

## PENSION FUND COMMITTEE – 07 June 2024

### RESPONSIBLE INVESTMENT POLICY

Report by Executive Director of Resources & Section 151 Officer

#### RECOMMENDATION

1. **The Committee is RECOMMENDED to agree the final version of the Responsible Investment Policy included at Annex 1 which incorporates the amendments set out in the report.**

#### Introduction

2. At the March 2024 Pension Committee Meeting, the Committee agreed that the draft Responsible Investment Policy as presented at the meeting was to form the basis of a consultation exercise with key Fund stakeholders. The results of that consultation were then to be integrated into the draft Responsible Investment Policy as presented as Annex 1 to this report, which is now being brought back to this Meeting for approval by the Committee.
3. The Committee also discussed whether there should be specific activity-related exclusions added to the policy for activities that are misaligned with the Responsible Investment objectives of the Fund to the extent that the implementation of such exclusions would enable scarce resources to be deployed on areas with a greater chance of seeing progress.

#### Activity-based exclusions

4. The Committee agreed that activity-based exclusions should be implemented for companies operating above certain thresholds in the tar/oil sands extraction and thermal coal extraction sectors. The Committee also asked the Officers to review the Policy with a view to considering excluding Controversial Weapons which are non-compliant with Principle 2 of the United Nations Global Compact.
5. Following these directions from the Committee the draft Responsible Investment Policy as presented as Annex 1 to this report includes wording for both the exclusion of companies in the tar/oil sands and thermal sectors, as well as wording for the exclusion of companies involved in the development and sale of controversial weapons where this activity would result in the company finding itself in breach of Principle 2 of the UN Global Compact. This additional text has been collated into the section of proposed amendments below.

6. Furthermore, the Committee asked officers to explore wording detailing a rationale for an activity-based exclusion for tobacco products that limits the exclusion to tobacco. However, officers have not identified any contemporary examples of suitable wording.
7. The Committee had also requested officers to explore the potential for placing greater emphasis on health outcomes in the Human Rights section of the Policy. Officers looked into this but given the already very wide coverage of the Human Rights section of the policy were unable to identify wording that would do this effectively, without opening the floodgates for a series of similar exclusions on products linked to poor health.

### **Consultation Results**

8. The main consultations carried out with stakeholders on the draft policy were a survey sent out to members of the pension fund and employers, and a review of the policy with Faith Ward, Head of Responsible Investment at Brunel.
9. The survey link for the consultation was sent out to all members where Pension Services hold an email address. It was also distributed to employers and promoted through an article in the Quarterly Pensions Newsletter. It was also featured in a banner on the Pension Investments webpage. The survey was open from 24 April 2024 to 19 May 2024.
10. Despite being widely promoted the response to the survey was relatively low, with 19 responses in total. Given that the initial survey on attitudes to Responsible Investment, on which the draft Responsible Investment Policy was based, received over 4,000 responses this potentially implies that members felt the draft Policy didn't warrant additional comments, rather than a lack of engagement with the subject.
11. The breakdown of respondents was as follows:  
Contributing members – 10  
Pensioner – 7  
Employer – 1  
Other - 1 (Identified themselves as a Council Tax payer)
12. Both the Vision and Beliefs sections of the Policy received strong support, with 17 agreeing and 2 disagreeing with the Vision statement and 18 agreeing and 1 disagreeing with the Beliefs. Where there was disagreement, the respondents wanted the Policy to be stronger and go further, particularly around divestment from fossil fuels. These numbers were replicated when it came to the individual themes and issues, with 17 supporting all of those prioritised in the Policy and 2 disagreeing.
13. On engagement there was more variation with 14 strongly agreeing or agreeing with the current approach, 1 neither agreeing or disagreeing, and 4 either disagreeing or strongly disagreeing. Where there was disagreement, the

respondents wanted a stronger escalation and divestment policy, particularly in relation to fossil fuel companies. Finally, on how the respondents would like to receive information about how the Fund is performing in relation to implementing its Responsible Investment objectives the top choice was through an online dashboard, second was a brochure of no more than 4 pages and third was a longer report of around 25 pages.

14. In conclusion, it is clear that there is strong support for the draft Responsible Investment Policy from stakeholders, with those less supportive, keen for the Policy to travel further and faster. The issue of divestment has been extensively discussed in the past, and the current escalation policy and that agreed by Brunel, both include the development of more ambitious targets as part of future annual reviews. On this basis, no changes have been made to the Policy as the result of the consultation.
15. The other key consultation was with Brunel's Head of Responsible Investment Faith Ward. Her feedback was that she welcomed the Policy as a clear document that did a good job of articulating the Fund's overarching Vision and Beliefs, identifying Responsible Investment Priorities and then providing the reasoning behind why these are priorities for the Fund. Where she felt the Policy could be enhanced was to add a high-level objective for each of the priority issues to provide a call to action.
16. Officers agreed that adding objectives for each priority issue would enhance the Policy and the Responsible Investment Officer then had a brain-storming session with Faith to develop meaningful objectives for each issue. This additional text has been collated into the section of proposed amendments below.

### **Proposed Amendments (included as Tracked Changes in Annex 1)**

17. Text added to Escalation section on page 6:  
*"The Policy includes highly specific activity-based exclusions for tar-sands (also known as oil-sands) extraction; thermal coal extraction; and the manufacture of controversial weapons where there is a risk of severe, systemic, and structural violations of international human rights norms."*

Text added to Emissions reduction section on page 8

*"The Net Zero Investment Framework, developed by the Institutional Investors Group on Climate Change (IIGCC), recommends that investors on a pathway to Net Zero by 2050 should not allocate additional capital to companies which are planning or constructing new thermal coal projects and associated infrastructure (mining) or taking forward new exploitation of tar/oil sands."*

*To align with this recommendation the Policy includes an exclusion of companies involved in the extraction of thermal coal or tar/oil sands above specific thresholds. These thresholds are likely to tighten over time. Thermal coal, primarily used for power generation, is distinct from metallurgical coal, which is essential for steel production. This activity-based exclusion only covers thermal coal."*

Text added to Financed emissions section on page 9

*“Equally the banking sector has a key role to play in directing capital towards the companies that through their business activities will drive the transition of the economy away from fossil fuels.”*

Text added to Human rights norms compliance section on page 12

*“Controversial weapons are those weapons that have a disproportionate and indiscriminate impact on civilian populations, sometimes even years after a conflict has ended. Companies considered to be involved in controversial weapons are those participating in the manufacture of tailor-made and essential components for anti-personnel mines, cluster munitions, chemical and biological weapons, depleted uranium, nuclear weapons, and white phosphorus.*

*The Fund believes that it is appropriate to implement an activity-based exclusion for active portfolios where companies involved in the manufacture of tailor-made and essential components of controversial weapons are also assessed to be non-compliant with Principle 2 of the UN Global Compact. By applying these criteria for controversial weapons the Fund aims to capture companies involved in severe, systemic, and structural violations of international norms. Investing in many controversial weapons companies is also already against many national and international regulations and conventions. These include the Treaty on the Non-Proliferation of Nuclear Weapons and the Convention on Cluster Munitions.”*

18. Below is a list of the new objectives under each issue that have been added to the Policy as the result of the brain-storming session with Faith Ward from Brunel:

### **Climate Change**

#### **Emissions reduction**

Objective: Alignment of the Fund’s investment portfolios to a Net Zero pathway by 2050, with the aim of holding global temperature rises to 2°C or lower, and to pursue efforts to limit any temperature increase to 1.5°C above pre-industrial levels.

#### **Just Transition**

Objective: Improvement over time in the number of companies improving their Just Transition scores under widely recognised assessment frameworks.

#### **Disclosure**

Objective: For the companies in the Fund’s investment portfolios to demonstrate increasing transparency over time around their climate change impacts, particularly for the highest emitters of Greenhouse Gases (GHGs).

#### **Financed emissions**

Objective: That, over time, the Banks and other Finance sector companies held by the Fund are demonstrably systemic enablers of the energy transition.

#### **Green revenues**

Objective: To align to the transition to a Net Zero portfolio by 2050 we expect to significantly increase our exposure to sustainable investments.

### **Nature and biodiversity**

*Nature and biodiversity risk assessment*

Objective: To increase our understanding of the exposure to biodiversity and nature risks of our portfolio companies.

*Deforestation*

Objective: For the Fund's portfolios to be deforestation-free as soon as possible.

*Natural capital*

Objective: To work with our asset manager Brunel to expand capital allocation to this asset class.

**Human rights**

*Human rights norms compliance*

Objective: The Fund will seek to invest in companies that respect all human rights, international norms and promote strong labour standards.

*Diversity and inclusion (DEI)*

Objective: The Fund seeks to promote fair, diverse, and inclusive business environments and practices across the companies in which it invests.

*Free, prior, informed consent*

Objective: The Fund expects the companies it invests into to respect the right to Free, Prior, and Informed Consent (FPIC) of Indigenous peoples and local communities.

**Governance**

*Transparency and disclosure*

Objective: To see ongoing improvements in transparency and reporting on material Responsible Investment risks and opportunities by the companies into which the fund invests.

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