

### ***Introduction***

1. 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.

2. 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.
3. 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.
4. This Responsible Investment Plan 2022/23 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***

5. 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>
6. 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."

### **Wiltshire Pension Fund as an investor**

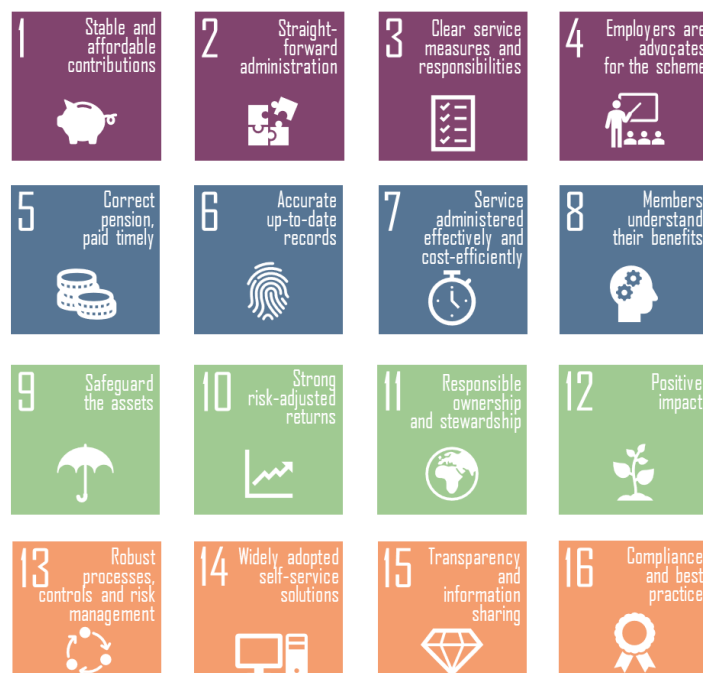
7. As the Fund is open to new members, who will not be retiring for many years into the future, the Fund has a very **long-term investment horizon**. The Fund therefore needs to consider long-term sustainability issues, and the importance of engagement with companies in which it is invested, in order to safeguard the investments into the future.
8. 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.
9. 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**

10. As part of approving the Business Plan for 2022/23, the Fund has adopted a new vision:

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

11. 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.
12. 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.



13. 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:



14. 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.

15. 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.



16. The Fund’s Business Plan contains several actions related to responsible investment for 2022/23:

- i. Completing a full review of the Strategic Asset Allocation – this triennial piece of work will ensure that the Fund’s investment strategy is set to deliver sustainable long-term returns for the Fund into the future.
- ii. Becoming signatories of the Stewardship Code 2020 – the Fund will make a first submission in April 2022, and if unsuccessful will refine the approach and make a further submission in October 2022.
- iii. Implementation of the impact affordable housing and renewable infrastructure portfolios.

- iv. Participating in the Brunel climate stocktake, which will help inform the direction of travel for the partnership in this area.
  - v. Collaborating with legacy managers and the Brunel pool to ensure that portfolios are fit for purpose, can be aligned to our broader climate objectives, and that data provision is adequate to allow for a meaningful assessment of progress against targets.
17. Climate change risk is included in the Pension Fund's risk register (risk PEN041) 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 the last year to quantify and mitigate this risk.

### ***What has been done to date***

18. The Fund has historically demonstrated a strong approach to responsible investment. The following actions are a summary of work done by the Committee and officers over 2021/22, and build on the strong foundations laid over past years.

### **Investments and strategy**

- i. **Sustainable Equities** – the climate scenario modelling which the Fund commissioned in 2020 indicated that the Fund could see a material financial benefit from allocating to sustainable active equities (compared to global active equities). Following a training session, the Committee made the decision to allocate half of the Fund's active equity exposure to a portfolio of sustainable equities managed by Brunel. The transition (of around £300m) was completed in September 2021.
- ii. **Paris-aligned passive equities** – the Fund collaborated with other partner funds and the Brunel pool to develop a Paris-aligned benchmark, and transitioned all passive equity exposure to a passive portfolio which tracks this benchmark in November 2021. This benchmark is more sophisticated – the previous low carbon benchmark weighted companies according to their carbon intensity (lower carbon intensity = higher weighting), but the Paris-aligned benchmark also uses several metrics to analyse companies' ability to transition to a low carbon economy, so is more forward-looking.
- iii. **Protection assets** – the Committee commissioned a review of the protection assets, in order to ensure that this allocation was being delivered as effectively as possible. Following this review the Committee made strategic allocations of 5% each to impact affordable housing and renewable infrastructure.
- iv. **Setting interim decarbonisation targets and a climate action plan** – following on from the modelling work, in September 2021 the Committee debated options and decided to adopt a "transition leaders" decarbonisation curve, in order to take advantage of opportunities to reduce emissions which are present in high-emitting existing portfolios, and set interim targets and a climate action plan.
- v. **Responsible Investment Policy** – the Committee approved the Fund's first Responsible Investment Policy, which contains the climate action plans mentioned above, and was published in September 2021.

### **Reporting and disclosure**

- vi. **TCFD (Task Force on Climate Related Financial Disclosures) reporting** – the Fund's first report in line with the TCFD recommendations was published in July 2021, both as a separate report and included within the Fund's Annual Report 2020/21.

- vii. **Developing plans to report in line with the Stewardship Code 2020** – the Committee has shown support of the updated Stewardship Code (the Fund was a signatory of the previous code). During the year a gap analysis exercise was carried out on the Fund’s existing reporting compared to the requirements of the 2020 Code. A plan has been developed and the Fund will be making a first submission to become a signatory of the 2020 Code in April 2022.
- viii. **Wider initiatives** – as part of the Responsible Investment Plan for 2021/22, the Committee approved that the Fund should sign up to various initiatives to gain support in this area and benefit from working with other investors. This was completed during the year – the Fund is now a member of the Institutional Investors Group on Climate Change (IIGCC), Climate Action 100+, and has signed a statement of support for a Just Transition. In addition to this the Fund was already a member of the Local Authority Pension Fund Forum (LAPFF) and a supporter of the Transition Pathway Initiative (TPI). Effectiveness of these memberships is described later in this Plan.
- ix. **Annual Report 2021/22** – officers have developed plans for reporting progress in the 2021/22 annual report, which will include more stakeholder information this year.

### **Training and engagement**

- x. **Dedication to Committee training** – the Committee has engaged with several training sessions on responsible investment in general, including a re-run of the climate scenario modelling training, for the benefit of newer Committee members, impact investing, affordable housing, sustainable equities and Paris-aligned benchmarks.
- xi. **Strong programme of scheme employer and membership engagement** – the Fund’s investment webpages have been fully redesigned to include a wealth of information on what the Fund invests in and why. The scheme employers were surveyed during the year on strategic issues, and as a result a new Employer Strategic Focus Group has been set up. A series of factsheets were distributed to members, including information on investments, as part of Pension Awareness Week, in September 2021. The Fund published a 1-page climate factsheet in the run up to COP26, the UN’s climate conference, which was read by over 7,000 members.

### **Where the Fund needs to be**

19. 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.
20. 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. This will be reviewed as part of the full review of the Strategic Asset Allocation during 2022;
  - 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, 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.

21. 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 a new allocation to renewable infrastructure which is in the process of being implemented.
22. The next asset classes which the Fund will need to review are property and infrastructure, but all asset classes will be reviewed during the full review of the SAA which will take place during 2022.
23. The Fund will also review the Responsible Investment Policy annually, with a first review targeted for September 2022.

### **Stewardship**

24. 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”.
25. 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 plans to become a signatory. The 2020 Code is ambitious and has a focus on outcomes, not just policy statements. The Fund will make a first submission to become a signatory in April 2022.
26. 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.
27. 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)**

28. 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]

## SUSTAINABLE DEVELOPMENT GOALS



### **Wider Initiatives**

29. 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 can proceed with signing up, as was agreed in the 2021/22 Plan.
- 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 PAIL (Paris Aligned Investment Initiative) net zero commitment. The PAIL 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/>



## Responsible Investment Road Map

### Q2 2022 -

**Investments and strategy:** Progress the next stage of the Mercer work on climate, to look at bottom-up and engagement targets. Implement the first stage of the renewable infrastructure portfolio.

**Reporting and disclosure:** Expand our portfolio coverage in terms of carbon metrics, and develop our TCFD reporting.

**Training and engagement:** Publish the 2020 Stewardship Code submission and mini-magazine version. Training on strategic asset allocation for Committee members.

### Q3 2022 -

**Investments and strategy:** Complete the strategic asset allocation (SAA) review, embedding sustainability and climate considerations. Review the climate modelling findings from the actuarial valuation 2022.

**Reporting and disclosure:** Monitor and report progress against the interim decarbonisation targets. Develop impact metrics reporting for the affordable housing portfolio.

### Q4 2022 -

**Investments and strategy:** participate in the Brunel climate stocktake and input into shaping policy and direction of travel. Review the RI Policy.

**Reporting and disclosure:** establish decarbonisation targets for property and infrastructure, and develop plans for other asset classes.

**Training and engagement:** expand the stewardship and voting information on the website

### Q1 2023 -

**Investments and strategy:** update Investment Strategy Statement . Complete implementation of the affordable housing and renewable infrastructure portfolios.

**Training and engagement:** investigate use of a tool to enhance holdings transparency for stakeholders. Investigate the topics of biodiversity, and reporting against the Taskforce on Nature-related Financial Disclosures (TNFD).

## **Resourcing**

30. 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 regarded 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.
31. 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.
32. Through the Brunel pool and a wider network of contacts, officers regularly share responsible investment knowledge, ideas, progress, updates etc. with other LGPS funds.
33. 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>
34. 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.
35. The Fund has access to information through the various initiatives it has signed up to, including reading materials, relevant data, and access to training.
36. 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***

37. 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 2022/23 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;
- Carry out further work to develop the stewardship area of the website, enhancing the information provided on voting and engagement records with more analysis and value-add information;
- 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;
- Design a short video for Pension Awareness Week 2022 to engage with the membership and build their understanding and awareness of their pension benefits;
- Consult with employer organisations on 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.