

Responsible Investment Policy within the Investment Strategy Statement

Regulatory Background

In preparing, developing and implementing this Policy, the Fund has paid due regard to the regulatory background. The LGPS Investment Regulations require administering authorities to demonstrate that any factors **are considered** that are financially material to the performance of the fund's investments, including social, environmental and corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise.

The LGPS Investment Regulations also require administering authorities to explain their policy on exercising rights (including voting rights) attaching to investments. The guidance refers to the Financial Reporting Council's UK Stewardship Code and requires that funds explain, where appropriate, their policy on stewardship with reference to the Stewardship Code.

In addition to considering the LGPS Investment Regulations in developing the Responsible Investment Policy the Fund has taken professional advice. It has also had regard to the Well-being of Future Generations (Wales) Act 2015, guidance from the Scheme Advisory Board, the **Department for Levelling Up, Housing and Communities** and the Welsh Government. The Fund commits to keeping the policy reviewed in line with any future changes or updates in regulation or guidance.

The Fund has also considered, researched and reviewed a number of other areas of best practice when preparing this Policy such as the United Nations Principles for Responsible Investment, the Sustainable Development Goals and the Task Force on Climate-related Financial Disclosures (TCFD).

Responsible Investment Policy

The Fund's Responsible Investment (RI) Policy **reflects the Committee's current position.** In addition to help formally frame the policies, the Fund has set a number of high level beliefs that will sit over the more detailed policies, and will convey the Fund's overarching attitude to being a Responsible Investor.

In 2023, the Committee introduced a framework to assess the appropriateness of adopting an exclusions policy. This was designed to ensure that the Committee understands the rationale for and potential impact of exclusions while continuing to meet its fiduciary duties in order to support the funding of pensions. It assesses the impact of exclusions on risk, return and diversification characteristics to understand implications for meeting financial objectives.

Background

The latest Policy will support the Fund's specific RI aims along with the funding and investments specific objectives:

Ensure that its future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability.

Ensure that the Fund's investments are aligned with the transition to a low carbon economy through a commitment to achieving a net zero emission's target by 2045.

Promote acceptance of sustainability principles and work together with others to enhance the Fund's effectiveness in implementing these.

Investment Pooling

As part of the Government's investment reform, the Fund has participated in the development of the WPP to pool the investments of the eight Welsh LGPS funds. Whilst all strategic asset allocation and policy decisions remain with the Fund, implementation responsibilities in the future will be the responsibility of WPP.

The Fund is committed to pooling its investments with WPP, and acknowledge that this presents challenges, and also significant opportunities to enhance the Fund's approach to RI. The Fund has proactively engaged with WPP in setting its RI policy and objectives, and will continue to play an active role to help enhance these in the future with the aim of ensuring they remain relevant and appropriate for the Fund.

Stewardship and Engagement

Stewardship is the responsible allocation, management and oversight of capital to create long-term value for investors and the Fund's beneficiaries, leading to sustainable benefits for the economy, the environment and society. The Financial Reporting Council (FRC) first published the UK Stewardship Code ("the Code") in 2010 and there have been a number of updates since then with the latest being launched in 2020. The Code sets out a number of areas of good practice to which the FRC believes institutional investors should aspire.

ISS guidance given by the Government states that administering authorities should become signatories to the Code, and states how they implement the principles on a "comply or explain" basis. The Fund supports and is currently a signatory to the UK Stewardship Code. The Fund's submission can be found on the FRC website. As a member of the WPP, the Fund expects both WPP and the underlying fund managers to comply with the Stewardship Code. WPP has appointed Robeco as its Voting and Engagement provider and they are assisting in formulating and maintaining a voting policy and engagement principles that are in keeping with the LAPFF. In addition, Robeco are responsible for implementing the voting policy and reporting on it.

Reporting and Disclosure

The Fund is committed to transparency of its actions, in particular with respect to RI. The Annual Report contains copies of a number of documents including policy statements, and the ISS (in full). The annual report is available on the Fund's website. It is accepted that approaches to RI and sustainability will evolve over time, and it is therefore essential to keep policies and practices under regular review to ensure their

effectiveness. In addition, the Fund recognises the importance of transparency and reporting in respect to RI and ESG issues, and **has enhanced** its analysis, disclosure and reporting. This **includes** manager, voting and engagement and carbon emissions analysis, and impact where relevant.

Responsible Investment Beliefs

The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments, reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests and recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees, other stakeholders and also wider society.

The Fund defines a **Responsible Investment** (RI) as:

Incorporating sustainability considerations within the investment process, including environmental, social and governance (ESG) factors for a broader perspective on risk and return opportunities.

In developing its approach to RI, the Fund seeks to understand and manage the ESG and reputational risks to which it is exposed. This policy sets out the Fund's approach to this.

The foundations of the Fund's approach to RI are its Principles which are set out below:

Responsible Investment Principles

The Fund's fiduciary duty is to act in the best interests of its members and employers. The Fund recognises that ESG issues create **risks** and **opportunities** to its financial performance, and will contribute to the risk and return characteristics. The Fund believes, therefore, that these factors should be taken into account in its Funding and Investment Strategies and throughout the decision making process.

The Fund is a long-term investor, with pension promises for many years. **As a result**, it seeks to deliver long-term sustainable returns.

The Fund **endeavours to integrate** ESG **considerations across all asset allocations**.

The Fund seeks to apply an evidence based approach to the implementation of Responsible Investment.

The Fund recognises that transparency and accountability are important aspects of being a Responsible Investor and will demonstrate this by publishing its RI policy and activity for the Fund.

The Fund has a duty to exercise its stewardship responsibilities (voting and engagement) effectively by using its influence as a long-term investor to encourage corporate responsibility.

The Fund recognises the significant financial risk of **not** being a Responsible Investor and it seeks to ensure that this risk is mitigated through its Investment Policy and implementation.

The Fund recognises the importance of Social/Impact investments which can make a positive social and environmental impact whilst meeting its financial objectives, and it will **continue to** make **dedicated** investments to support this aim.

Climate Change

The Fund recognises the importance in addressing the financial risks associated with climate change through its investment strategy, and believes that:

Climate change **poses** a systemic risk to the overall stability of every economy and country, with the potential to impact on the members, employers and all of the holdings in the Fund's investment portfolio.

Considering the impacts of climate change is not only the legal or fiduciary duty of the Fund, but is also consistent with the long term nature of the Fund. The Fund's investments need to be sustainable to be in the best interests of all key stakeholders.

Engagement is **critical** to enabling the change required to address the Climate Emergency **and** to facilitate the move to a low carbon economy. **However, selective risk-based disinvestments and exclusions can be appropriate.**

As well as creating risk, climate change also presents opportunities to make **dedicated** investments that achieve the required returns, whilst at the same time make a positive social and environmental impact, such as environmental infrastructure and clean energy.

Net-Zero commitment

As part of its commitment to RI the Fund has undertaken to evaluate and manage the carbon exposure of its investments to assist in ensuring an effective transition to a low-carbon economy. As part of this work, **the** Committee **has** a strategy to achieve net-zero emissions from its investment portfolio. Specifically, the Committee agreed **a** target for the investments in the **Fund**, as a whole, to have net zero carbon emissions by 2045, with an interim target of carbon reduction of 50% by 2030. Underlying this commitment, the **Fund** also has a number of other key targets as outlined below:

a) for the Fund as a whole:

to have at least 30% of the Fund's assets allocated to sustainable investments by 2030.

to expand the measurement of the carbon emissions of the Fund's investments to include **as many components** of the assets **as possible, based on the availability of reliable and accurate data.**

b) within the Listed Equity portfolio:

to achieve a reduction in carbon emissions of 36% by 2025 and 68% by 2030.

to target **all** of the Listed Equity portfolio **being** invested in sustainable **mandates** by 2030.

to engage with the biggest polluters within the Fund's Listed Equity portfolio as part of an overarching stewardship and engagement strategy, to achieve:

by 2025, at least 70% of **companies** in carbon-intensive sectors have clearly articulated and credible strategies to attain net zero or are subject to engagement to achieve this objective.

by 2030, at least 90% of **companies** in carbon-intensive sectors have clearly articulated and credible strategies to attain net zero or are subject to engagement to achieve this objective.

The Fund will monitor and report against these targets at least annually, and may review and revise them as appropriate, particularly to ensure that targets and ambitions are in line with national and international developments and initiatives.

Where **companies in carbon-intensive sectors do not demonstrate a credible strategy to attain net zero over time, and are not considered to be on the right trajectory to make progress in this area, the Committee’s policy view is that selective divestment is potentially a valid outcome. Given the pooled fund nature of the investments, the Committee recognises that its actual ability to divest is dependent on the processes and policy of the Wales Pension Partnership. The Committee will actively engage with the Wales Pension Partnership on this area.**

Exclusions Policy

The Fund has developed an exclusions policy assessment framework and will be looking to develop a plan to implement the following exclusions:

The policy is to exclude companies which breach the following thresholds	Minimum Objective	Fund’s Ambition
[x%] or more of revenues from exploration, mining, extraction, distribution and / or refining of hard coal and lignite	1%	Same
[x%] or more of revenues from Oil: companies involved in exploration, extraction, refining and / or distribution of oil fuels.	10%	1%
[x%] or more of revenues from Gas: companies involved in exploration, extraction, manufacturing or distribution of hydrocarbons, hydrogen and carbon monoxide mixtures present in gaseous state.	50%	1%

The above policy applies to the physical listed equity assets initially. This is because this part of the portfolio has the most comprehensive and accurate data on which the policy can be analysed and monitored in a robust and cost efficient way. The ambition of the Fund is to consider the application of the exclusions policy to all parts of the portfolio over time, based on the availability of robust data and implementation practicalities.

The Fund is seeking to implement the above “Fund’s Ambition” exclusion policy. It is recognised that, at present, there are limited implementation options for this policy. As a result the Fund has established a “Minimum Objective” exclusion policy which is aligned with the Paris Aligned Benchmark and as such believes is practically more implementable.

The Fund recognises that in order to implement the exclusions policy it will need to work with the Wales Pension Partnership. Given the pooled fund nature of the investments, the Fund will take a best efforts approach and acknowledges that this could result in companies being held which are not consistent with the above exclusion policy. This will be monitored on an annual basis with an explanation sought, if companies are held in breach of the exclusions criteria.

Strategic RI Priorities

The Fund recognises that as a Responsible Investor there are a multitude of potential areas on which to focus, however it is not possible to concentrate on everything together. **These strategic priorities** identified from an RI perspective:

Evaluate and manage carbon exposure

The Fund has identified climate change as a financial risk, and intends to measure and understand its carbon exposure within its investment portfolio.

The Fund has agreed to use the carbon footprinting metric as the primary metric for monitoring carbonisation progress, whilst also monitoring progress against absolute emissions and weighted average carbon intensity (WACI).

Identify sustainable investments opportunities

The Fund has for a number of years looked to make Social/Impact investments; whereby in addition to making the requisite financial return the investment has a positive social or environmental impact. The **2022** Investment Strategy Review has further supported this with the **asset allocation to the** Local/Impact portfolio **being increased.**

This portfolio has a strategic target weight of **6%** of the Fund's assets.

The Fund has increased its strategic allocation to sustainable equities to 15% of total Fund assets following the latest strategy review, an increase of 10% from its previous allocation.

Improve public disclosure and reporting

The Fund recognises the importance of transparency and reporting with respect to ESG issues. The Fund **continues** to enhance its analysis, disclosure and reporting on its RI activities, including, voting and engagement and carbon emissions analysis.

The Fund has drafted its first Task Force on Climate-Related Financial Disclosures ("TCFD") report covering 12 months to 31 March 2022. The report was drafted in line with the recommendations from the TCFD and the proposals for LGPS on governance and reporting of climate change risks available at the time.

The Fund carries out Analytics for Climate Transition ("ACT") analysis (a Mercer analytical tool), which provides the Fund with a bottom up analysis of the portfolio's transition capacity. Analysis is carried out every 12 months, with the latest analysis carried out as at 31 March 2022.

Active Engagement on ESG risks

As a member of the LAPFF, the Fund has active engagement with its underlying investments, this engagement **is** supplemented by the work of the WPP. The Fund is committed to working proactively with WPP and its providers to improve the levels of engagement.

FRC Stewardship Code

The Fund was successful with its first application to the UK Stewardship Code 2020 and is currently a signatory to the Code. The Fund's submission can be found on the FRC website.

Actuarial Valuation and review of Investment Strategy

The assessment of the impact of climate change on the Fund's investment strategy will underpin the actuarial valuation and investment strategy review processes, both of which were carried out during 2022. Addressing climate change related risks was a key factor in each.

Commitment

The Fund has always sought to act with conscience when it comes to its investments and recognises that its approach to RI will need to evolve continually, given the speed of change with regard to the impact and understanding of ESG issues, and the ever changing world in which we live. Due to the increased focus on RI within the investment industry there is continuous development of thinking and best practice, and the Fund is committed to ensuring its approach remains relevant and appropriate. This RI Policy will be formally reviewed at least every three years as part of any strategic review of the Fund's asset allocation, or as required due to changing regulatory requirements or to address specific issues that may arise.

Approval, review and further information

Approval, Review and Consultation

This version of the Investment Strategy Statement was approved at the Clwyd Pension Fund Committee **on 30 August 2023**. It will be formally reviewed and updated at least every three years or sooner based on when it is considered appropriate to review the Fund's approach to investing the Fund's assets, including responsible investing.

Further Information

If you require further information about anything in or related to this Investment Strategy Statement, please contact:

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Further information about the Fund can be found on its website - <https://mss.clwydpensionfund.org.uk/>.

Further information about the Wales Pension Partnership can be found on its website - <https://www.walespensionpartnership.org/>.