

Responsible Investment policy proposal

December 2023 Pension Committee

Why do we need an RI policy?

- Stewardship Code experience and feedback
- The Fund is exposed to a wider range of RI risks than just climate change
- Climate change risk is a multi-faceted issue – brings in other factors besides carbon emissions e.g. Just Transition; sustainable economy opportunities; Nature, biodiversity and deforestation
- Member survey feedback shows strong engagement with RI
- Will identify where resource should be targeted

Stewardship Code experience and feedback

- Responsible investment is integrated into the Fund's investment approach. However, this has not been codified into a single document. Sits across a number of different documents. An RI policy would collate this all into one place
- Next application we need to do more to demonstrate how we as a Fund are exercising stewardship over our investments, not just via Brunel.
- Feedback that we should also describe the expectations we have set for managers acting on our behalf, including specific reference to Brunel. Must include reference to exercising rights and responsibilities on our behalf across all asset classes.

Potential Structure

High level statement of values and beliefs

Priority issues

Expectations

Issue 1

Issue2

Issue 3

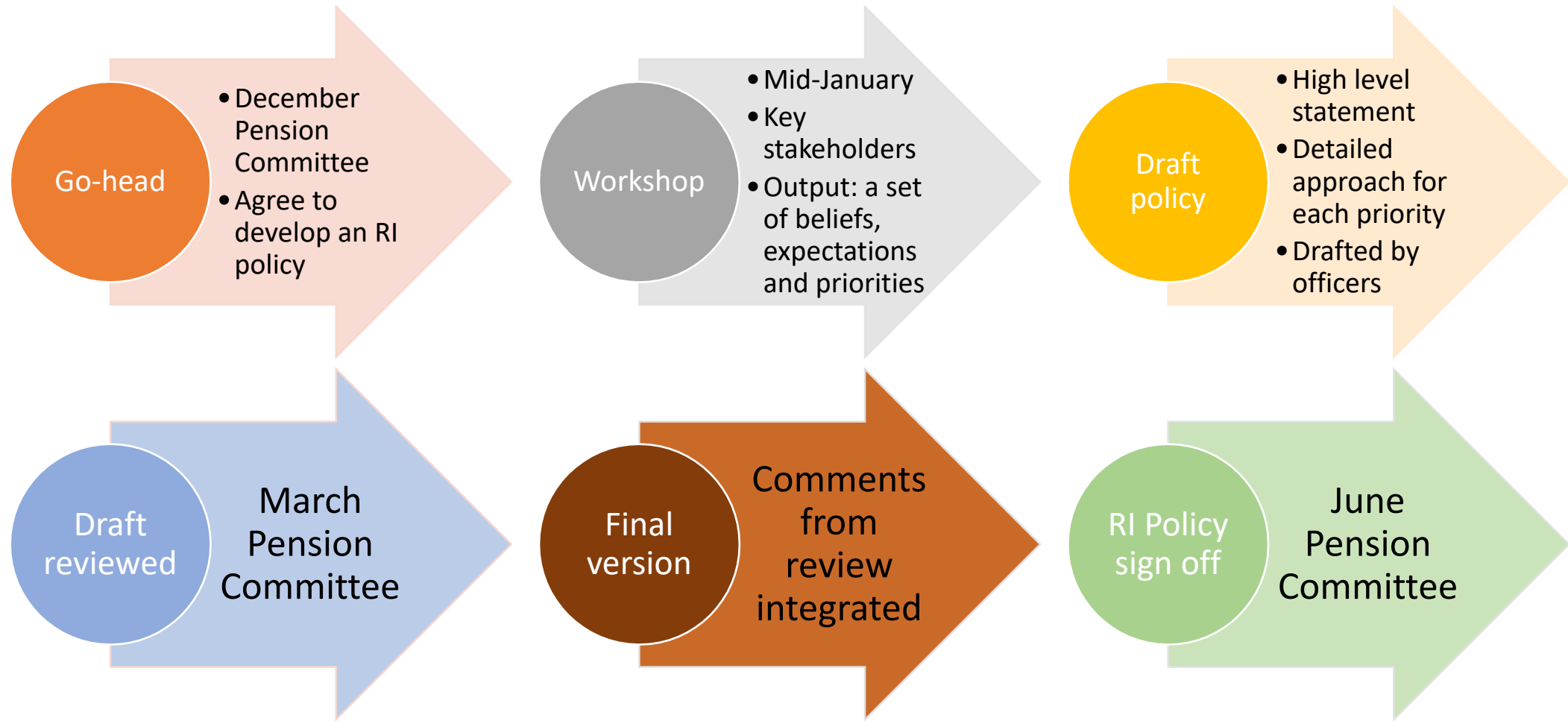
Background work carried out to date

- Member Survey
- Sector Risk exposure assessment
- Wider context review
 - Brunel
 - Global risks landscape
 - Regulatory frameworks
 - Institutional context

Next step - Potential workshop

- Mid-late January to enable time to draft a policy for the March Committee meeting
- Involve key stakeholders
- Facilitated
- Objective
 - to provide stakeholders with a clear set of RI priorities so that an RI policy can be drafted by officers
- Potential Agenda:
 - Define and codify Investment beliefs
 - Expectations for Responsible Investment activity by the Fund and its asset managers
 - Prioritisation of issues

Proposed timeline



Responsible Investment policy development context

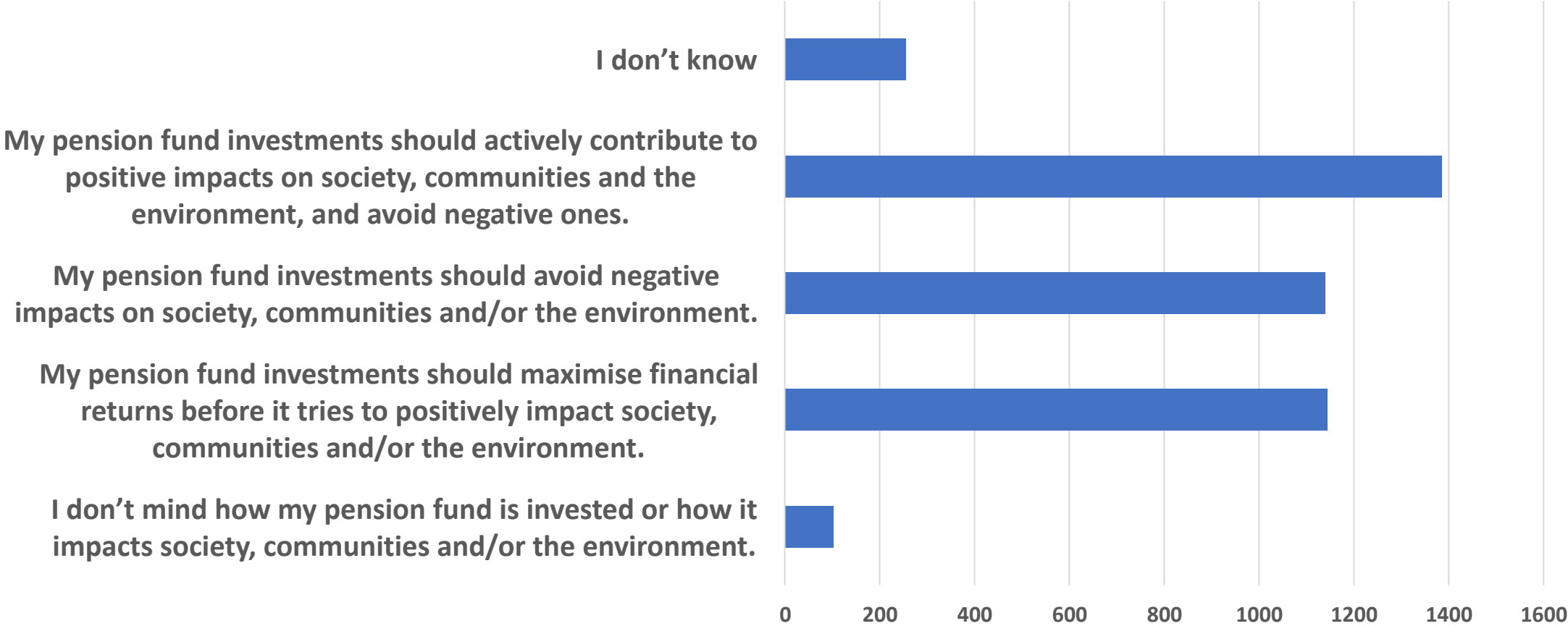
Member survey

Responsible Investment priorities

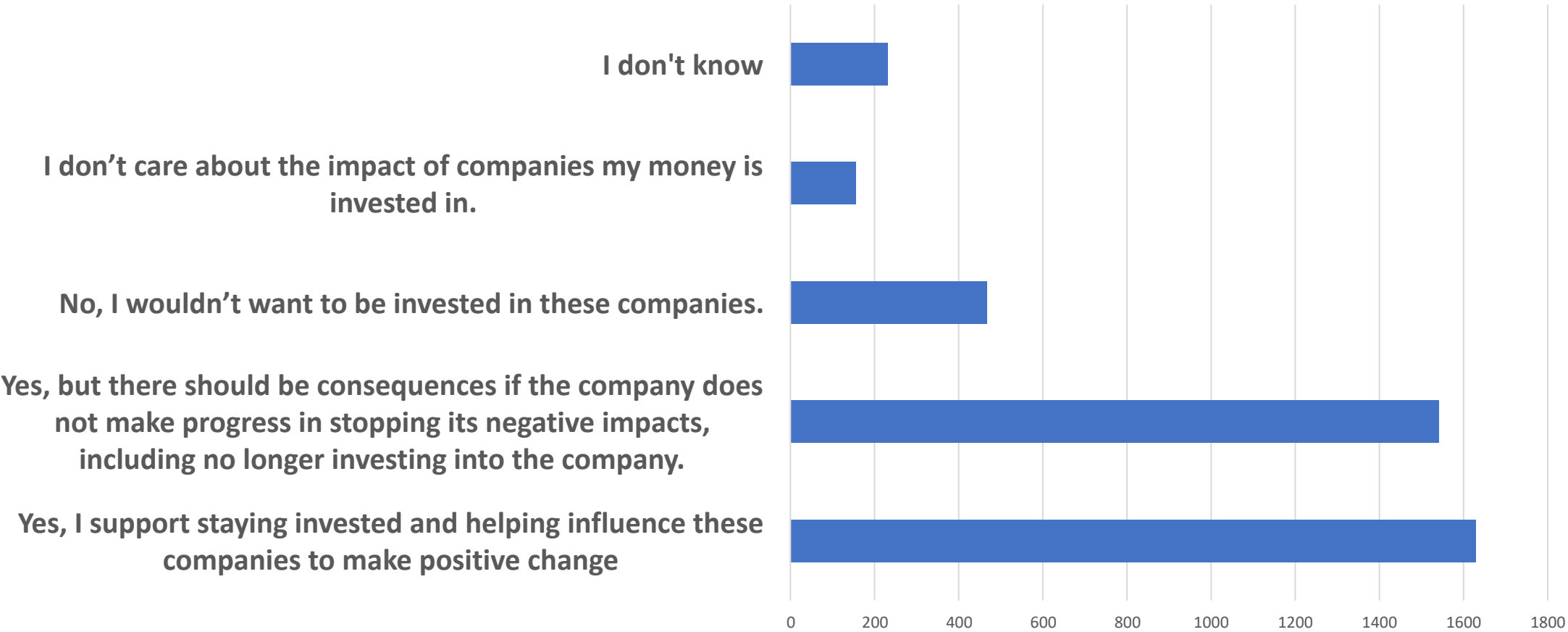
Member RI survey

- Sent to all members that Pension Services hold an email address for, cascaded through employers and via newsletters
- Aim was to collect feedback from members on their views about RI
- Emphasis on understanding member priorities
- 4,026 responses – nearly 6% of total membership and 14% of those contacted by email
- Detailed analysis of the survey to follow

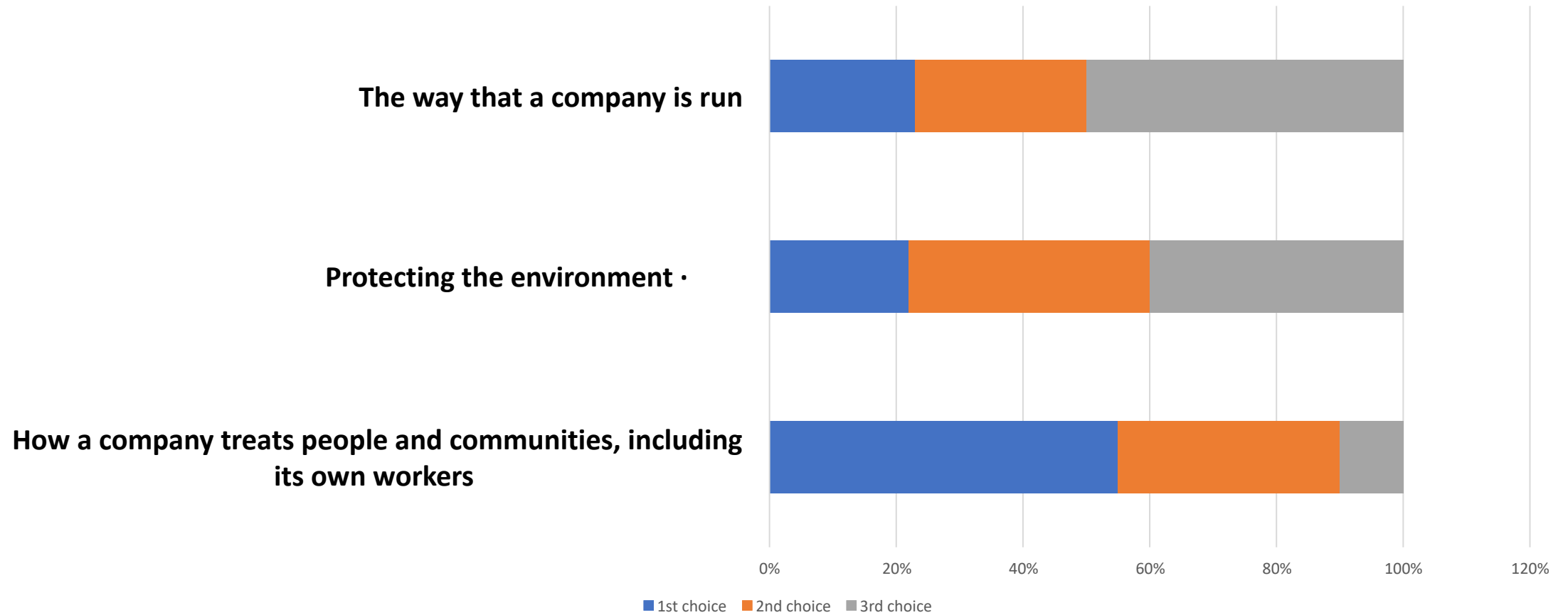
Attitudes to responsible investment



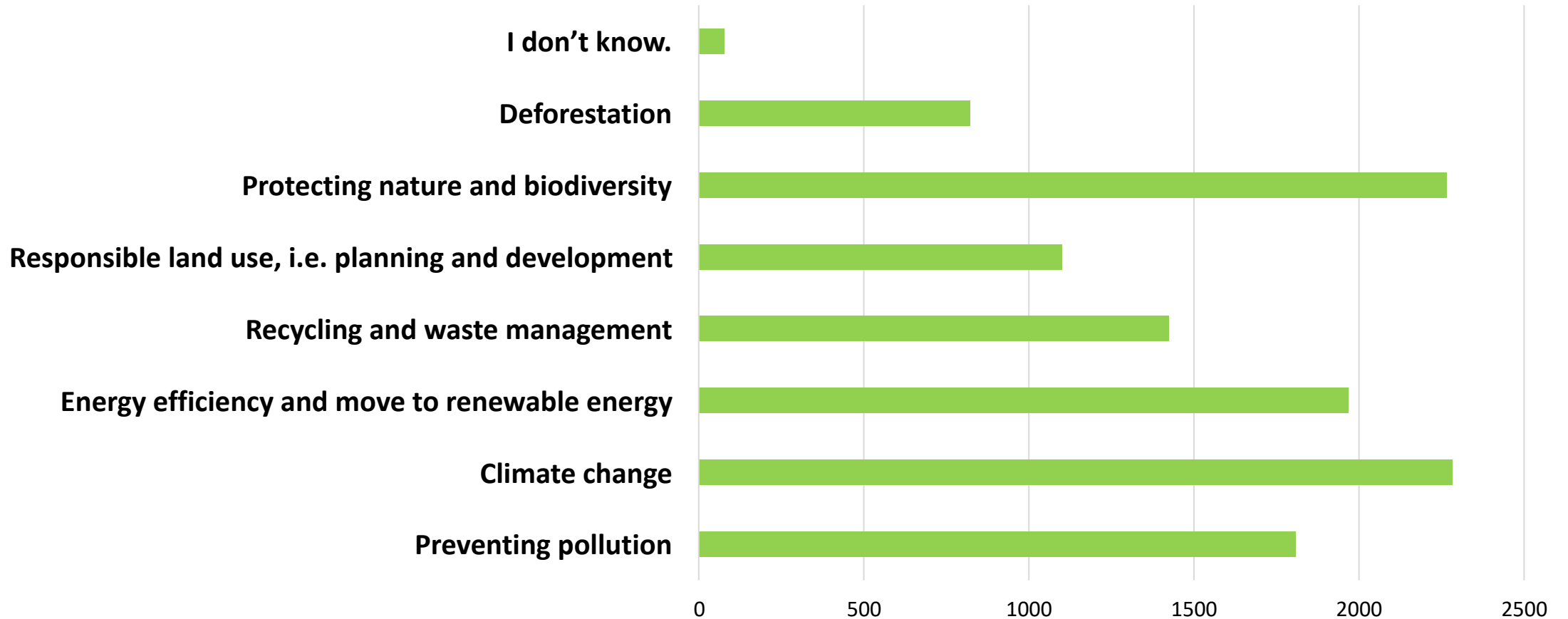
Stewardship approach where a company has negative impacts



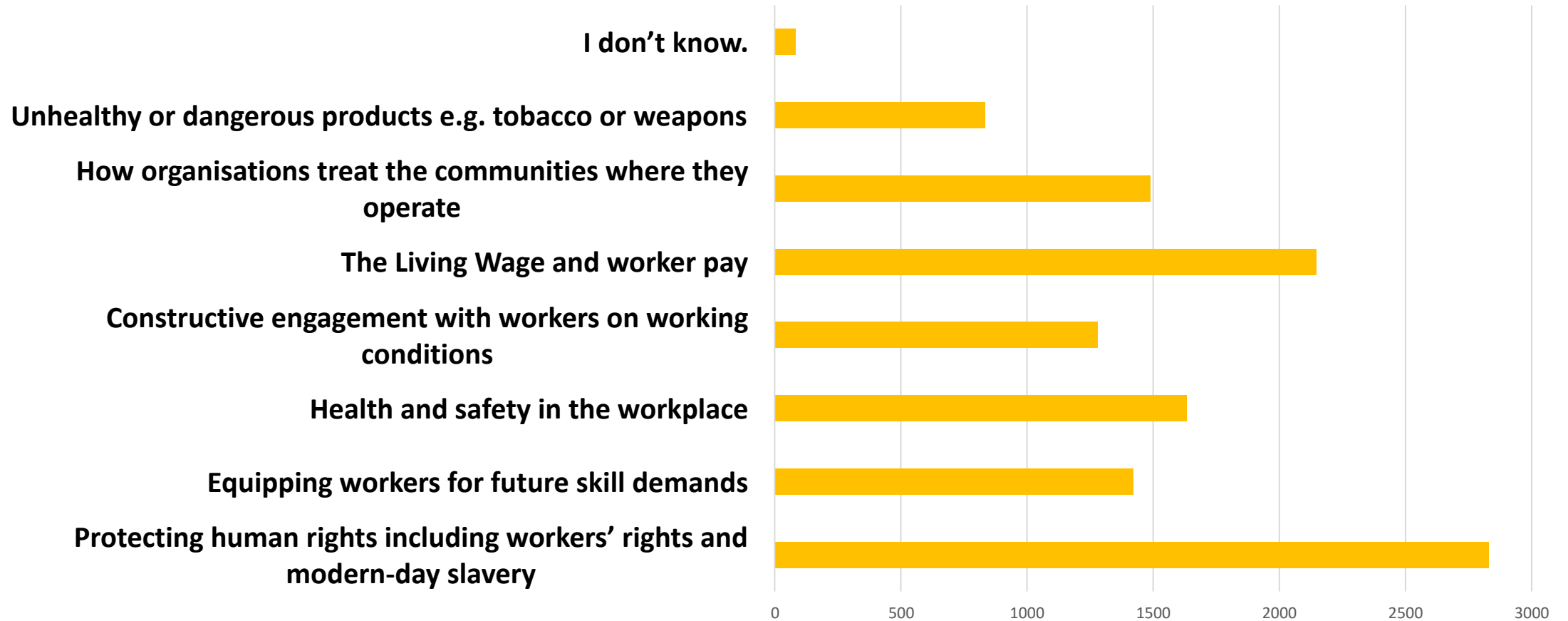
Ranking E, S & G



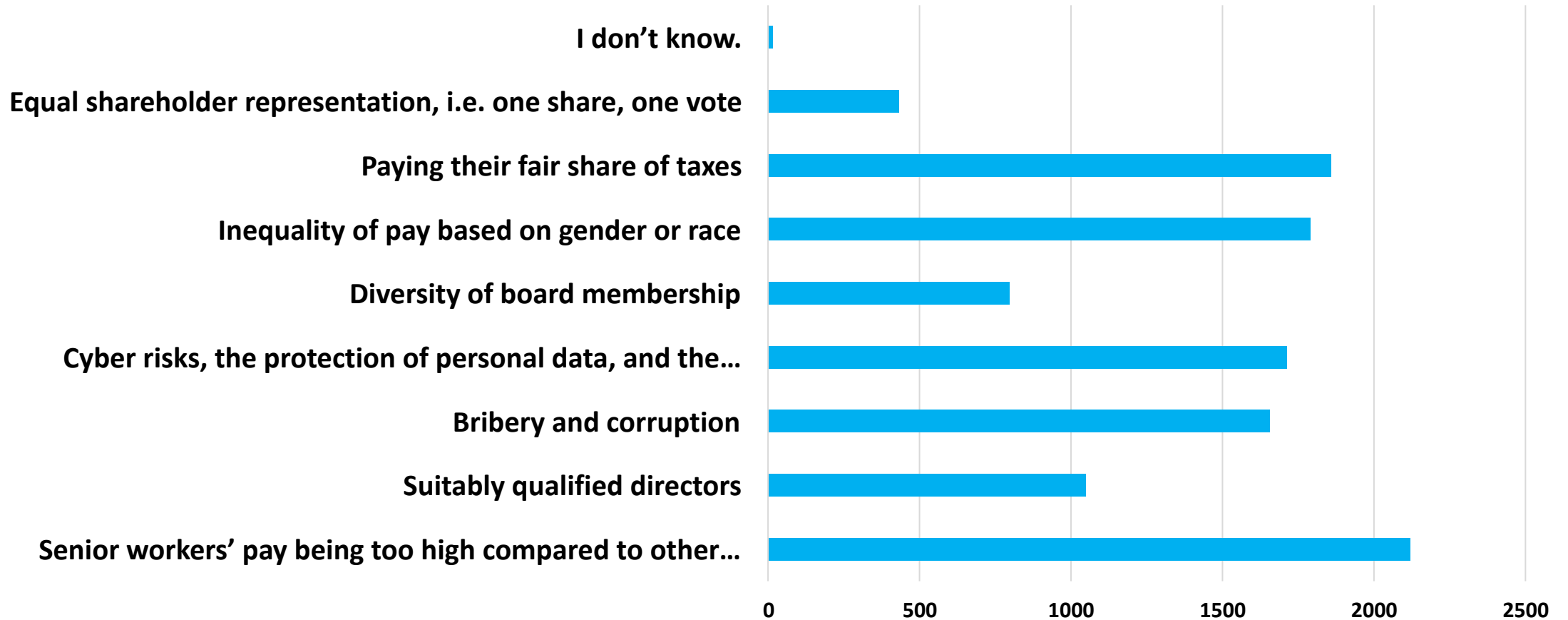
Ranking Environmental issues



Ranking Social issues



Key Governance issues



Environmental, Social and Governance issues top 3 priorities

Environment	Social	Governance
Climate Change	Protecting human rights including workers' rights and modern-day slavery	Senior workers' pay being too high compared to other workers
Protecting Nature and biodiversity*	The Living Wage and worker pay	Paying their fair share of taxes
Energy efficiency and move to renewable energy	Health and safety in the workplace	Inequality of pay based on gender or race

*ranked as top Environmental concern if combined with Deforestation

Key findings

- High level of engagement on Responsible Investment issues
- Clear majority believe their pensions should avoid negative impacts or make a positive impact on society
- Significant majority support for the Fund's stewardship approach of engagement and escalation
- “How a company treats people and communities, including its own workers ” ranked as the most important ESG theme

Portfolio Risk analysis

Top 10 sectors

Most invested sectors (equity)

Passive & Active Funds largest sectors (Sept 2023)	
SOFTWARE, INTERNET AND COMPUTER SERVICES	£241,978,558
PHARMACEUTICALS AND BIOTECHNOLOGY	£117,658,768
INDUSTRIAL SUPPORT SERVICES	£73,937,361
TECHNOLOGY HARDWARE AND EQUIPMENT	£94,063,639
BANKS	£81,606,723
SEMI-CONDUCTORS, ELECTRONIC & ELECTRICAL EQUIPMENT	£60,738,111
RETAILERS	£56,185,727
OIL, GAS AND COAL	£52,594,325
INVESTMENT BANKING & BROKERAGE SERVICES	£51,970,272
MEDICAL EQUIPMENT AND SERVICES	£45,412,984

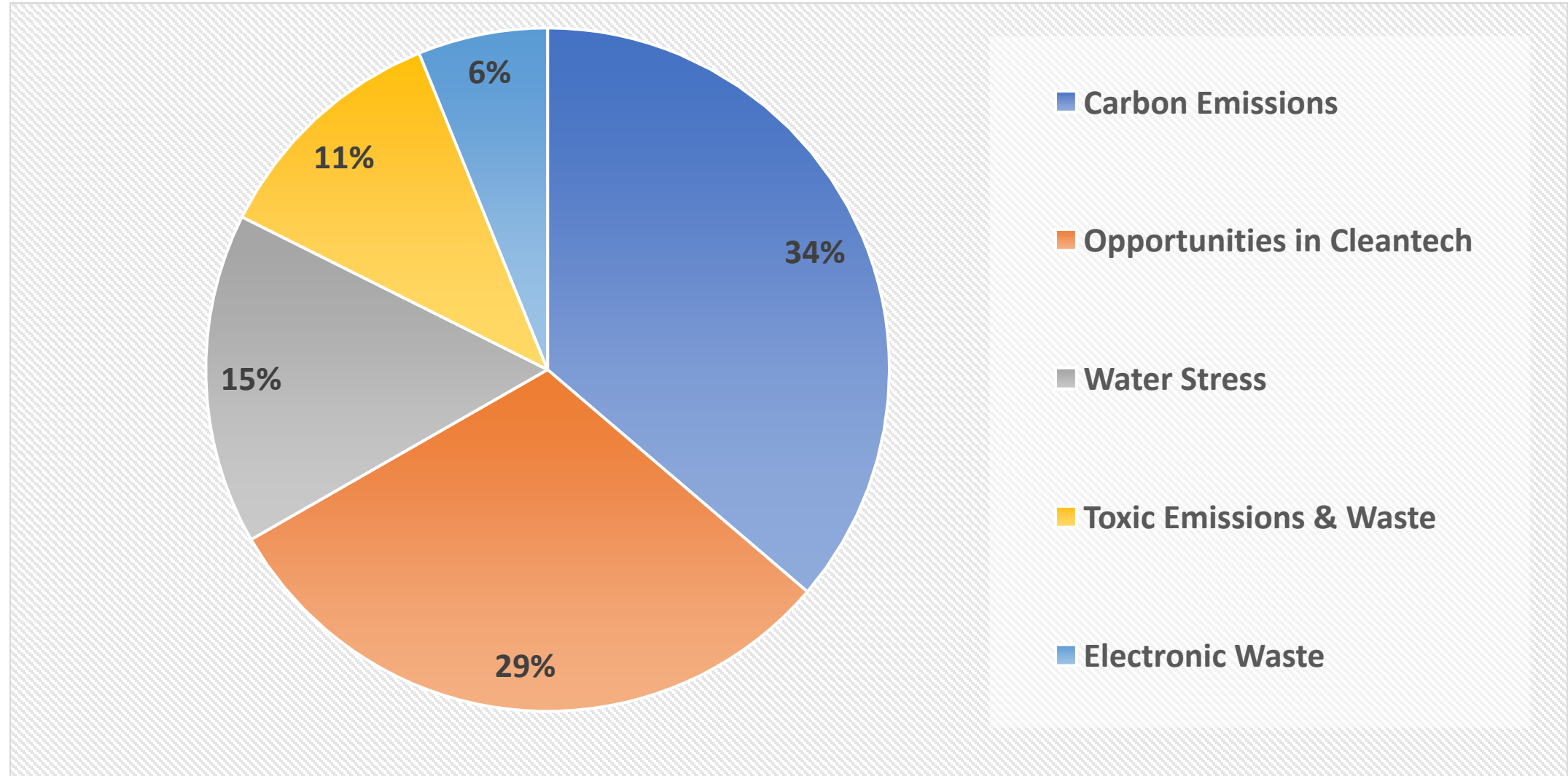
Top 10 sectors represent around 50% (~£875m) of total equity holdings

Portfolio sector risk analysis

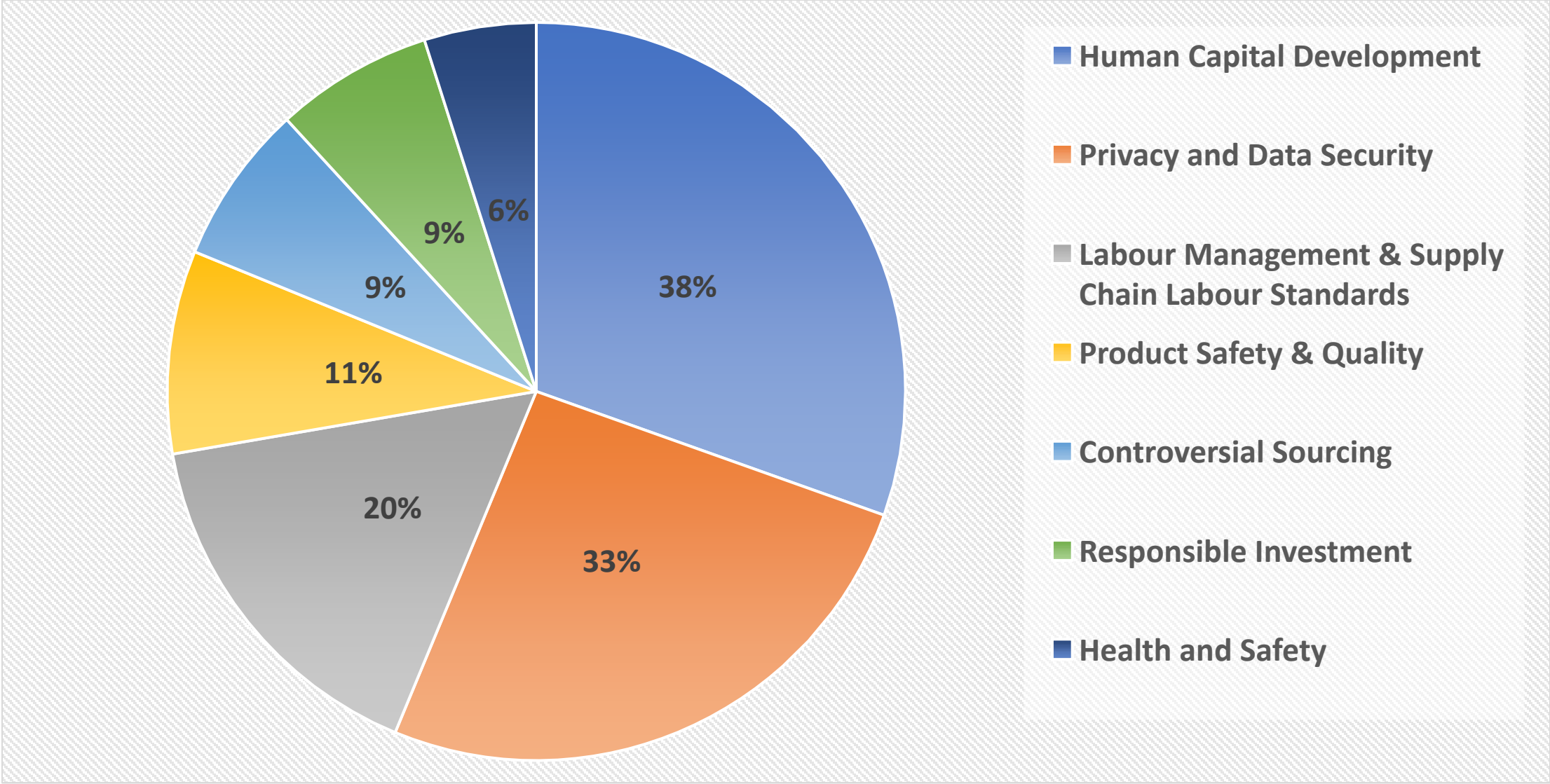
- MSCI ESG Materiality Map used to assess the most material risks* for each of the top 10 sectors
- Combined the value of holdings exposed to each risk to come up with a set of most material Environmental and Social risks
- Different methodology for Governance where the output is a list of those sectors most exposed to a range of Governance risks.

* Contributes >1% to the overall ESG score for a sector company

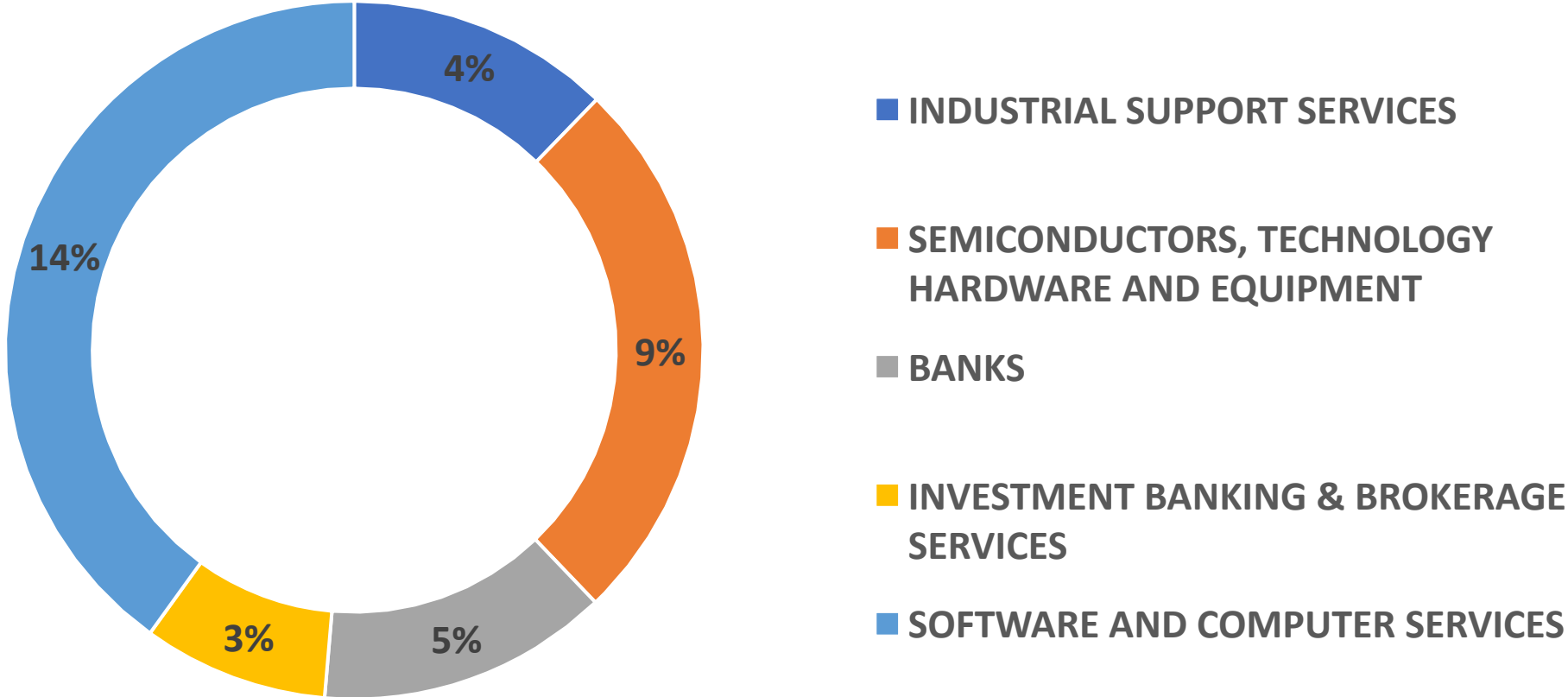
Environmental risk exposure (% of total portfolio)



Social risk exposure (% of total portfolio)



Sectors with elevated Governance risk



External Context

Macro, Regulatory and institutional

- As an investor with a diversified investment approach we are exposed to a wide range of factors which are shaped by the wider economic and investment environment
- Predicting the current and future direction of the external environment is an important for identifying which sustainability issues are important for us.
- Need to take into account the wider global economy, the regulatory environment, and the institutional investment marketplace.

Brunel Pension Partnership

As a member of the Brunel Pension Partnership our Responsible Investment approach will in large part be implemented by the Brunel as our asset manager.

Brunel have identified their top seven priorities



Global Risks

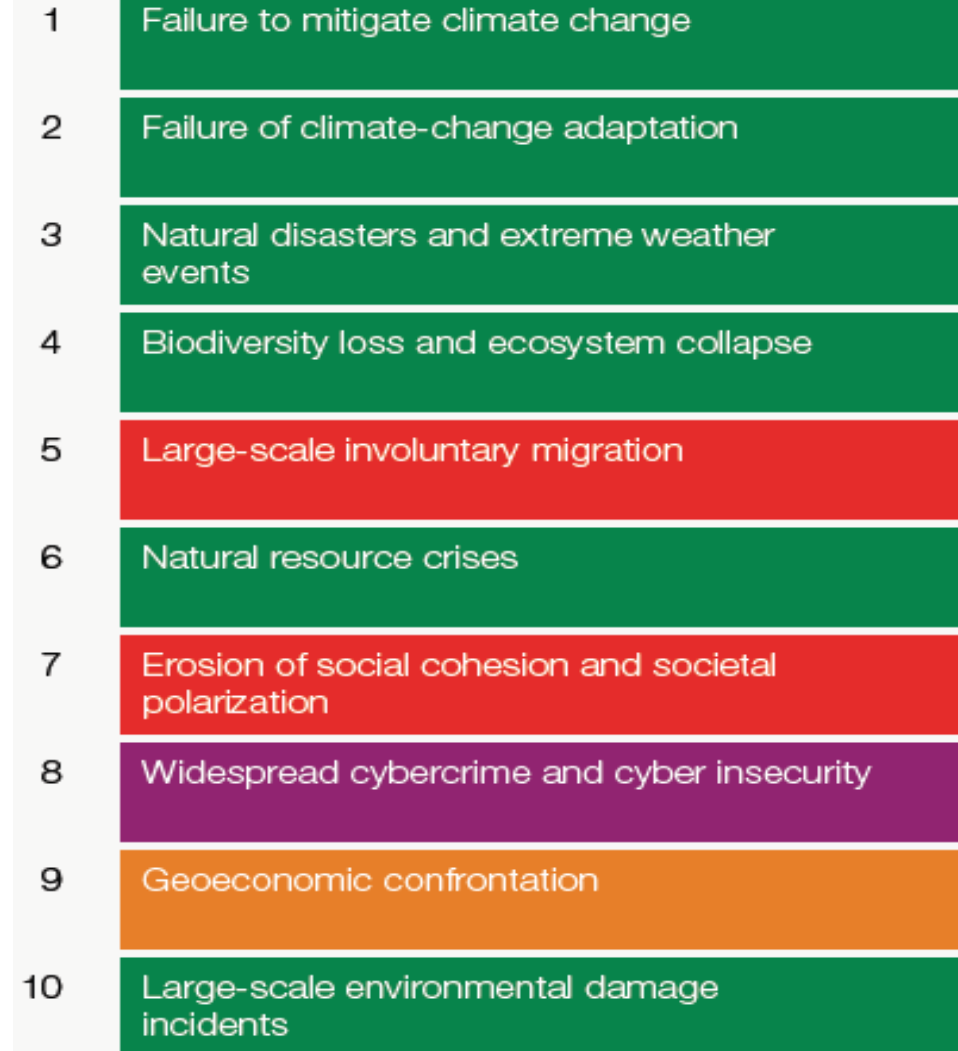
- World Economic Forum produces its annual Global Risk's Report identifying main risks to the global economy at two and ten-year outlooks
- Given the long-term investment horizon of the fund the 10-year risks are most relevant
- 5 of the top 6 risks in 10 years' time are environmental. Two climate related risks – failure to mitigate and failure to adapt.
- Biodiversity loss and ecosystem collapse is the fastest emerging risk
- Large scale involuntary migration and erosion of social cohesion risks can both be linked to climate change and the need for a just transition

WEF Global Risks Report – key risks

2 years



10 years



Regulatory Frameworks

- Taskforce on Carbon-related Financial Disclosure (TCFD)
- Taskforce on Nature-related Financial Disclosure (TNFD)
- “Levelling up” Agenda
- International Sustainability Standards Board (ISSB) (Climate data)
- UK Stewardship Code
- Transition Plan Taskforce (TPT)
- Modern Slavery Act
- Deforestation due diligence legislation

Institutional Investor landscape

- LAPFF – *four priorities of Human Rights; Climate; Just Transition; and Environment.*
- Institutional Investor Group on Climate Change (IIGCC)
- Net Zero Asset Owners Alliance (NZAOA)
- Paris-Aligned Asset Owners (PAAO)
- Climate Action 100+