

Warwickshire Pension Fund - Responsible Investment Policy

Objectives

The Pension Fund Investment Sub-Committee (the "Committee") recognises that the Fund is a long-term investor with the primary goal to deliver sustainable pension benefits to its members and an affordable level of contributions for employers.

The Committee recognises that Environmental, Social and Governance considerations ("ESG") pose a financially material risk as well as an opportunity to the Fund and have the potential to significantly affect long-term investment outcomes. These considerations are relevant when it comes to the manner in which the assets are invested and in exercising stewardship responsibilities.

The Committee considers Responsible Investment ("RI") to have two key components:

- **ESG Integration** – considering the financial impact of ESG factors in investment decision-making.
- **Effective Stewardship** – acting as responsible and active investors through pro-active engagement with portfolio companies.

As part of the 2022 investment strategy review, the Committee reviewed and updated its investment principles, include those relating to RI. These principles strengthen the Committee's position with regard to RI and provide a framework for its engagement with investment managers and for investment decision making. They are documented in the Fund's Investment Strategy Statement and are reproduced in the Appendix below.

The Committee aims to implement best practice in RI and where appropriate to adopt relevant industry standards and codes of practice. The Fund is a signatory to the [UN Principles of Responsible Investment] and aims to become a signatory of the UK Stewardship Code. The Fund expects its investment managers to comply with these or equivalent standards, either on appointment or within a reasonable time-frame thereafter.

The Committee expects all the Fund's investment managers including the Border to Coast Pensions Partnership ("BCPP") to embed ESG factors into their investment decision-making processes and stewardship activities, with a focus on long-term sustainable returns.

The Committee [has] reviewed the RI policies of its investment managers and has satisfied itself that they are consistent with the Fund's own policies. The Committee will regularly monitor its managers' RI policies and actively engage with them to facilitate change as required.

RI Themes/Priorities

The Committee considers a range of ESG factors in its investment decision-making and stewardship activities and expects its investment managers to do the same. The Committee recognises that certain issues warrant more detailed scrutiny because of their potential impact and for increased effectiveness.

The Committee will review its RI priorities periodically and at least annually and ensure they are reflected in its investment decision-making and stewardship activities and, as far as practicable, those of its investment managers. The current priorities are:

[There is choice to be made here. The Fund could adopt BCPP's priorities which are: low carbon transition, diversity of thought, waste/water management and social inclusion through labour management. This would ensure closer alignment.]

Alternatively the Fund could agree its own priorities and seek to implement them, as far as practicable, through BCPP and its third-party fund managers, accepting that compromises have to be made whenever investments are pooled]

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The Committee recognizes that the issue of climate change is particularly significant and has prepared a separate Climate Risk policy [Add link].

ESG Integration

The Committee recognises that ESG factors can be integrated into all stages of the investment decision-making process and have the potential to significantly affect long term investment outcomes.

The Committee will consider the impact of ESG factors with respect to their impact on financial risk/returns to the Fund when setting the Fund's investment strategy and the structure of its investments.

The Fund delegates many investment decisions to BCPP and its other investment managers. They will be expected to have clear policies on RI and integrate consideration of ESG factors into their investment decision-making.

The Committee will incorporate RI considerations into its selection process for new investment managers. Potential managers' approaches to RI and the extent to which they incorporate ESG issues into their investment processes will be a factor in the Committee's decision making.

The Committee receives regular reporting from its investment managers on RI matters and will monitor compliance with their stated RI policies.

The Committee will undertake regular formal training sessions that cover RI. This training will be sought from the Committee's investment advisors, investment managers, the Border to Coast Pensions Partnership, external specialists and/or other engaged pension funds to provide exposure to a range of opinions and approaches to effective governance.

Stewardship

The Committee considers that Effective Stewardship can enhance investment outcomes and is consistent with its fiduciary duty to members of the Fund. It believes that positive changes brought about by stewardship can benefit the Fund directly in terms of the financial return on its investments and indirectly by contributing to improving the performance of the economies in which it invests.

The Fund and its investment managers employ a range of stewardship tools to achieve the desired outcomes.

Engagement with portfolio companies through meetings with management, considered voting of shares and where appropriate board representation is the primary mechanism. This form of engagement is largely delegated to the Fund's investment managers. The Committee has prepared policies on voting other engagement matters [Add link to voting and conflicts] and expects its investment managers to comply with them.

Engagement with policymakers and other stakeholders has an important role to play as well. The Fund pursues this form of engagement through its membership of the Local Authority Pension Fund Forum ("LAPFF") and through its investment managers.

The Committee believes that all engagements should have a clearly defined objective and plan and that outcomes should be carefully monitored. The overall aim of all engagements should be to deliver improved financial risk/returns to the Fund.

The Committee is supportive of collaboration to achieve better engagement, as evidenced by the Fund's membership of LAPFF through which it collectively exercises a voice across a range of corporate governance issues. The Committee also works with other Funds within Border to Coast to enhance the level of engagement both with external managers and the underlying companies in which it invests.

The Committee believe that successful engagement is preferable to divestment or exclusion, but recognizes that

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there are circumstances where divestment or exclusion are appropriate. Divestment refers to the partial or complete sale of existing investments. Exclusions rule out making investments in particular classes of company.

The Committee notes that divestment/exclusion denies the Fund the opportunity to influence change in portfolio companies and to capture the value generated by such changes. But it considers that divestment or exclusion may be appropriate where:

- Portfolio companies espouse values that do not align with the Fund's investment principles
- Portfolio companies are not receptive to engagement, or are unwilling or unable to change
- Persistent engagement has failed to deliver the desired outcomes.

The Committee expects all divestments or exclusions to be justified on financial grounds.

The Fund delegates many stewardship activities to BCPP and its other investment managers. The Committee expects both active and passive managers to act as responsible and active owners and engage with portfolio companies where appropriate. Engagement with portfolio companies to positively influence company behaviour and enhance shareholder value is strongly encouraged.

The Committee considers the Fund's investment managers to be best placed to engage with portfolio company management. This is due to the Fund being constrained in what decisions are available to them within pooled funds, as well as the resources and existing relationships with portfolio companies that are available to the Fund's investment managers.

The Committee believes that the Fund's investment managers should be able to demonstrate the reasoning behind any engagement activity, the objectives of the engagement activity, the approach taken to achieve the objectives, the timeframe over which the engagement is expected to take place and the consequences should engagement be unsuccessful.

The Committee recognises that it can influence the behaviour and practices of their investment managers with regard to stewardship through engagement, even where assets are invested through pooled funds such as those offered by BCPP.

The Fund aims to achieve engagement through regular meetings with investment managers, at which managers are expected to demonstrate how they have integrated RI issues into their investment decision-making processes and stewardship activities. Managers will be challenged on their approach where this is not aligned to the Fund's RI and Climate Risk policies.

Monitoring

The Fund expects all its investment managers to incorporate RI matters into their regular reporting. This will include information on voting and engagement, as well as any actions they are taking in assessing and managing ESG-related risks in relation to their mandates.

The Fund expects investment managers to provide them with the latest versions of all RI and other relevant corporate governance policies.

The Committee will continue to monitor the RI policies of all its investment managers, and their implementation of these policies, to ensure alignment with the Fund's RI and Climate Risk policies, and will take remedial action if issues are identified.

The Fund's investment managers are expected to report on the objectives of engagement activities, along with the consequent success or failure of any actions taken on, at least, an annual basis.

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The Committee expects its investment consultant to provide input and analysis to assist the Committee in assessing their managers' performance in all aspects of RI.

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The Committee will monitor the investment managers' reporting against relevant frameworks including the [UN PRI] and the UK Stewardship Code, 0 and other relevant standards and codes of practice.

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Disclosure

The Fund will report on the implementation of this RI policy, including stewardship activities undertaken on behalf of the Fund, [on an annual basis].

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Both this policy and the Fund's Climate Risk Policy will be reviewed annually.

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The Fund is committed to being transparent and accountable in terms of its RI performance. As such the Fund will publish its RI and Climate Risk Policies and reporting online.

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Appendix - Responsible Investment principles

The Fund is a long-term investment vehicle which should be managed to generate sustainable investment returns over the long-term. This will be achieved by Responsible Investment ("RI"), which is the practice of integrating consideration of Environmental, Social and Governance ("ESG") factors, including climate change, into the investment process (as further defined by the UN Principles for Responsible Investment – www.unpri.org).

The Fund should consider as broad a range of investment opportunities as possible, subject to these being compatible with its risk appetite and RI considerations

The Fund invests for the long-term, so ESG factors are expected to have a material impact on investment outcomes.

The Committee believes that climate change and the expected transition to a low carbon economy will have a significant long-term impact on the Fund and considers managing the associated financial risks to be part of its fiduciary duty.

The Committee believes that the transition to a low carbon economy will create investment opportunities and will mandate the Fund's investment managers to seek out these opportunities.

The Committee believes that an RI approach will enhance long-term investment outcomes as well as benefiting the economies and societies in which the Fund invests, and is therefore consistent with the Fund's primary purpose.

The Committee believes that, in relation to the management of ESG factors, ongoing engagement with portfolio companies is preferable to divestment. Divestment should remain an option if engagement proves unsuccessful.

The Fund should retain responsibility for setting RI policy but will delegate much of the implementation to BCPP and its other investment managers. The Committee regularly monitors and evaluates its investment managers' approach to RI.

The Fund should only invest with managers who comply with relevant regulations and codes of practice (eg UK Stewardship Code) and have committed to provide full disclosure on ESG issues.

The Fund expects its investment managers to invest responsibly and to engage proactively with the management of portfolio companies on key ESG issues, including climate change, wherever it is cost effective to do so. The aim of such engagement should be to enhance investment returns and risk profile by positively influencing portfolio companies on such matters.

The Committee believes engagement is more effective when carried out in collaboration with other investors (eg via BCPP or LAPFF).

Full disclosure of the Fund's RI policy and activity strengthens accountability and should be embraced.

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The Committee should focus on meeting its financial obligations to pay benefits to members.¶
Long-term sustainable investment returns are an important consideration, even to the extent that the sustainability of returns extends beyond the expected investment horizon of the Committee.¶
The Committee believes there will be opportunities for investments which support and benefit from the transition to a low carbon economy, and will seek out these opportunities for the Fund.¶
The Committee believe that, in relation to ESG risks, ongoing engagement with investee companies is preferable to divestment. This engagement is via our managers or alongside other investors (e.g. LAPFF).¶
Where, over a considered period, however, there is no evidence of a company making visible progress towards carbon reduction, we believe that divestment should be actively considered.¶
The Fund's Investment managers' approaches to RI, including the integration of ESG into investment decision making and the use of engagement, must be assessed and monitored. This includes ongoing monitoring of the BCPP.¶
Responsible ownership benefits long term asset owners. Asset owners, fund managers, and companies with clear responsible investment policies are expected to outperform companies without responsible investment policies, over the longer term.¶
The Fund's investment managers should act as responsible and active owners through considered voting of shares, and engagement with company management when required. Engagement by its investment managers with investee companies on ESG issues to positively influence company behaviour and enhance shareholder value is strongly encouraged.¶
Passive and active managers should actively engage with companies and comply with the Financial Reporting Council's Stewardship Code.¶
Climate change and the expected transition to a low carbon economy is a long-term financial risk to Fund outcomes and is considered to be part of our fiduciary duty.

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