The Greater Gwent (Torfaen) Pension Fund

administered by Torfaen County Borough Council

LOCAL GOVERNMENT PENSION SCHEME

Responsible and Sustainable Investments Policy

Introduction – investing the Pension Fund

1. We invest pension contributions paid by LGPS (Local Government Pension Scheme) members and employers. We do this to help make sure that we have enough money to pay out pension benefits when they are due to be paid, and also to lower financial risk by spreading the Pension Fund over lots of different investments all over the world, and also different types of investments (called 'asset classes').

2. We know that we'll be paying out the pensions of today's workers many decades in the future. This means that we invest the Pension Fund for the long term.

3. Any profits we make on our investments (called 'returns') helps to stabilize the amount of contributions that LGPS employers have to pay into the Pension Fund. This means that those organisations will have more money to provide the services that they deliver to the public.

4. The government has told local LGPS Funds to work together to pool their investments of pensions savings money. This can save each local Fund costs of paying separate specialist investment managers, meaning more money stays in each local Fund. The Greater Gwent (Torfaen) Pension Fund invests our money increasingly through the Wales Pension Partnership, a group of the eight local LGPS Funds in Wales who invest their monies jointly using third party investment managers.

Our Responsibilities

5. We act as 'stewards' when we are looking after LGPS members' pensions savings money that we've invested. The Financial Reporting Council has published a UK Stewardship Code that sets out how we should act.

6. We have a legal duty (called a 'fiduciary duty') to look after pensions savings money in the best interests of beneficiaries. The beneficiaries are the LGPS members that we'll pay pension benefits to, and also anyone who we may pay a survivor's pensions to when they die, such as their surviving partner or eligible children. Our fiduciary duty means that we have to invest responsibly to help lower financial risk.

7. Investing responsibly involves looking at things like how well the companies

that we invest pensions money in are run (or governed), in economic, social and environmental respects which include the potential risks to the security and value of our investments from climate change.

8. The investment industry looks at different types of responsible and sustainable investment by what it calls ‘ESG’. ESG stands for Environmental, Social and Governance issues.

The United Nations Principles for Responsible Investment describes these as:

- **Environmental issues**: climate change – including physical risk and transition risk; resource depletion, including water; waste and pollution; deforestation.

- **Social issues**: working conditions, including slavery and child labour; local communities, including indigenous communities; conflict; health and safety; employee relations and diversity.

- **Governance issues**: executive pay; bribery and corruption; political lobbying and donations; board diversity and structure; tax strategy.

9. As a responsible investor, we engage with the companies that we invest pension fund money in. We do this by talking to them about how well they are doing on the whole range of ESG issues, including how they are changing the way they work to lower their carbon footprint, and transition to a low carbon economy. We engage with them through our third-party investment managers, and also through the Local Authority Pension Fund Forum (LAPFF) which gives us the opportunity to engage directly with companies where we invest. The LAPFF is one of the UK’s leading collaborate shareholder engagement groups; through it we work together with other pension funds on ESG issues. This is because working together gives us a stronger voice to get the companies we invest in to do better on ESG issues.

Our Policy Objectives

10. The Pension Fund through the implementation of this policy wants to:

(i) Gain an improved standing as a sustainable and responsible investor;

(ii) Gain a better understanding of the Fund’s current position in the context of carbon and Green House gases;

(iii) Set realistic targets in a climate change context; and

(iv) Reduce our carbon footprint over time.

Our Investment beliefs

11. To shape our approach, the Fund has agreed a set of beliefs that have been discussed and agreed by both the Pensions Committee and Pensions Board as follows. The Fund:

(i) Believes that ESG issues can have a material financial impact on the long term performance of its investments and consideration of such factors is a part of their fiduciary duty.

(ii) Recognises that their duty is to act in the best financial interests of the Fund's beneficiaries.

(iii) Recognises that successful engagement (letters, meetings and discussions with companies) can protect and improve the long-term value of the Fund's investments. This engagement can apply across a wide range of assets.

(iv) Endorses the principles embedded in the seven Principles of the UK Stewardship Code.

(v) Encourages engagement by our investment managers with the companies we invest money in on ESG factors, to positively influence company Behaviour and enhance the value of our investments.

(vi) Expects our investment managers to work together with others if this will lead to greater influence and deliver improved outcomes for us as shareholders; and encourage companies to do better on ESG issues, including lowering their carbon footprint.

(vii) Expects our Investment managers to take account of ESG factors as part of their investment analysis and decision-making process. Further, ESG issues will be an explicit factor in considering the appointment of any new investment manager, mandate and benchmark. More specifically all managers appointed will be expected to be signatories to the United Nations Principles for Responsible Investment

(viii) Would benefit from greater reporting on ESG factors, as part of our ongoing monitoring activities. To support this, Investment managers are expected to incorporate reporting on ESG factors into their regular reporting. This includes information on voting and engagement, in addition to details on how the investment managers assess and manage ESG factors in relation to their respective mandates. The Fund encourages investment managers to develop their reporting and monitoring of ESG factors over time.

(ix) Believes that we will have greater influence on the future direction of companies if we remain invested. Overall engagement activities are viewed by the Committee as a key element of the broader approach to responsible investing. Remaining invested provides the Fund with a voice on how companies are generating their revenues and how they will change in the future. The Committee retains the option to disinvest from companies however as being the ultimate sanction where it is considered that a company is not prepared to respond in a reasonable and timely manner or there is deemed to be an overall detrimental effect to the Fund.

(x) Intends to make use of collaboration with other funds to pursue our engagement policy (the Fund is a member of the Local Authority Pension Fund Forum ("LAPFF"), one of the UK's leading collaborative shareholder engagement groups).

(xi) Will continuously seek greater transparency of the ESG relative aspects (e.g. carbon footprint) associated with our underlying investments.

(xii) May consider investments which track market indices that have 'tilts' which avoid some types of investments that may not do well in ESG terms, or include more types of investments in line with ESG or responsible investment objectives or specific environmentally focussed portfolios.

(xiii) Believes training and education is likely to form a key element in developing the Fund and its Committee position on ESG related matters.

(xiv) Will look to publicly disclose our activity on ESG and Stewardship to all stakeholders.

Climate Change

12. The UK Climate Change Act 2008 (as amended) sets out government targets to cut CO_2 (carbon dioxide) emissions by 100% of 1990 levels by 2050. Both the UK and Welsh governments have publicly committed to achieve net zero carbon emissions by 2050, targets which may require further legislation to achieve.

13. In 2015 the government signed the UK up to the Paris Agreement which aims to decrease global warming and enhance the United Nations Framework Convention on Climate Change by:

a. Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change;

b. Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that does not threaten food production;

c. Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

14. In this context the Fund is mindful that previous estimates focused on estimating the damage if average temperatures were to rise by 2°C. In 2018 the UN Intergovernmental Panel on Climate Change (IPCC) issued a report which shows

that many adverse impacts of climate change will come at 1.5˚C of global warming. Limiting global warming to 1.5°C would require human caused CO_2 emissions to fall by about 45 percent from 2010 levels by 2030, reaching ‘net zero’ by 2050. Any remaining emissions would need to be balanced by removing CO_2 from the air.

15. What is clear is that whilst government targets and legislation may change, the Fund must maintain an ambition and a clear path towards meeting government requirements as set out from time to time in legislation or guidance, and must therefore review and re-set this policy approach and the targets it aspires to periodically.

Our overall approach to Responsible Investment

16. The Fund has committed to being a responsible investor. As such, we seek long-term sustainable investment that will give us long-term stable returns.

a. We believe that climate change is the largest material risk to the pension fund savings money that we’ve invested for LGPS beneficiaries for the long term.

b. Our overall policy aim is to lower the ‘carbon footprint’ of the greenhouse gas emissions of our investments, so that we are in line with the international targets to keep global warming well below 2°C. We set out how we will do this in a separate Climate Change policy.

c. The Fund will maintain an ambition and a clear path towards meeting government requirements as set out from time to time in legislation or guidance, and will therefore review and re-set this policy approach and the targets it aspires to periodically.

17. We have built consideration of ESG issues into our evidence-based investment decision-making processes, including setting out our funding and investment strategies.

18. We will work closely with the operator of the Wales Pension Partnership to ensure that pooled investments are available through which we can lower the carbon footprint of our investments, and achieve our policy aim of being in line with the international targets to keep global warming well below 2°C, recognising that these requirements may change over time.

19. The members of our Pensions Committee and Board and our officers will obtain regular specialist advice and training in ESG issues to ensure that our policy aims, objectives and procedures remain effective and our priorities remain valid.

Responsible and Active Ownership elements

20. As responsible investors we follow the principles of the 2012 Stewardship Code. We will sign up to the 2019 Stewardship Code when it comes into effect.

21. We will ensure that there is effective stewardship of the investment assets that we own. This includes: voting at shareholder meetings of companies that we invest in; and, engaging in a dialogue with companies about what they are doing on ESG issues, including moving towards a low carbon future. We collect information about stewardship that we use for evidence-based decision-making.

22. We believe that companies that are doing well on ESG issues are more likely to be long-term sustainable investments which will give us long-term stable returns, compared to companies that are not doing well on ESG issues.

23. Where the Fund continues in the short-term to hold shares in companies with higher carbon footprints or where they are not currently where we want them to be on ESG issues, then the Fund will actively engage to influence company behaviours and improve sustainability rather than simply sell our shares (called 'disinvestment') in those companies. This is because the company might be less likely to listen to us if we weren't a shareholder. However, if we don't think a company is making fast enough progress on ESG issues, then we will make an evidence-based decision about whether to disinvest our money.

24. We use specialist investment managers to carry out day-to-day investment activities for us, both directly and through the Wales Pension Partnership, with robust oversight and transparency. We require all our various specialist investment managers to take account of ESG issues when they make decisions about investing our money in different assets. We make sure that the specialist investment managers we use fully understand ESG issues, and what good ESG company behaviour is, by requiring them to be signed up to the United Nations Principles for Responsible Investment and the UK Stewardship Code.

25. We engage with companies that we invest pension fund money in to monitor that they are doing well on ESG issues. We think that successful engagement can protect and increase the long-term value of our investments.

26. We engage with companies in different ways:

a. We delegate day-to-day engagement activities to our specialist investment managers. We require them to influence companies to act well on ESG issues, act in line with the UK Stewardship Code, and work collaboratively with other investment managers if this will make engagement more successful.

b. We monitor our specialist investment managers by requiring each of them provide us with regular reports on their engagement activities in a clear and transparent standard format, so that we can compare the engagement activities of our various different investment managers. This includes information about the success or failure of engagement on ESG issues, and how companies are transitioning towards a low carbon economy.

c. We also work collectively with most of the other LGPS Funds to talk to companies about ESG issues, by being part of a group called the Local Authority Pensions Fund Forum (LAPFF). The Chair of our Pensions

Committee is on the LAPFF Business Executive. Collaborating with other investors gives us a stronger voice when engaging with companies – together the members LAPFF have over £350 billion of assets.

d. We keep our Pensions Committee updated with a summary engagement report, as part of their evidence-based decision-making on investments.

Reporting and Communications elements

27. It is our policy aim to deliver clear communications to all of our different stakeholders about what do, as a responsible investor, on ESG issues including the priority of climate change.

28. The target audiences for our communications about our responsible investment activities will include:

a. LGPS members and their dependents;

b. LGPS employers;

c. Elected Councillors (within those LGPS employers which have them);

d. Welsh Government;

e. Future Generations Commissioner;

f. The wider Public (in particular, council tax payers and council service users, and lobby groups).

29. As well as formal reporting in our Annual Report, we will be more transparent about our responsible investment activities by:

a. Including regular articles about our ESG activities in our pension fund newsletters for LGPS members and LGPS employers.

b. Engaging with Welsh Government, the Future Generations Commissioner and lobby groups on ESG activities as appropriate.

30. This policy framework will be subject to periodic review. Any comments on this policy are encouraged as part of the Fund's ongoing policy development work.

Torfaen Pensions,
Resources Directorate,
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