandate in 2018, the UBS Climate Aware Fund. This was a positive step, but, although within its tracking error, this passive mandate has underperformed its benchmark and has not been able to attract a signicant number of other investors, giving rise to modest concerns about liquidity. As a consequence, the Fund is monitoring its progress and will consider raising exposure when it has greater confidence in the fund's capacity to perform.

Fully transparent data on carbon exposure in the Fund's unquoted investments, such as private equity, is not generally available and suffers from the same problems as described above. The Fund's unquoted managers will always take sustainability, including carbon exposure, into account when making investments. The Fund has no option but to rely on their judgements, as it is not possible to divest from single assets within such strategies.

In summary, while the Fund is actively looking to reduce the carbon exposure from its passive investments, it will only do so when it is able to evaluate all the risks involved from partial or total exclusions. It continues actively to engage with fossil fuel companies collaboratively with other investors, and is considering a search for an active sustainable mandate in the expectation of making some positive financial return from climate change.

Table 1: Fund’s Fossil Fuel exposure

	Actual Fossil Fuel Exposure (%)	Actual Fossil Fuel Exposure* (£m)	Benchmark Fossil Fuel Exposure (%)	Relative (%)	Management Style
UBS – North America	5.8	10.0	5.8	-	Passive
UBS – Europe (ex UK)	5.6	8.0	5.7	-0.1	Passive
UBS – Japan	5.4	1.0	5.4	-	Passive
UBS – Asia Pacific (ex Japan)	10.1	2.3	10.2	-0.1	Passive
UBS – Emerging Markets	10.6	4.8	10.9	-0.3	Passive
UBS – UK	17.5	49.4	17.4	0.1	Passive
UBS – RAFI	11.8	53.3	11.9	-0.1	Passive
UBS – Climate Aware	5.2	9.3	6.8	-1.6	Passive
Longview - Global Equity	0.0	0.0	5.2	-5.2	Active
Harbourvest - Private Equity	3.7	3.9	5.2	-1.5	Active
Adams Street - Private Equity	4.4	5.5	5.2	-0.8	Active
Newton - Absolute Return	0.6	2.7	-	-	Active
Ruffer - Absolute Return	1.9	7.8	-	-	Active
Schroders - Property	0.0	0.0	0.0	0.0	Active
UBS - Infrastructure	0.0	0.0	-	-	Active
Pantheon - Infrastructure	0.0	0.0	-	-	Active
M&G (InfraCapital) - Infrastructure	0.0	0.0	-	-	Active
M&G – Real Estate Debt	0.0	0.0	-	-	Active
M&G - UK Financing Fund	0.0	0.0	-	-	Active
M&G - Absolute Return Credit	2.8	7.2	-	-	Active
M&G - Corporate Bonds	1.8	167.8	10.6	-8.8	Active
UBS - Over 5 Year IL Gilt Fund	0.0	0.0	0.0	0.0	Passive
Cash	0.0	0.0	0.0	0.0	Active
Total Fund	**4.5**	**167.8**	-	-	-

Glossary

ACCESS – the LGPS pooling entity which the Fund has agreed to participate in as part of the Government's pooling requirements

Active management requires the appointed investment managers to select investments in those companies which are expected to produce the best risk-adjusted returns over time relative to the wider market. Managers are selected on the basis of their skill, experience and competence in delivering performance over and above the market return, and also for their ability to preserve capital particularly in periods of economic downturns.

Benchmark is a standard against which the performance of a investment manager can be measured. Generally, broad market and market-segment stock and bond indexes are used for this purpose.

Climate Action 100+ is a five year global initiative in which investors engage with the largest corporate greenhouse gas emitters to improve their governance and reduce their emissions. There are currently more than 370 investors representing $35 trillion of assets signed on to the initiative.

Divestment is the decision to sell all shares and/or bonds in a particular company or industry sector.

Engagement is the process of continued dialogue with a company and other relevant parties with the aim of influencing their behaviour in relation to ESG practice. This would also include the exercise of voting rights. The Fund engages through its investment managers who have all signed up to the Stewardship Code and the Principles of Responsible Investment.

Investment Strategy Statement is the statement of the Fund's investment strategy and provides transparency in relation to how Fund's investments are managed.

LAPFF Local Authority Pension Fund Forum, a grouping of 68 LGPS Funds who act in concert to engage with companies

Paris Agreement is an agreement within the United Nations Framework Convention on Climate Change (UNFCCC), dealing with greenhouse-gas-emissions mitigation, adaptation, and finance, signed in 2016. The agreement's language was negotiated by representatives of 196 state parties at the 21st Conference of the Parties of the UNFCCC in Le Bourget, near Paris, France, and adopted by consensus on 12 December 2015. As of March 2019, 195 UNFCCC members have signed the agreement, and 186 have become party to it**.**

Passive management requires the appointed investment manager to deliver a return in line with the specific market index determined by the client. Therefore, the manager will be obliged to hold all (or the vast majority) of the individual stocks represented in that index regardless of their views on the investment merits of the individual companies.

Responsible Investment is an approach to managing assets that sees investors include environmental, social and governance (ESG) factors in:

- their decisions about what to invest in;
- the role they play as owners and creditors.

It aims to combine better risk management with improved portfolio returns, and to reflect investor and beneficiary values in an investment strategy. It complements traditional financial analysis and portfolio construction techniques.

Tracking error is the difference between a portfolio's returns and the benchmark or index it was meant to track or outperform.

East Sussex Pension Fund

APPENDIX A

VOTING AND ENGAGEMENT BY MANAGER

LONGVIEW

VOTING

ESG related voting from 4th February 2019 to 30th September 2019

Number of Vote-able meetings	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ DNV	With management	Against management
7	13	30.8%	69.2%	0.0%	69.2%	30.8%

ENGAGEMENT

Fidelity National Information Services – September 2018

On 27th September, Longview engaged in a conference call with Keith Hughes Independent Director, Chair of the Compensation Committee), Peter Gunnlaugsson (Senior Vice President, Investor Relations), Chip Keller (Senior Vice President, Deputy General Counsel and Corporate Secretary) and Gary Watts (Senior Vice President, Global Compensation and Benefits) from Fidelity National Information Services to discuss the company's executive compensation plan. The purpose of the call, which took place at the company's request, was to give shareholders the opportunity to comment on or question aspects of the most recent remuneration plan as the level of support from shareholders had dropped when compared against previous years. The company started with an overview of its corporate governance practices including diversity, independence and engagement of the board. They then described their compensation philosophy, stressing their intention to incentivise executives to maximise total shareholder performance. In the past year, executives also received a one-off bonus relating to the successful execution of the SunGard acquisition. This one-off bonus was only payable if cost-saving targets were met within a certain time frame.

Though Longview believes that the business is very well run and we have owned the company for a number of years, we took the opportunity to raise some issues that we have with their approach to executive compensation, some of which had already been addressed. We believe that:

1. Performance should have an appropriate criteria for judging relative performance
2. The peer group used for comparison should be better aligned with the company's primary line of business and;
3. Deal-by-deal pay-outs wrongly incentivise management as they are rewarded whilst shareholders take on the added risk.

On the latter point, we think that sensible corporate activity will lead to improved operating performance, such as EPS and cashflow per share per share, and thus be reflected in higher payouts under existing bonus schemes. Thus there is no need for additional bonus schemes and indeed these could result in management being paid twice for the same improved performance.

Lloyds – September 2018

We met with the CFO of Lloyds George Culmer and the Head of IR Douglas Radcliffe in September 2018. We questioned the CFO on why remediation charges persist at Lloyds and noted that Lloyds has a long history of taking so called 'exceptional' remediation charges that seem to reoccur every year. On average, over the past decade the cost of remediation has averaged 42% of underlying profit or 12% excluding the large charges Lloyds has taken for mis-selling payment protection insurance (PPI).

In 2018 Lloyds changed the reporting of exceptional items. Remediation costs (ex PPI costs) are now included in underlying profit and so are considered a recurring item. The CFO noted that the change in reporting mirrors a change in the way management thinks about the profitability and return of different banking products. He acknowledged that if you offset all the PPI fines against the non-interest income from PPI, the bank would probably never have made any profit. Management now thinks more carefully about the implications of new products and the regulatory risks. He admitted that the difficulty for Lloyds is changing rules where new standards can be applied retrospectively. One area example he gave was home equity release, a growing part of the market but one which Lloyds is not comfortable to participate in.

Given the tightening of regulation, remediation charges will always be a feature of the banking industry and as such are now included within underlying profit but Lloyds will work to ensure these are as low as possible.

Emerson Electric - December 2018

Towards the end of 2017, Emerson Electric launched a sizeable bid for competitor firm, Rockwell Automation, that Longview believed was not in the best interests of shareholders at the price offered. Longview wrote to the Chairman and CEO of Emerson outlining our opposition to the deal and stressed that it is management's responsibility to allocate capital in a manner that is value accretive to shareholders. In December 2018, Longview was pleased to see that Emerson returned to its previous strategy of making small bolt-on acquisitions; we believe this strategy is more likely to create value going forwards.

Continental – December 2018

Longview wrote to the Chairman of the Executive Board of Continental in December 2018 following comments from the company in September that seemingly contradicted its previous statement regarding a possible partial IPO of the company's Powertrain business. We expressed our concerns both over the potential disinvestment itself, and the quality of communication from company management.

In regard to improved communication, Longview requested that the company ceases to restrict access to its results conference calls and that pertinent information is not shared for the first time through non-standard means. The majority of large public companies host open conference calls and release news to the market by press release rather than through interviews with reporters or at industry conferences. Longview believes that Continental should also allow third parties to make transcripts of the results conference calls.

On the partial IPO of the Powertrain business, Longview believes that its valuation is currently depressed by the market due to uncertainty relating to the transition of engine technology from internal combustion to electric. Selling at a time when valuations are depressed is likely to destroy value and we requested that Continental state its commitment to only execute a partial IPO of the business if the price is right and shareholder value can be preserved.
Longview received a response from the company noting our issues and advising that the decision to proceed with a partial IPO of the Powertrain business will depend on the prevailing market conditions.

ISS – December 2018

On 11th December 2018, Longview met with Jeff Gravenhorst, CEO, and Martin Kjaer Hansen, Investor Relations, from ISS following the company's 2018 Strategy Update where it announced its intention to disinvest from what it considers to be non-core business units. Longview supports divestitures when they are made at a reasonable price, but had concerns in this instance that the company would be keen to sell these business units at any price, potentially destroying shareholder value. We expressed these views and the company provided assurance that they will endeavour to optimise the value captured through the sale of these units. They added, however, that one of the main drivers for disposal is that many of these business divisions operate in regions where the risks are now deemed too high and that the company wishes to remove the distraction they pose in order to concentrate on their areas of strength. Some of the topics discussed included labour practices and inflation in emerging markets, and reputation risk. The company noted our comments.

Allergan plc – March 2019

In March 2019, at the company's request, Longview engaged in a discussion with Board members of Allergan regarding Chair independence. The role of Chair of the Board of Directors is currently held by the CEO, Brent Saunders, and Allergan is experiencing increasing pressure from investors to replace him with an independent candidate with immediate effect.

Though Allergan appreciates that general best practice is to have an independent Chair, the directors' view is that the company is in the midst of a strategic transformation that is vulnerable to distraction if Brent Saunders were to be abruptly removed from the position of Chair at this time. The priority for both management and the Board in the short-term is to focus on operational execution, and the directors argue that the most vocal investors regarding this issue are simply trying to facilitate a temporary boost to the stock price. They confirmed their willingness to commit to an independent chair in the future but stressed their belief that the consequences of doing so now would be negative for the business as it would be viewed internally and externally as a judgment on Brent Saunders' competence. They also highlighted that the Board has a number of independent directors who are able and willing to challenge management where necessary.

Longview noted the company's perspective but asserted our view that an independent Chair is best practice and that it is difficult from the outside to simply trust the impartiality of the Board. It seems to us as though this relatively minor issue has become entangled with a broader assessment of CEO performance and in particular, with wider issues of splitting up the company. We reiterated that our focus is on the long-term free cash flow performance of the business adding that we are not generally strong proponents of acquisitions or splitting up businesses. We indicated our support of separating the roles of Chair and CEO and encouraged Allergan to find a way to achieve this without allowing it to augment into an indictment of Brent Saunders.

Continental – March 2019

In March 2019, Longview held a follow-up conference call with Chairman of the Supervisory Board, Professor Wolfgang Reitzle, further to the letter sent to the Chairman of the Executive Board in December 2018 outlining our concerns about the potential disinvestment of its Powertrain business and the quality of management's communication to shareholders.

In our letter, we expressed our view that the valuation of the Powertrain business is currently depressed by the market and that selling at this time would likely destroy shareholder value. We asked that Continental state its commitment to only execute a partial IPO of the business if the price is right and shareholder value can be preserved. We also requested that the company ceases to restrict access to its results conference calls and that pertinent information is not shared for the first time through non-standard means.

Whitbread – March 2019

In March, Longview met with Adam Crozier (Chairman), Chris Vaughan (General Counsel) and Matt Johnson (Investor Relations Director) from Whitbread to discuss governance-related matters.

Longview started the meeting with a discussion around remuneration: we like to see compensation linking back to operational metrics versus shareholder return. This was a perspective we raised with Whitbread prior to the sale of Costa. In terms of management incentives, the company intends to create a new LTIP fitting of the new strategy for the long-term. The priority is to encourage management to make long-term decisions. The goal is to create a new plan through a phased approach and produce a rough draft by autumn. There is no need to rush prior to the Annual General Meeting and the Performance Share Plan was implemented 18 months ago.

Moving on to discuss board composition, Adam talked about adding corporate finance and hotel experience to the board. It is important to continue to evolve and achieve diversity of thought, not only in terms of gender/ethnic diversity. They are in the process of conducting an independent board review, which will be presented shortly. Adam asked for Longview's thoughts on the make-up of the board and we commented that independence of board executives is important, along with diversity in outlook. We also believe it is important to have overlapping tenure to ensure there are always checks and balances on executives.

At the end of the meeting Longview talked about the increasing focus on ESG by our clients and the challenge for investors in identifying the right metrics. Chris and Adam were visibly keen to talk about Whitbread's sustainability targets and on-going efforts. Specifically, they mentioned:

- Whitbread's focus on sustainability and being rooted in the community through their Force for Good programme – they plan to sharpen up disclosure of this further across the whole group and revisit targets
- The ecosystem of the hotels business, particularly with regard to water/CO_2 footprint
- The importance of human rights - Whitbread ensures that the cotton in its supply chain is ethically and sustainably sourced
- The reputational impact of poor ESG practices

Henry Schein – May 2019

In May 2019, Longview's proxy voting provider, Glass Lewis, recommended a vote against the appointment of Dr Bradley Shears to the Board of Directors of Henry Schein having previously recommended a vote for the proposal. Dr Shears has been a director of the company since 2010 and has extensive experience in the healthcare sector and on boards of publically listed companies. On this basis, Glass Lewis has historically deemed Dr Shears to be an appropriate director for Henry Schein. However, on 1st May 2019, Glass Lewis changed its vote recommendation due to the fact that Dr Shears had not attended 75% of board or committee meetings in the prior fiscal year.

In response to the publication of Glass Lewis' Proxy Paper outlining its change in recommendation, Henry Schein provided a rebuttal noting the extenuating circumstances that led to Dr Shears missing the 75% attendance threshold. The company explained that Dr Shears was travelling in a remote location in a month where the company happened to have an unusually high number of committee meetings. This caused his attendance level to fall to 71.4% overall, which is anomalous in comparison to his usual 100% attendance record (with the exception of 2012 where he attended 91% of board and committee meetings).

Having reviewed the viewpoint of Glass Lewis and spoken with Henry Schein management, Longview made the decision that it would not be in clients' interests to vote against the election of Dr Shears and therefore instructed a vote for the proposal contrary to Glass Lewis' updated recommendation.

AON – June 2019

In June 2019, Longview was contacted by the Investor Relations team at AON requesting support for the company's amended Incentive Compensation Plan. The amended plan increases the number of shares available for management compensation by 5 million to a total of 8.8 million in order to incentivise continued operational excellence and to retain key members of staff.

An important consideration for Longview in evaluating remuneration structures is that the costs of the plan rise more slowly than operating income and EPS. To achieve this we expect the number of shares issued by a company to fall as the stock price rises to prevent excessive increases in the dollar cost of the plan. In 2015, Longview engaged with AON about this very issue after seeing the costs of their plan rise. We were pleased, therefore, to see that the company has addressed these concerns with the dollar cost of stock awards remaining approximately flat over recent years, helping to create operating leverage. Indeed, the company addressed this exact issue in its request to support the amended plan and we feel comfortable that the new compensation plan is appropriate. We informed the company that we would vote for the proposal in line with the recommendation of Glass Lewis, our proxy voting provider.

We did, however, reiterate to the company our past concerns regarding signing-on bonuses and highlighted our preference for the use of relative metrics in determining executive compensation. We will be watching to see whether the sign-on bonus program is restructured when the initial contracts expire in 2020.

Whitbread – June 2019

In June 2019, Longview met with Whitbread's Sustainability Team to discuss the company's responsible investing framework and its scope in relation to Environmental, Social and Governance matters. Longview reiterated that as a signatory to the UN-PRI and UK Stewardship Code, we are committed to engaging on the topic as appropriate. Below are some of the key points to emerge from our discussion:

Sustainability Framework

- Whitbread conducts a comprehensive materiality assessment on sustainability which informs their initiatives and areas of focus. These goals are encapsulated in their "Force for Good" programme, the conduit for their sustainability framework, which is centred around the three pillars of Opportunity, Community, and Responsibility.
- Whitbread does not silo their initiatives into traditional rigid lines of Environment, Social or Governance; their ESG footprint is instead a result of the implementation of the sustainability framework.
- Whitbread engages internal teams and external stakeholders to find out which issues are most important before they set clear targets under each sustainability commitment.

- Whitbread aims for an integrated approach with heads of businesses where an Executive Director is assigned responsibility for an initiative across the company

Going forward Whitbread are considering conducting an annual meeting to engage with investors on the topic of ESG. The company will also consider reporting on the evaluation process they undertake in advance of setting their sustainability initiatives, as well as publishing the results of these initiatives.

UBS

ENGAGEMENT	- UNDEFINED
VOTING	- UNDEFINED

Newton

VOTING

Voting record for the period 1 July 2018 to 30 June 2019

Number of Vote-able meetings	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ DNV	With management	Against management
83	965	88.5%	9.5%	2.0%	89.1%	10.9%

ENGAGEMENT

Royal Dutch Shell Q2 2019

We took part in a group investor meeting with the remuneration committee chair who, ahead of the AGM, was seeking to answer investor concerns.

Remuneration

The chair flagged the CEO's significantly increased total remuneration package, which was mainly owing to the vesting of his 2016 long-term incentive award. The chair stressed that the CEO's base salary remains below peers and that, while the committee had considered the quantum of total pay, it had concluded that the company and CEO's performance merited the award. The chair also cited changes to the executive remuneration arrangements which would see a simplification of the structure and a reduction in the vesting levels for achieving 'on-target' performance.

Link to energy transition

Investors spent the majority of the meeting discussing the introduction of a performance metric into the long-term incentive plan which would link the company's role in the energy transition. In light of its long-term ambitions, the company has announced a commitment to set specific net carbon footprint (NCF) targets. Each year, it will set a mix of leading and lagging performance metrics over three and five-year performance periods starting from 2020, and will run to 2050. The first target is to reduce the NCF of its energy products by c.20% by 2035 and c.50% by 2050.

Owing to the potential long-term risks that climate change poses to the business, this is a change we have been encouraging for the last two years, and we were pleased that this absolute emissions measure will have a 10% weighting in the remuneration structure. However, concerns over commercial sensitivity means that specific growth or improvement targets have only been disclosed for energy products and not other parts of the 'New Energies' business.

Investors aired concerns over the levels of discretion the remuneration committee will have to set these future targets, as they may be qualitative and could provide reward with little explanation. We will continue to make efforts for greater clarity in this area.

Royal Dutch Shell

We attended the chair's annual meeting to ask questions about the board's ongoing areas of focus in terms of ESG. The focus continues to be on capital and costs; however, it is also very aware of, and is monitoring, global warming policy changes. Against this backdrop, the CEO said that having a licence to operate was more important than ever before.

Climate change

The chair talked positively about the ongoing Climate Action 100+ engagement and how it had transformed the company's relationship with investors. He believes that this work is cutting-edge and that the company's net carbon footprint is industry-leading. In relation to helping customers reduce their carbon emissions, the business is looking into selling carbon offsets at petrol pumps. Elsewhere, it is working with customers to reduce their fleet emissions. The chair also commented that 'tone from the top' and action on climate change is something that new joiners to the company have been asking for.

We asked how the company was thinking about employees that might be left behind, either because of climate-change policy, or automation to improve efficiencies. The company is focusing on helping develop employees who are at risk of leaving; however, the reality is that the business must remain competitive versus peers in terms of efficiency.

Plastics

The company was asked how it monitors changes in plastic demand. The business has run scenarios to see what the strategic impact could be; however, the chair did not seem concerned.

Corruption and bribery

The company continues being investigated for its alleged involvement in a bribery case where it is accused of knowingly allowing funds to be sent to Nigeria's former oil minister and former president. The board is focusing on ethics, and the top 300 executives in the company now have deep levels of corruption training in place.

Total

We met the head of corporate social responsibility, head of investor relations and the company secretary to discuss governance and the company's role in the energy transition.

Board composition

We queried succession planning for two long-standing non-executive directors and learnt that a new Senior Independent Director (SID) will be appointed next year.

Remuneration

The CEO's base salary and bonus potential will be unchanged. We questioned the efficacy of the health and safety metric within the bonus scheme, which has not reached maximum performance owing to high numbers of fatalities. Investigations are ongoing to understand the root causes of the deaths, but this is an area where we will continue to seek improvements. Positively, the company has introduced a remuneration performance metric that will help ensure the business is resilient in a low oil-price environment.

Energy transition

Regarding the company's role in the energy transition, executives were confident that it would be able to reduce its scope 1 and 2 emissions through energy efficiency, reducing flaring and other operational advances. The company is also particularly interested in increasing energy, but acknowledged that a very significant technology and energy policy is needed to achieve significant emission reductions. As direct energy is a lower-returns business than oil and gas production, we asked how the board analyses risks arising from investing in alternative power opportunities. The company reiterated its strong track record on capital allocation.

Overall, the company is alive to the risks from climate-change legislation and the energy transition. We applauded the company for its response to the Task Force on Climate-related Financial Disclosures and how it is ensuring its policy advocacy is aligned with the Paris Agreement. However, we still need to understand if the company’s emission-reduction targets are in line with the Paris Agreement, and how decisions on low-carbon opportunities are made compared to oil and gas projects.

RUFFER

VOTING

Voting record for the period 1 July 2018 to 30 June 2019

Number of Vote-able meetings	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ DNV	With management	Against management
48	633	92.4%	5.7%	1.9%	93.7%	6.3%

ENGAGEMENT

Walt Disney – issues: remuneration, lobbying and cyber security Q1, 2019

Despite a majority of shareholders, including Ruffer, voting against the resolution to ratify executive officers' compensation in 2018, we felt the size of the award proposed in 2019 was still too large and the requirements were not stretching enough for us to support it. We engaged with the company and initially voted against the proposal, informing the company of our decision. A few days before the AGM, the company substantially reduced the planned increases in the CEO's compensation and made the requirements more onerous. Consequently, we decided to support the revised proposal as we felt the level was now justified given the significant contribution the CEO continues to make to the company.

We voted for two shareholder resolutions that management recommended voting against. The first asked for additional disclosure on both direct and indirect lobbying-related activities. This is an important issue given the effectiveness of trade associations in lobbying governments around the world and as this additional information would allow us to make a better informed investment decision, we supported the resolution. The second asked for an assessment to include cyber security and data privacy measures in the determination of executive remuneration. Given the increase in regulation globally in these areas, and the shift in the company's business model, we support this alignment. We informed the company before the AGM that we would be supporting these resolutions.

ExxonMobil - issues: environmental, governance – climate change Q2, 2019

An example of how we have continually assessed evolving ESG risks is in our analysis of ExxonMobil, which we bought in 2015. In the monthly Energy group meetings, and the ExxonMobil review meetings, considerations such as the transition to a low-carbon economy and projected oil demand in a number of scenarios were considered. This was discussed in relation to the company's capital expenditure plan. As a result, Ruffer has engaged with ExxonMobil with Climate Action 100+ which has included multiple engagements and voting decisions, including co-filing a shareholder resolution.

As background, Ruffer voted for a climate change related shareholder resolution at ExxonMobil co-filed by the New York State Common Retirement Fund and the Church Commissioners for England. Although it failed to win the support of a majority of shareholders in 2016, a similar resolution was filed in 2017. The second resolution was successful, despite not receiving the backing of ExxonMobil's board. The resolution asked the company to report annually on how technological advancement and international climate change policies focussed on keeping temperatures well below 2 degrees Celsius will affect its business and investment plans. This resolution led to ExxonMobil producing its first Energy and Carbon Summary Report in 2018 which analysed scenarios that limit the increase in temperatures to 2 degrees Celsius, and has formed the basis for further engagement with the company. However, the company's disclosure on this issue did not go far enough so Ruffer was asked to participate in a Climate Action 100+ group meeting with ExxonMobil in Boston in November 2018 to discuss the core objectives of the initiative of improving governance, reducing emissions and increasing disclosure.

ExxonMobil were resistant to pressure to disclose targets to reduce its greenhouse gas emissions in line with the Paris Agreement, which caused the New York State Common Retirement Fund and the Church Commissioners for England, to file a shareholder resolution. The resolution asked ExxonMobil to disclose short, medium and long-term greenhouse gas targets that are aligned with the Paris Agreement. As both our responsible investment team and research analysts agreed with the importance of this additional disclosure, we co-filed this resolution in December 2018. However, ExxonMobil asked the SEC for, and was granted, 'no action relief' and so did not include the resolution on its 2019 ballot.

After escalating this case to our Chief Investment Officer, we decided to vote at the 2019 AGM against the reelection of all non-executive directors as we did not feel they appropriately represented shareholder concerns regarding climate change and the risks this poses for the company. In addition, we supported a shareholder resolution asking for an independent Chair of the Board as we believe that the company's unsatisfactory handling of the Climate Action 100+

shareholder proposal, including the decision to seek ‘no-action’ relief from the SEC, and slow progress of the engagement with Climate Action 100+ are intrinsically linked to poor governance and that this resolution is the best way for investors to call for change at the company. We also supported shareholder resolutions asking for a board committee to assess social and environmental issues and for additional disclosure of the company’s lobbying activities. Prior to the AGM, we wrote to Neil Hansen, Company Secretary, to explain why we had voted in this way, so the company understood why we were both frustrated and concerned about their approach to climate change. Our stewardship activities are continuing and we will continue to monitor ESG risks and incorporate these into our analysis.

Schroders

VOTING

Not applicable as Schroders manage an Real Estate mandate for the East Sussex Pension Fund.

ENGAGEMENT

Sustainability Q2 2019

This time last year we sent all the Managers on our UK Investment Platform our newly created SRECaP bi-annual Sustainability Survey. Our analysis of the results placed each fund into one of the following Groups:

- Group 1: The fund has a comprehensive real estate policy that is made publically available, has resources dedicated to Environmental, Social and Governance (ESG) practices and a sustainability process that covers all aspects of investment management (i.e. buy, asset management, sell). Internal committee sign off is required on ESG issues with involvement from senior management.
- Group 2: The fund has no specific ESG policy although checks are in place as part of acquisition due diligence. The fund lacks a dedicated ESG resource.
- Group 3: No response.

The majority of our Partnership strategies fall into category 2. This quarter, we met with the advisers across our Partnership funds to discuss how we can improve their ESG practices and align them more closely with our Schroder Real Estate Sustainability approach with the aim that they achieve Group 1 status in our next survey.

We set several reporting objectives across the funds which we aim to achieve in three stages over the next twelve months. These are outlined in the table below:

Partnership Fund Reporting Objectives

Stage 1	Exploration	3-6 months

- All funds to have a written sustainability policy setting out landlord's responsibilities
- All new transactions to have comprehensive due diligence reporting
- EPC's to be updated periodically
- All future transaction to include the completion of the Schroder Real Estate Asset Impact and Sustainability Plan

Stage 2	Implementation	3-9 months

- Data collection of energy, water consumption, waste and introduction of key performance indicators
- Identify asset management opportunities where ESG improvements can be made

Stage 3	Disclosure & Transparency	9-12 months

- Add sustainability requirements to lease clauses
- All assets to have sustainability objectives within their business plans
- Completion of SRECaP bi-annual sustainability survey
- Progress from ESG reporting to include positive impact reporting

M&G

VOTING

Not applicable as M&G manage Fixed Income, Private Debt and Infrastructure mandates for the East Sussex Pension Fund.

ENGAGEMENT

Undefined

Pantheon

VOTING

Not applicable as Pantheon manage an Infrastructure mandate for the East Sussex Pension Fund.

ENGAGEMENT

Undefined

Adams Street

VOTING

Not applicable as Adams Street manage an Private Equity mandate for the East Sussex Pension Fund.

ENGAGEMENT

Undefined

HarbourVest

VOTING

Not applicable as HarbourVest manage an Private Equity mandate for the East Sussex Pension Fund.

ENGAGEMENT

Undefined