



# Powys Pension Fund

Prepared for           The Committee  
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Date                     12 December 2019

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# Responsible Investment Policy

## Introduction and Purpose

**The Powys Pension Fund ('Fund') is a long-term investor. The Fund's aim is to deliver financially sustainable returns to meet the future pension benefits of our members, by allocating across investment types whilst retaining an appropriate level of diversification and level of risk.**

As the Committee, we have a fiduciary duty to act in the best interest of the Fund's members. We acknowledge that this includes managing Environmental, Social and Governance ('ESG') issues that may be financially material to the Fund.

The Fund defines **Responsible Investment (RI)** as the integration of ESG issues into its investment processes and ownership practices in the belief this can positively impact financial performance. The Committee recognises that, as a long-term investor, the Fund should manage ESG risks that can be both long-term and short-term in nature. In addition, the Fund seeks to identify investment opportunities aligned with its long-term objectives. This includes taking appropriate expert advice from its appointed Investment Consultant.

The Fund is exploring how asset pooling can enhance its approach to RI. The Fund is proactively engaging throughout the pooling process to ensure that its objectives and approach to RI are expressed via the Wales Pension Partnership (WPP) pooling arrangement.

The Fund seeks to integrate RI across its investment decision-making process for the entire portfolio, considering the appropriate nuances and differences which apply to differing asset types. The Fund adopts a flexible approach to managing its investment strategy and asset allocation in order to ensure the strategy is robust from a risk and return perspective.

In developing its approach to RI, the Fund seeks to understand and manage ESG and reputational risks to which the Fund is exposed. This policy sets out the Fund's approach to RI and details the actions the Fund, and its external providers, take on behalf of the Fund's members and other stakeholders, to protect the Fund from ESG and reputational risks.

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## Responsible Investment Beliefs and Principles

The Committee have discussed and reviewed their beliefs relating to RI. These consensus beliefs and principles form the basis of the Fund's policy.

The Fund's **RI Beliefs and Principles** are set out below:

- The Fund is a long-term investor, with liabilities stretching out for decades to come, and seeks to deliver long-term sustainable returns. There is an opportunity to generate better expected returns by making decisions with a long-term outlook.
- The Fund recognises that ESG considerations are relevant to the setting of investment objectives, ongoing monitoring, and assessment of future risks. The identification and management of

ESG risks that may be financially material is consistent with our fiduciary duty to our members.

- The Fund seeks to integrate ESG issues throughout the Fund's investment decision-making process, from setting investment strategy to monitoring the Fund's investment managers. Accordingly, input is sought from the Fund's appointed investment consultant on these matters.
- The Fund recognises that climate change is one of the material ESG factors that pose a potential financial risk over our timescale, and that as institutional investors, there is an ability to help tackle the challenges posed by climate change. Climate change related considerations have been the subject of multiple discussions held by the Committee, including the approach taken to retaining or divesting from the Fund's exposure to fossil fuels. Further details are provided in the next section of this policy.
- Where suitable and appropriate within the context of the Wales Pension Partnership's pooling arrangements, the Fund seeks advice from its appointed investment consultant to identify sustainable and responsible investment opportunities in keeping with its investment objectives.
- The Fund recognises the importance of responsible ownership, and has a duty to exercise its stewardship and active ownership responsibilities (such as use of proxy voting rights and encouraging its appointed investment managers to actively engage with investee companies) effectively by using its influence as a long-term investor to encourage positive behaviour.
- The Fund recognises that our members are likely to have an interest in how the Fund's RI objectives are enshrined through its investment strategy.
- The Fund aims to be transparent and accountable by disclosing its RI policy.

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### **Responsible Investment Implementation Approach**

In setting and implementing its investment strategy, the Fund takes advice from its appointed investment consultant. This advice is contextualised by the fact that the Fund's assets are managed by third-party investment managers responsible for the day-to-day investment decisions, including undertaking voting and engagement activities on behalf of the Fund.

- The Fund expects its investment consultant to proactively consider and integrate ESG issues when providing investment advice
- The Fund considers ESG issues as they relate to its strategic asset allocation, including taking advice on the impact of ESG matters on differing asset types
- The Fund considers ESG integration and active ownership when selecting and monitoring investment managers.

When monitoring external investment managers, the Fund:

- Requires its investment managers to provide a statement setting out the extent to which they take ESG considerations into account in their investment processes, along with the impact that this has had.

- Seeks input from its appointed investment consultant regarding ESG issues that could have a material impact on the value of the Fund's assets and the funds in which the Fund invests.
- Monitors the active ownership activities of its investment managers by seeking their reporting and examples of engagement activity undertaken.

With respect to the Fund's exposure to climate change risks, the Committee has discussed the Fund's desired approach to this topic. This has included several discussions regarding divestment from fossil fuels. This has included receiving details of the approach taken by other LGPS Constituent Authorities and pooling arrangements, along with noting the stance taken by the Local Authority Pension Fund Forum (LAPFF) of which the Fund is a member.

The Fund recognises that exposure to fossil fuel investments is one component of overall exposure to climate change risks, and acknowledges the importance of considering climate change risk holistically.

Throughout this process, the Committee has sought to take an approach which is appropriate in the context of the Fund's long-term investment objectives, and has explored the availability of investment options within the WPP pooled framework.

The Committee has agreed that it supports the LAPFF stance with regard to engagement with investment managers on issues regarding climate-related risks to which the Fund and its members may be exposed, and in particular the transition to a low-carbon economy. The Committee considers that pursuing an engagement-led approach allows the Fund, through the actions of its appointed investment managers, to be an active participant in supporting the transition to a low-carbon environment and encouraging the companies in which it invests to transform and adapt to meet the needs of a changing world. This approach does not prohibit the Fund from divestment from fossil fuel exposure to manage the perceived financial risks associated with climate change should this be felt appropriate.

The Committee will monitor this area as it develops, and seek to mitigate climate change risks as they apply to the Fund and its members and beneficiaries.

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## **Stewardship – Voting and Engagement**

The Fund recognises that, alongside rights, it has responsibilities as a shareholder as regards the stewardship of assets on behalf of its members and beneficiaries. Appropriate stewardship is a cornerstone of good governance: accordingly, the Committee will consider and review the UK Stewardship Code (which takes effect 1 January 2020) to determine the alignment of the Fund with the principles of the Code.

Consequently, the Fund recognises the importance of active ownership, i.e. the proactive use of engagement and asset stewardship activity. Further, the Fund recognises that engagement activities undertaken alongside other investors – such as the LAPFF and WPP as a pooled entity – have potential to have significant impact on corporate behaviours and drive improvements in actions and disclosures.

The Fund seeks to exercise its voice through engagement with its investment managers (and consequently portfolio companies) as part of its stewardship duties to its beneficiaries.

Whilst the Fund delegates voting and engagement to its investment managers, the Committee will seek comment from its investment consultant, where relevant and available, regarding how the Fund's managers exercise voting rights on its behalf.

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## **Initiative and Industry Collaboration**

The Fund recognises that collaboration with other investors is a powerful tool to keep abreast of developments in this area, and gives the potential for collective action to influence the behaviour of companies, policy makers and other industry stakeholders. The Fund seeks to work with and support the initiatives of relevant bodies.

- The Fund takes its role in the Local Authority Pension Fund Forum (LAPFF) seriously, recognising that this contributes to the effective exercise of its influence through collaboration.
  - Members of the Committee have joined Aon's Responsible Investment Network, a forum for pension fund investors to interact and discuss objectives and implementation.
  - The Fund regularly reviews its participation in collaborative initiatives such as LAPFF, including the benefits of participation.
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## **Disclosure and Reporting**

The Fund recognises that transparency and disclosure is an important aspect of being a responsible investor.

The Fund will:

- Make the Fund's RI policy available to members, and incorporate this fully into the way the Fund communicates and interacts with its members
  - Make the Fund's policy available to the public online
  - Report on the Fund's progress and developments in the way it approaches RI matters
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