

Responsible Investment Policy



Introduction

We are long-term investors who aim to deliver a truly sustainable Pension Fund ensuring that it is affordable, delivers financially to meet the objectives of our scheme employers and is invested responsibly.

Our fiduciary duty is to act in the best long-term interests of our members. To do so properly requires us to recognise that environmental, social and governance issues can positively and negatively impact on the Fund's financial performance and that they should be taken into account in our funding and investment strategies, and throughout the funding and investment decision-making process.

Responsible Investment Principles

Our Investment Principles fully embeds our commitment to Responsible Investment (RI) and the balance of responsibilities in delivering a sustainable and sufficient return on all our investments.

A summary of the key Responsible Investment principles;

- Apply long-term thinking to deliver long-term sustainable returns.
- Seek sustainable returns from well governed and sustainable assets.
- Apply a robust approach to effective stewardship.
- Responsible investment is core in our skills, knowledge and advice.
- Seek to innovate, demonstrate and promote RI leadership and Environmental, Social and Governance (ESG) best practice.
- Apply evidenced based decision making in the implementation of RI.
- Achieve improvements in ESG through effective partnerships that have robust oversight.
- Share ideas and best practice to achieve wider and more valuable RI and ESG outcomes.
- Be transparent and accountable in all we do and in those in which we invest.

We believe the application of these principles will enable our delivery of our commitments as a signatory to the United Nations Principles of Responsible Investment (UNPRI), best practice standards of national and global stewardship and facilitate the implementation of the Kay Principles.

We became the first Local Government Pension Scheme (LGPS) signatory of the UNPRI in July 2006. The UNPRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact. The principles reflect the view that ESG issues can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors if they are to fulfil their fiduciary duty. The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption. We complete the annual report on progress in implementing the principles and publish them on our website.

We also comply with the UK Stewardship Code and other global codes. Our Stewardship Compliance Statement is available on our website. We also require all our managers to comply and apply best practice standards of global stewardship.

Responsible investment and pooling

The Pension Fund retains all responsibility for assuring our commitment to being a responsible investor continues to be fulfilled under the new pooling arrangements. Our Fund is part of the Brunel Pension Partnership. The [Brunel Pension Partnership Investment Principles](#) clearly articulate the commitment for each Fund in the Partnership and its operator (Brunel Company) to be responsible investors. One of the principal benefits, outlined in the BPP business case, achieved through scale and resources arising from pooling, is the improved implementation of responsible investment and stewardship.

Implementation

We acknowledge that goals we set to demonstrate our implementation take time and perseverance. We are committed to making continual improvement to the processes that underpin the delivery and provide updates on our progress through our website, newsletters and annual reporting.

Priorities

We believe in a risk based approach to setting priorities at both a strategic and fund level. Two key priorities for the fund are reducing the impact of **climate change** and improving the communication of our work on responsible investment to all our **stakeholders**.

Through actively working with beneficiaries, asset owners, fund managers, companies, academia, policy makers and others in investment industry we address a wide range of environmental, social and governance risks. We aim to be flexible and respond to opportunities and risks as they emerge but we also identify key themes or ESG risks that as a fund will be more actively involved these include;

- **Fiduciary duty** – promoting the implementation of the Law Commission recommendations.
- **Long termism** – furthering the implementation of the Kay review recommendations and a focus on fund manager reporting.
- **Sustainable capitalism and impact investing** – communicating positive case studies from our portfolio.
- **Climate change** – engaging with pension funds and other stakeholders to develop and share best practice.
- **Water risk** – promote the risk identification and integration
- **Human capital** – promoting the business case for diversity/ inclusion and consideration of the Living Wage.

To complement and support the implementation of our themes we work with our managers, specialist engagement provider Hermes EOS and other service providers. We are also members of the Local Authority Pension Fund Forum (LAPFF).

Engaging our stakeholders

Both our Pensions Committee and Pension Board have member representatives who actively engage with beneficiaries and other stakeholders to ensure the fund is aware and can respond effectively to all member concerns. We also actively use our website, newsletters and member webinars to engage directly. We also respond, track and report all member and stakeholder enquires as part of standard quarterly reporting. The fund is accredited with Customer Service Excellence which requires high standards of stakeholder engagement.

Diversity

The Fund is a member of the 30% Club Investor group, which promotes gender diversity on the boards and executive committees of [UK] listed companies, and promotes wider diversity and inclusion in the companies in which we invest. To demonstrate best practice, we will disclose our own performance on diversity ¹ in our Annual Report and Financial Statements.

¹ Diversity indicators relating to combine personnel within the Pension Committee, Pension Board and Officers.

Climate change

In October 2015, we made the commitment to ensure that our Fund's investment portfolio and processes are compatible with keeping the global average temperature increase to remain below 2°C relative to pre-industrial levels, in-line with international government agreements.

We set out our [Policy to address the impacts of climate change](#), in which we detail our beliefs, our goals to invest, decarbonise and engage. An extract from the policy is shown on the right.

We have a dedicated area on our website regarding climate change as well as all aspects of work to deliver a responsibly managed pension fund.

We also co-lead an initiative, called the **Transition Pathway Initiative**, which enables asset owners and other investors to understand how the transition to a low carbon economy could affect their portfolio. More information is available on the website www.TransitionPathwayInitiative.org

Funding strategy and strategic asset allocation

We adopt a flexible approach in our investment strategy and asset allocation so that we can respond responsibly and robustly to both the changing global economic environment and impacts of climate change. Responsible investment considerations form part of the asset allocation decisions and as such form a core component of training and briefings to ensure our Pensions Committee and Investment sub-committee maintain their high level of knowledge. ESG is integrated into our decision making for all asset classes, additional guidance on ESG risks and opportunities is available on our website and reviewed regularly.

Social and sustainable Investments

Social investment can be defined to include a wide spectrum of investment opportunities². The EAPF definition of social investment is an investment that addresses societal challenges but generates competitive financial returns. Societal challenges include all issues commonly regarded under social, environmental or governance headings.

Extract from our Policy to address the impacts of climate change

Our climate change investment beliefs

We believe that:

- Climate change presents a **systemic risk** to the ecological, societal and financial stability of every economy and country on the planet, with the potential to impact our members, employers and all our holdings in the portfolio.
- Climate change is a **long term material financial risk** for the Fund, and therefore will impact our members, employers and all our holdings in the portfolio.
- Considering the impacts of climate change is both our **legal duty**¹ and is entirely consistent with **securing the long term returns** of the Fund and is therefore acting in the best long term interests of our members.
- **Selective risk-based disinvestment** is appropriate but **engagement for change** is an essential component in order to move to a low carbon economy.

Our climate change goals to invest, decarbonise and engage

We aim by 2020 to:

- Invest 15 per cent of the EAPF in low carbon, energy efficient and other climate mitigation opportunities. This will contribute to our wider target to invest at least 25 per cent of the EAPF in clean and sustainable companies and funds, across all asset classes.
- Decarbonise the equity portfolio, reducing our exposure to "future emissions" by 90 per cent for coal and 50 per cent for oil and gas by 2020 compared to the exposure in our underlying benchmark as at 31 March 2015. 'Future emissions' is the amount of greenhouse gases that would be emitted should these reserves be extracted and ultimately burnt, expressed in tonnes of carbon dioxide equivalent.
- Supported progress towards an orderly transition to a low carbon economy through actively working with asset owners, fund managers, companies, academia, policy makers and others in investment industry.

The full policy is available here

<https://www.eapf.org.uk/investments/climate-risk>

² See Global Impact investor Network for more information <https://thegiin.org/>

Our wider definition of **sustainable investments** includes:

- a) Social investments and those with significant revenues (in excess of 20%³) involved in energy efficiency, alternative energy, water and waste treatment, public transport together,
- b) property, infrastructure, agriculture or forestry investments with a low carbon or strong sustainability criteria⁴, and
- c) companies (often equities and bonds) with a progressive⁵ environmental, social or governance practices that may enhance investor value.

The fund has set itself the target to have over 25% of the fund invested, across all asset classes, in such opportunities. We report a breakdown of the types of investment in our annual report and financial statements.

Working with our fund managers

All the assets of the pension fund are selected by external fund managers. This means that it is our external fund managers who make the detailed decisions about which companies we invest in. This is important in avoiding conflicts of interest for our employers, but also gives us the flexibility to select the best managers for each set of assets. The skills needed to decide environmental and other issues vary from one asset class to another. We place a high importance, and indeed time and energy, in selecting good quality managers who deliver financially and can manage the wide variety of risks that come with making investments.

We believe in being an active owner and require our managers and other service providers operating on our behalf to have due regard to the **UK Corporate Governance Code** and, in respect of overseas investments, have due regard to relevant recognised standards. We can therefore delegate much of the day-to-day environmental, social and governance activities to our managers and overlay service provider, but with robust oversight and transparency.

Voting

The fund believes that voting is integral part of the responsible investment and stewardship process and as such is delegated to managers to vote all the Fund's shares at their discretion. We demand high standards in stewardship from our managers and their approach and associated policies are evaluated as part of the manager selection process. Voting reports are included in quarterly reports and voting execution is evaluated as part of on-going manager's monitoring. For environmental issues we have written specific guidance and reserve the right to direct the voting in accordance to these guidelines.

Working with others

We work collaboratively with other funds in both the public and private sector on a wide range of responsible investment topics.

We actively engage in collaboration with other pension funds, investors, asset managers, advisers, industry bodies and associated organisations to share best practice, improve efficiencies, promote product development and save money. We actively participate in the Cross-Pool Group and its subgroups, of which we lead the sub-group on responsible investment, to be resource efficient and share best practice.

³ We use the FTSE Environmental Markets classification and with the help of Impax Asset Management (our global equity manager who focuses on environment technologies) to analyse our public and private equity holdings including the pooled funds.

⁴ Strongly sustainable/ progressive are terms we use to describe companies or funds exceeding market norms and taking action on one or more areas of ESG that distinguishes their offering compared to their peers.

⁵ As above

The Cross Pool (RI) Group purposes is to provide practical support and tools to assist nominated leads to co-ordinate the implementation of the consideration of RI (including ESG integration and stewardship), risks and communications for the pool and the funds within each pool, whilst recognising the diversity in the approaches by funds and pools.

A key area is working with the financial sector, particularly asset managers on supporting the development and innovation in integrating ESG into investment decision making. We actively work with and support the initiatives of other bodies with similar goals, including the **Local Authority Pension Fund Forum (LAPFF)**, **Institutional Investors Group on Climate Change (IIGCC)** and **Carbon Disclosure Project (CDP)**, **Carbon Tracker Initiative**, **Share Action** and the **UK Sustainable Investment and Finance Association (UKSIF)**,

Open and transparent

A comprehensive overview of our responsible investment approach is available on our [website](#), with updates in our newsletters and other media. We are committed to being open and transparent providing regular communications on our progress on delivering our commitments to responsible investment and stewardship.

Approved by the Pensions Committee on 23 March 2017 and will be reviewed in 2018.