

5. Approach to Environmental, Social and Governance issues

And

6. Policy on exercising voting rights

Regulatory Background

In preparing, developing and implementing this Policy, the Fund has paid due regard to the regulatory background. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (LGPS Investment Regulations) require administering authorities to demonstrate that it considers any factors 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 Ministry for Housing, Communities and Local Government 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 for Climate-related Financial Disclosures (TCFD).

Responsible Investment Policy

In 2019 the Fund undertook a review of its Responsible Investment Policy in conjunction with the overall review of the Strategic Asset Allocation. The target for this review was to re-affirm the Fund's existing beliefs, supplement these with additional views if appropriate and consider ways in which these views could be implemented.

As a result of this review the Fund's long standing Responsible Investment (RI) and supporting Sustainability policies were updated to reflect current attitudes and thinking. 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.

Background

The revised Policy will support the Fund's specific RI aims 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;
- 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 Clwyd Pension Fund has participated in the development of the Wales Pension Partnership (WPP) to pool the investments of the 8 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 the Pools RI objectives, and is confident that they will enable it to implement its own policies.

The Fund will work with the WPP to develop these policies in the future to ensure they remain relevant and appropriate for the Clwyd Fund.

Stewardship and Engagement

The Financial Reporting Council (FRC) first published the UK Stewardship Code in 2010, and revised it in 2012. The Code aims to enhance the quality of engagement between asset managers and companies to help improve long-term risk-adjusted returns to shareholders. The Code sets out a number of areas of good practice to which the FRC believes institutional investors should aspire. Since December 2010 all UK-authorized Asset Managers are required by the Financial Conduct Authority to produce a statement of commitment to the Stewardship Code or explain why it is not appropriate to their business model.

The Stewardship Code has seven principles, and the ISS guidance requires that administering authorities become signatories to the Code, and state how they implement the principles on a "comply or explain" basis.

The Fund applied and was approved as a Tier One signatory in March 2018, and can be seen on the [FRC website: https://www.frc.org.uk/investors/uk-stewardship-code/uk-stewardship-code-statements/asset-owners](https://www.frc.org.uk/investors/uk-stewardship-code/uk-stewardship-code-statements/asset-owners).

In practice the Fund has applied the Code both through its arrangements with its asset managers and through membership of the Local Authority Pension Fund Forum (LAPFF). In the future as a member of the WPP, the Committee expects that both the Pool and the underlying fund managers to comply with the Stewardship Code.

In October 2019 the FRC issued an updated and increasingly demanding version of the Stewardship Code, and the Fund commits to reviewing this with an aim of remaining a signatory.

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 ultimate 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 recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and 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 long-term interests of its members and employers, and recognises that ESG issues create risk and opportunity 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 the Funding and Investment strategies and throughout the decision making process.
- The Fund is a long terms investor, with pension promises for many years, and because of this seeks to deliver long-term sustainable returns
- The Fund integrates ESG issues at all stages of the Fund's investment decision making process.
- The Fund seeks to apply an evidence based approach to the implementation of Responsible Investment.
- Transparency and accountability are important aspects of being a Responsible Investor and by publishing its policy and activity the Fund recognises this.
- 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 long-term financial risk of **not** being a Responsible Investor, and 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 will make selective investments to support this aim.

Each of these overarching principles is covered in more detail within the supporting Sustainability Policy.

Climate Change

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

- Climate change presents 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 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 for the long term to be in the best interests of all key stakeholders.
- Engagement is the best approach to enabling the change required to address the Climate Emergency, however selective risk-based disinvestment is appropriate to facilitate the move to a low carbon economy.
- As well creating risk, it also presents opportunities to make selective 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.

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. Therefore, to enable the approach to be focused, the Fund has considered its strategic priorities for the next 3 years (2020-2023), which will support the overall aim of being a Responsible Investor.

These strategic priorities will be reviewed annually, and may be added to, but to maintain the desired focus the following have been 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.
 - Once this initial assessment has been made the Fund will look to set agreed Carbon reduction targets within 12 months to be delivered over the next five years.
- **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 2019 Investment Strategy Review has further supported this with the creation of a separately identified portfolio.
 - This portfolio has a strategic target weight of 4% of the Fund's assets and will be seeded from existing investments that meet pre-agreed criteria based on the [United Nations Sustainable Development Goals](#). Additional opportunities will be added with a view to achieving the target weight in three years.
- **Improve public disclosure and reporting**
 - The Fund recognises the importance of transparency and reporting with respect to ESG issues. The Fund intends to enhance its analysis, disclosure and reporting on its RI activities, including manager ESG ratings, voting and engagement and carbon emissions analysis.
- **Active Engagement on ESG risks**
 - As a member of the LAPFF the Fund has active engagement with its underlying investments. In the future, due to the pooling of investments this engagement will be 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 has been a Tier One signatory to the Stewardship Code since March 2018. The new, more demanding version of the Code was launched in October 2019, and the Fund is committed to reviewing the requirements of the new Code, and aiming to remain a Tier One signatory if practical. If this is not achievable the Fund will encourage the WPP to do so.

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.