Wiltshire Pension Fund

RESPONSIBLE INVESTMENT PLAN 2023/24

Introduction

Responsible investment is the strategy to incorporate ESG (environmental, social and governance) factors into investment decisions. The Fund's position regarding ESG issues is set out in the ISS (Investment Strategy Statement) as follows:

> The Committee believes that in order to carry out their fiduciary duty by acting in the interest of its members, that effective management of Environmental, Social & Corporate Governance management (ESG) issues, including climate change, which are financially material to the Fund is essential. In order to protect the Fund's investments into the future, the Fund supports a global warming scenario of 2°C or lower, and states an ambition to achieve net-zero carbon emissions across all investment portfolios by 2050.

ESG risks should be taken into account on an ongoing basis and are an integral part of the Fund's strategy and objective of being a long-term investor.

The Pension Fund's investment objectives are to achieve sufficient investment returns such that there are funds available to pay the pensions as they fall due, and to meet the liabilities over the long term whilst maintaining stable employer contribution rates.

Therefore, consideration of all factors (including ESG factors) which could affect the investment returns is a fundamental part of managing the investments. Responsible investment practices can both help mitigate risks and also enhance returns.

This Responsible Investment Plan 2023/24 sets out where the Fund is now, what has been done so far, and plans for developing the Fund's approach to responsible investment issues over the coming year.

Fiduciary Duty

The UNPRI (UN Principles for Responsible Investment) discusses a modern interpretation of fiduciary duty at the following link: https://www.unpri.org/fiduciary-duty/the-modern-interpretation-of-fiduciary-duty/6538.article

A quote from the link above states that "The integration of ESG issues into investment practice and decision making is an increasingly standard part of the regulatory and legal requirements for institutional investors, along with requirements to consider the sustainability-related preferences of their clients and beneficiaries, and to report on how these obligations have been implemented. Investors that fail to incorporate ESG issues are failing their fiduciary duties and are increasingly likely to be subject to legal challenge."

There has been considerable debate in recent years about how administering authorities can and should take account of environmental, social and governance (ESG) factors in investment decisions. Legal advice on fiduciary duties produced for the Local Government Association in 2014 explained that LGPS administering authorities have a fiduciary duty to act in the best interests of scheme members. Investment powers must be directed to achieving what is the best for the financial position of the fund. Provided this remains true, the precise choice of investment may be influenced by ESG factors, so long as that does not risk material financial detriment to the fund. In taking account of wider ESG considerations, the administering authority may not prefer its own interests to those of scheme employers and should not seek to impose its views where those would not be widely shared by scheme employers and members.

In 2016, the then Department for Communities and Local Government (DCLG) made changes to the investment regulations applying to LGPS (E&W). The reformed 'investment regulations' required administering authorities to publish an investment strategy – including their approach to pooling investments and how they take ESG factors. The strategy must be in accordance with guidance issued by the Secretary of State, who has power to intervene if satisfied that any authority had failed to act in accordance with statutory obligations or guidance.

Regarding ESG considerations, the guidance issued under the regulations says schemes should consider any factor financially material to the performance of their investments, including ESG factors. Although pursuit of a financial return should be their predominant concern, they may take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision.

Wiltshire Pension Fund as an investor

As the Fund is open to new members, who will not be retiring for many years into the future, the Fund has a very ***long-term investment horizon***. The Fund therefore needs to consider long-term sustainability issues, and the importance of engagement with companies in which it is invested, in order to safeguard the investments into the future.

The Fund is a ***large, diversified investor***, with exposure to the global economy. The Fund therefore needs to invest in a way that contributes to the success of the global economy and society as a whole, as this will have a positive financial impact on the Fund's investments.

One of the Fund's investment beliefs, as set out in the ISS, is that "**Investing over the long term provides opportunities to improve returns**".

Business plan and risk register

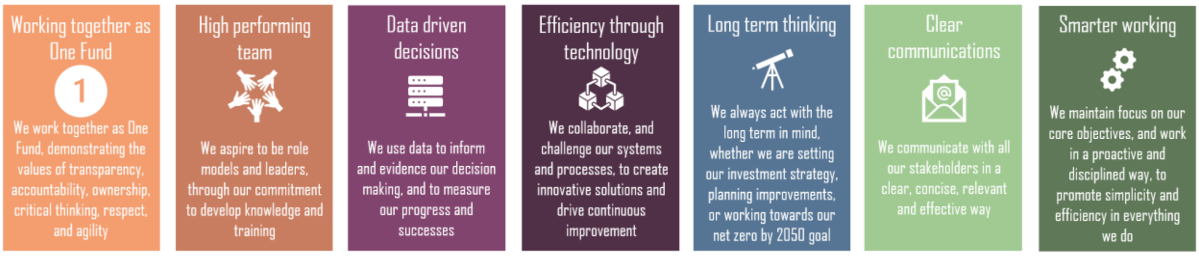
As set out in the Business Plan, the Fund's vision is as follows:

> Our vision is to deliver an outstanding service to our scheme employers and members

The vision is set to focus the team on delivering **outcomes** for the employers and members of the pension fund. The fund will measure success against the vision by monitoring our progress against various service related KPIs, targets, and actions.

The vision is supported by **16 strategic vision goals**, which are focussed on **outcomes**. The goals broadly map to outcomes for employers, members, investments, and governance. However, staff are encouraged to think about how their work maps to different goals.

In order to achieve the strategic goals, and deliver the vision, it is necessary to adopt certain outlooks and ways of working. The Fund aims to demonstrate the following values, and embed them firmly in the culture:



The value "Long Term Thinking" runs through everything the Fund does. The Fund is a long-term investor, and so is able to participate in responsible investment activities which can add value to the Fund's investments over the long term.

The strategic goal 11, "Responsible Ownership and Stewardship", is particularly relevant to stewardship **activities**. The goal focusses on ensuring that the Fund's responsible investment and stewardship activities are in line with best practice (which also contributes to strategic goal 16, "Compliance and Best Practice"), and that these activities are a central part of delivering an outstanding service to the scheme employers and members. For these different groups this may mean different things:

- **Employers** will be best served by the delivery of long-term positive investment returns, which will help keep their contribution rates affordable (strategic goal 1, "Stable and Affordable Contributions", is targeting this outcome), and responsible investment activities can help preserve capital and enhance value.
- **Members** may be concerned about how the funds held to pay their pensions are invested, and goal 15, "Transparency and Information Sharing" contributes to this outcome. Responsible Investment has a role to play here in the information that is shared with members – the Fund publishes its engagement and voting records online, has conducted surveys of both the member and employer groups, and publishes key strategic decisions and news in this area.

The Fund's Business Plan establishes the importance of the Fund's approach to responsible investment, and sets out an action that the actions contained within the Responsible Investment Plan 23/24 should be completed within the year.

Climate change risk is included in the Pension Fund's risk register as a "Medium" priority risk. Climate change is a key environmental risk which could have a material financial impact on the Fund's returns, and as such needs to be considered, managed and monitored as part of the Committee's fiduciary duty, to protect the investment returns of the Fund. Failure to embed climate change considerations in the investment strategy could cause a negative impact on investment returns over the long term. It has been possible to downgrade this from a "High" priority risk due to the extensive work done over recent years to quantify and mitigate this risk.

Where the Fund needs to be

There is no one framework for best practice regarding responsible investment in the LGPS. Each fund needs to decide the best approach individually, whilst operating in line with their fiduciary duty, and taking appropriate professional advice.

In order to ensure that all relevant risks are considered and acted upon, the Fund needs to integrate responsible investment issues across the whole investment process:

i. **Investment Strategy Statement** – regularly kept under review, and now expanded to include the dedicated Responsible Investment Policy, which is reviewed annually;

ii. **Strategic Asset Allocation** – see comments below;

iii. **Monitoring of managers and the pooling company** – ESG issues are a standing item in manager meetings and reporting. More detail on Brunel's role is below;

iv. **Stewardship and engagement work** – more detail on Brunel's role below, and the Fund's approach to engaging with wider initiatives;

v. **Internal reporting and accountability** – responsible investment is a standing item at quarterly Committee meetings;

vi. **Reporting externally** – the Fund includes information in the Annual Report, Climate Report (including TCFD reporting) and Stewardship Code reporting;

vii. **Stakeholder engagement** – the Fund includes a plan on scheme membership engagement as part of the ISS, and more detail on this topic is included below.

The Fund needs to continue to refine the Strategic Asset Allocation to reflect the results of the climate change scenario modelling, in order to ensure the best possible financial returns for the Pension Fund's investments, and to mitigate risks. This will involve a review of all asset classes to ensure that climate risk and sustainability are being fully considered. As described above significant work has been done here, with the sustainable equities and Paris-aligned passive equities transitions. There is also an allocation to renewable infrastructure and climate solutions which is in the process of being implemented.

The Fund will also review the Responsible Investment Policy annually, with the next review targeted for September 2023.

Stewardship

Stewardship is defined by the PRI as "The use of influence by institutional investors to maximise overall long-term value including the value of common economic, social and environmental assets, on which returns and clients' and beneficiaries' interests depend". The Stewardship Code 2020 defines it as "the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society".

The Fund was a signatory to the original Stewardship Code, which was introduced in 2010 by the Financial Reporting Council (FRC). The FRC has now published a revised 2020 Code, to which the Fund is a signatory. The 2020 Code is ambitious and has a focus on outcomes, not just policy statements.

Voting and engagement activities on the Fund's equities portfolios are carried out through the Brunel pool. As part of owning publicly listed companies, Brunel, on behalf of its clients, will have the opportunity to vote at company meetings (AGM/EGMs). To provide guidance, Brunel has a single voting policy for all assets managed by Brunel in segregated accounts.

Brunel has appointed Federated Hermes EOS as the engagement and voting services provider. The appointment enables a wider coverage of assets and access to further expertise across different engagement themes. For full transparency, the Fund publishes its voting and engagement activities on its website on a quarterly basis.

Consideration of the UN Sustainable Development Goals (UN SDGs)

The Fund has considered the UN SDGs through an investment lens. Although the SDGs are targeting broad economic goals and have not been specifically developed as an investment framework, as a large and diversified investor the Fund has exposure to the global economy, and the intended outcomes of the SDGs would benefit the Fund's investments and the sustainability of investment returns into the future. The exercise of considering the SDGs also assisted the Fund in focussing on relevant investment risks and opportunities. As a result of this analysis, the Fund sees the strongest investment case for supporting the following SDGs, and will prioritise these areas when discussing engagement activity, investment opportunities and risk mitigation with investment managers:

i. **Climate** [SDGs 13 Climate Action & 7 Affordable and Clean Energy]

ii. **Economic growth** [SDGs 8 Decent Work and Economic Growth & 9 Industry Innovation and Infrastructure]

iii. **Education** [SDG 4 Quality Education]

Wider Initiatives

The following is a list of organisations and/or initiatives which the Fund supports.

i. **The Brunel pool** – the Fund is a shareholder and client of the Brunel Pension Partnership. The Fund is able to be involved in setting portfolio specifications, approving manager selection, and monitoring ongoing performance of portfolios. Responsible investment is completely embedded and considered at each of these stages of the process. The Fund also engages through the client group, the responsible investment sub-group, and ad hoc communications from Brunel on responsible engagement initiatives, for example engagement and voting matters.

ii. **LAPFF (Local Authorities Pension Fund Forum)** - The Fund is also a member of the LAPFF, to enable it to act with other local authorities on corporate governance issues. LAPFF's mission is to protect the long-term investment interests of beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies. Details of their activities can be found on the following link: http://www.lapfforum.org/about-us

iii. **TPI (Transition Pathway Initiative)** – The Fund publicly supports TPI, which is a global, asset-owner led initiative which assesses companies' preparedness for the transition to a low carbon economy. The TPI tool assesses progress against companies and sectors to measure the level management quality and carbon performance, to aid in risk assessment. More information can be found here: https://www.transitionpathwayinitiative.org/

iv. **PRI (UN supported Principles for Responsible Investment)** - the Fund supports Brunel as a signatory to the PRI. Asset managers and asset owners who are signatories to PRI support the six Principles for Responsible Investment, which are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. More information can be found here: https://www.unpri.org/. At the current time the PRI are reviewing their policies to determine whether Funds can sign up in their own right if their pool has already signed up. It is hoped that some clarity will be obtained around this and the Fund will proceed with signing up in its own right if/when this is possible.

v. **IIGCC (Institutional Investors Group on Climate Change)** – The IIGCC is the European membership body for investor collaboration on climate change and the voice of investors taking action for a prosperous, low carbon future. IIGCC has more than 330 members, mainly pension funds and asset managers, across 22 countries, with over €39 trillion in assets under management. Through IIGCC, the Fund has made a PAII (Paris Aligned Investment Initiative) net zero commitment. The PAII goes beyond simply making commitments and supports investors to achieve their goals. The Fund has also been using the IIGCC net zero framework. This valuable tool helps to define a path to net zero across various asset classes. The IIGCC also offers webinars and working groups, so investors can learn about specific areas, for example what net zero means in different asset classes. More information can be found here: https://www.iigcc.org/

vi. **Climate Action 100** – this is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. Through membership the Fund is able to access information on key engagement companies and their progress towards achieving net zero. This information is used when working with the Fund's investment managers to understand the investment case for the company. Through membership the Fund can also request that investment managers join the engagement initiative to align their goals with that of the Fund. More information is available here: https://www.climateaction100.org/

vii. **Just Transition** – a just transition means not transitioning to a low carbon economy at any cost, but doing so whilst also ensuring that this is done in a socially responsible way. The Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science have put together a comprehensive guide as to what this means for investors, and what action can be taken. The Fund has signed a statement of support, and uses the guide to help embed this goal within the Fund's policies, and help hold the investment managers to account. More information is available at the following link: https://www.lse.ac.uk/granthaminstitute/investing-in-a-just-transition-global-project/

Designing the 2023/24 Road Map

The 2023/24 Road Map is not intended to be limiting, and other topic areas may also be considered if/when they become relevant or highlighted as a priority. Pieces of work have been included on the Road Map based on the following criteria:

i. There are **existing commitments** to complete this work (for example, climate commitments as set out in the Responsible Investment Policy, implementing portfolios in the strategic asset allocation, or continuing with established reporting).
ii. Continuation of **existing work** (for example, developments along the theme of biodiversity, finalising a position on divestment, or progressing the work to launch a transparency of holdings tool via the website).
iii. **Improving current practices** (for example, expanding the TCFD reporting to provide additional information for stakeholders, or publishing a short report on our impact affordable housing portfolio).
iv. Addressing **topical issues**, which we have identified as priorities due to their impact across our portfolios and/or membership, examples as follows:
    a. Cement – a sector which we are exposed to, which makes up 7% of all global emissions.
    b. Younger members – a group who engage less with our communications etc, highlighting a need to educate these members about their pension and promote engagement.
    c. Carbon offsets – a topic recently raised by the Chair of the Committee, and something which is gaining traction as an investable option.
    d. Water engagement – an activity being managed through Brunel, which has been mapped to a meaningful percentage of our portfolio and with the bulk of the work being done by one of the investment managers offers an efficient way to engage.
    e. Health – a topic which has received significant coverage and is linked to an initiative through shareaction, which is supported by LAPFF.

Responsible Investment Road Map

Q2 2023 -

Investments and strategy: Finalise the statement around divestment, begin work to implement the renewable infra and climate solutions allocation.

Reporting and disclosure: Publish the Stewardship report and mini-magazine, and the affordable housing impact report.

Training and engagement: Research and write up case study on cement holdings.

Q3 2023 -

Investments and strategy: Set net zero targets related to climate solutions, transition alignment and stewardship, and property and infrastructure. Review and update the Responsible Investment Policy.

Reporting and disclosure: Publish an expanded Climate Report (including TCFD reporting), including information on our own operational emissions, and fossil fuel holdings.

Training and engagement: Conduct an engagement activity with the scheme membership, focussing on those in a younger age bracket, to promote pension saving and knowledge of how the Fund is invested.

Q4 2023 -

Investments and strategy: Progress the approach to net zero with the Fund's listed infrastructure manager.

Training and engagement: Investigate carbon offsets (as both an investment opportunity and as something used by our holdings), progress the water engagement via Brunel.

Q1 2024 -

Investments and strategy: Report on progress and developments against the theme of biodiversity.

Reporting and disclosure: Launch a holdings transparency tool via the Fund's website.

Training and engagement: Use established industry tools to investigate the theme of health in our portfolios.

Resourcing

Work done on responsible investment issues is largely resourced by officer time. A huge amount of responsible investment work is carried out by the Brunel pool, which has a dedicated team of staff who are widely regarding as being market leading. This resource is a real benefit of pooling, as the Fund would be unable to carry out this level of work independently.

Clients engage with Brunel on responsible investment issues regularly – one of the ways this takes place is through the responsible investment sub-group, which Wiltshire officers regularly attend. This group learns about engagement case studies, helps to develop reporting, and sets the responsible investment agenda at the pool in line with client needs.

Through the Brunel pool and a wider network of contacts, officers regularly share responsible investment knowledge, ideas, progress, updates etc. with other LGPS funds.

The Scheme Advisory Board has recently launched a website resource on responsible investment, which is being further developed over time to add relevant case studies. This is available via the following link: https://ri.lgpsboard.org/items

The Fund's investment adviser, Mercer, have allocated a specialist responsible investment adviser to work with the Fund. This continuity of specialism will benefit the Fund as the approach is further developed.

The Fund has access to information through the various initiatives it has signed up to, including reading materials, relevant data, and access to training.

Training is available for Committee members and officers, including but not limited to conferences, Brunel investor days, and internal training days.

Scheme employer and membership engagement plan

The Pension Fund considers that transparency on its actions, particularly with regard to responsible investment issues, is important, and engagement with the scheme employers and membership is a key part of this. The way in which the Fund will engage with employers and members (and why) is set out in the Responsible Investment Policy. The planned engagements for 2023/24 are set out below:

Responsible investment employer and membership engagement plan for Wiltshire Pension Fund:

- Continue to develop and expand upon the information published in the annual report;
- Enhance the established TCFD reporting to publish a Climate Report, which will include all the required basics but also case studies and information on the Fund's decarbonisation progress.
- Carry out further work to develop the investments area of the website, enhancing the information provided on voting and engagement records with more analysis and value-add information, and developing a tool for stakeholders to use in order to access more information about the Fund's holdings;
- Publish a mini-magazine version of both the 2020 Stewardship Code reporting, and the Annual Report, in order to make this information more accessible for a non-technical audience;

- Develop improved online resources for members, which will be customised depending on what point they are at in the life-cycle of their pension, which will link in with building awareness of how the money held to fund members' pensions is invested;
- Consult with employer organisations on any revisions to the ISS;
- Communicate major responsible investment related decisions via press releases and member and employer newsletters;
- Consider further options for engagement with the scheme membership.