

## Royal County of Berkshire Pension Fund (RCBPF)

### Responsible Investment Policy

#### 1. Introduction

This policy defines the commitment of the Royal County of Berkshire Pension Fund (RCBPF) to Responsible Investment (RI). Its purpose is to detail the approach that RCBPF aims to follow in integrating Environmental, Social and Governance (ESG) issues into its investments. This is consistent with the LGPS Management and Investment of Funds Regulations 2016, and the fiduciary duty to act in the best long-term interest of our members. The policy will be reflected in the Investment Strategy Statement. It will also be reflected in any future approach to complying with the UK Stewardship Code.

#### 2. Responsible Investment Values and Principles

The RCBPF values and principles reflect the need to deliver sustainable investment returns in order to pay pension benefits. The values and principles recognise the importance of assessing sources of risk and opportunity over an extended time horizon and emphasise the importance of diligent stewardship as part of engaged asset ownership.

##### Responsible Investment Values:

<b>Consultative</b>	The RI priorities are a reflection of the views of the members of the Pension Fund Committee and the Local Pension Board, and of evolving best practice within the management of pension funds.
<b>Being Proactive</b>	A proactive approach to evaluating ESG risks and opportunities is more likely to result in long term benefits for the RCBPF and is aligned with fulfilling our fiduciary duty.
<b>Engagement</b>	<p>The RCBPF considers engagement to be a route for exerting a positive influence over investee companies and encouraging responsible corporate behaviour.</p> <p>We will be supportive of targeted dialogue in situations where positive changes can be brought about to align governance standards with our investment needs.</p>
<b>Collaborative</b>	The RCBPF recognises that working collaboratively can achieve greater influence than acting unilaterally. The RCBPF seeks to align itself with likeminded investors through collective organisations such as the Local Authority Pension Fund Forum (LAPFF), of which we have recently become a member.
<b>Flexible</b>	The RCBPF considers that its RI policy and approach should be reviewed regularly in order to continue recognising and reflecting best practice and addressing emerging priorities.

## **Responsible Investment Principles**

The RI principles translate our values and commitments into responsible investment practices which can help to deliver a sustainable and sufficient return on all of our investments. Our RI principles inform the stewardship arrangements we have agreed with Local Pensions Partnership Investments as our provider of investment management services.

A summary of the key Responsible Investment principles:

- Effectively manage financially material ESG risks to support the requirement to protect returns over the long term;
- Apply a robust approach to effective stewardship;
- Seek sustainable returns from well governed and sustainable assets;
- Responsible investment is core to our skills, knowledge and advice;
- Seek to innovate, demonstrate and promote RI leadership and ESG best practice;
- Achieve improvements in ESG through effective partnerships that have robust oversight;
- Share ideas and best practice to achieve wider and more valuable RI and ESG outcomes.

The implementation of the RI policy is through the activities of Local Pensions Partnership Investments (LPPI) a FCA regulated Investment Manager responsible for all of the RCBPF assets which are managed within pooled arrangements.

### **3. Priorities**

Identifying core priorities for RI is an important part of focussing the attention of LPPI on the issues of greatest importance to the RCBPF. It also helps us to monitor the stewardship activities undertaken by LPPI on our behalf. The issues we have identified as being of primary concern to us as asset owners are:

- Climate change – engaging with pension funds and other stakeholders to develop and share best practice, recognising and managing the risks and opportunities investments face from climate change;
- Corporate Governance – promoting the case for well managed companies which implement fair and just employment practices;

The above mentioned are our main priorities. However there are a number of other RI issues which are of interest to the RCBPF and which will be kept under review, including:

- Ethical practices regarding use of tax havens;
- Companies with a proven record of supporting the Living Wage;
- Encouraging investment in Berkshire;
- Reducing investments in products such as fossil fuels, armaments, plastics, tobacco and alcohol.

## **Climate Change**

The RCBPF recognises the imperative to address climate change as a systemic and long term investment concern, as it poses material risks across all asset classes with the potential for loss of shareholder value including via stranded assets.

The RCBPF will endeavour to carry out the following:

- Where existing investments in fossil fuel companies are in place and identified, we expect those companies to be able to demonstrate planning for the global transition to a low-carbon economy and to meet future emissions reduction targets under the Paris Agreement or other appropriate initiatives. Where they are not, and opportunities for engagement and reform of the company or project are not possible or do not exist, then the RCBPF will make all reasonable efforts to divest provided that this will result in no material financial detriment, either through increased costs or increased investment risk.
- Where our fiduciary duty allows, we will not consider new active investments in fossil fuel companies directly engaged in the extraction of coal, oil and natural gas as sources of energy which are ignoring the risks of climate change. The RCBPF expects LPPI to take steps to ensure that the level of exposure to climate change investment risks are evaluated and monitored. This will involve the use of appropriate investigative and analytical tools to increase information and provide appropriate input around investment decision making and will be reflected in regular reporting and assurance provided to the RCBPF.

## **Corporate Governance**

The RCBPF will, principally through LPPI, promote high standards of employment practices and reasonable and equitable pay differentials for employees. This will be done through actively seeking companies who demonstrate such practices and engaging effectively to encourage these standards within existing investee companies.

LPPI is a named supporter of the Workforce Disclosure Initiative, a project which aims to "bring institutional investors together behind a call for comparable workforce reporting by publicly listed companies on their global operations and supply chains".

### **4. Responsible Investment Implementation**

The implementation of our approach to Responsible Investment divides into the following five areas of activity.

#### **a) Voting Globally**

The RCBPF recognises that effective stewardship arrangements protect the financial interest of scheme beneficiaries and contribute to enhancing the value of our investments. All aspects of shareholder voting would form a fundamental part of compliance with the UK Stewardship Code.

The RCBPF stewardship actions are implemented as an integral part of the investment management services that RCBPF receives from Local Pensions Partnership Investments (LPPI).

A Voting and Engagement Policy is being prepared, which will become part of this Responsible Investment Policy. The policy will cover areas including voting arrangements, reporting and disclosures, and voting philosophy.

#### **b) Engagement through Partnerships**

The RCBPF works in partnership with like-minded organisations. We recognise that to gain the attention of companies in addressing governance concerns, we need to join other investors with similar concerns and we do this through the Local Authority Pension Fund Forum (LAPFF) and by joining appropriate lobbying activities.

Our engagement with other investors is most significant through LAPFF. This Forum exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which we invest.

The RCBPF has recently joined LAPFF and, as such, representatives of the RCBPF attend and contribute to the quarterly business meetings.

#### **c) Shareholder Litigation**

An approach, adopted by the RCBPF, in order to encourage corporate management to behave responsibly and honestly, is through shareholder litigation. The RCBPF has agreed arrangements in conjunction with LPPI which ensure that emerging legal cases are monitored and that our rights and interests are represented via class actions and other shareholder actions globally where possible and where appropriate.

#### **d) Active Investing**

The RCBPF does not invest directly but LPPI actively seeks sustainable investments which meet our requirements for strong returns combined with best practice in ESG and corporate governance. Such investments include renewable and clean energy. As part of a commitment to Active Ownership, LPPI seeks to use the ownership rights conveyed by the assets under its management to exert a positive influence in favour of transparent and sustainable management behaviour which recognises and addresses the broader trends which bring both risks and opportunities.

#### **e) Divestment**

The RCBPF may, at its discretion, prefer to divest from a sector due to RI considerations, provided that this would not result in any material financial detriment, either through increased costs or increased investment risks.

## 5. Definitions

<b>Responsible Investment</b>	The integration of environmental, social and corporate governance (ESG) considerations into investment management processes and active ownership practices in the belief that these factors can have an impact on financial performance.
<b>ESG</b>	Environmental, social and governance factors which may impact on company performance and therefore investment returns. Examples include resource management and pollution prevention, climate change impacts, labour management, product integrity, executive compensation, board independence, and audit functions.
<b>Governance</b>	The process and principles by which a company or organisation undertakes its business. For the RCBPF, governance includes the undertaking of both operational and investment responsibilities on behalf of the members of the Pension Fund.
<b>Active Ownership</b>	This refers to the responsibility of the RCBPF to participate, where appropriate, in the governance decision-making of companies in which we invest by way of voting and by engagement with company management, either directly or via our fund managers. It also recognises the relevance of engaging with regulatory bodies and other market players to support policies that promote long-term sustainable growth.