

REPORT TITLE: Responsible Investment Policy

Meeting:	Pension Board
Date:	31 July 2024
Item Type:	For Information
Purpose of Report:	<p>To receive the results of the employer and member engagement process which has recently been undertaken, as requested by Committee following approval of the draft Responsible Investment policy in December 2023.</p> <p>To note the approved Fund's Responsible Investment Policy. The Policy sets out the Funds approach to Responsible Investment and details the actions the Fund, Brunel Pension Partnership ("Brunel") and other external providers take on behalf of the Fund's members and other stakeholders, to enhance long-term risk adjusted returns and protect the Fund from ESG and reputational risks.</p>
Recommendations or Actions Sought:	That the Board notes the approved the Responsible Investment Policy, attached to the report
Background Documents:	The Investment Strategy Statement of the Fund approved by Committee in December 2022: Gloucestershire Pension Fund - Investment Strategy Statement
Appendices:	Appendix 1 – Responsible Investment Member Survey Results Appendix 2 – Responsible Investment Policy
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Introduction

The Pension Committee ('Committee') has a fiduciary duty to act in the best interest of the members. To do this effectively the Committee recognised the importance of managing Environmental, Social and Corporate Governance ('ESG') issues, including climate change, that are financially material to the Fund, both in terms of opportunities and risks.

It is important that ESG considerations and active ownership are integrated throughout investment processes and that they are considered as part of funding and investment strategy setting.

The Committee recognised the importance of working collaboratively with the Brunel Pension Partnership (Brunel) to make the Fund's ESG approach effective.

The Committee defines Responsible Investment (RI) as the integration of ESG issues into its investment processes and stewardship (or active ownership) practices in the belief this can positively impact financial performance over the long term.

A draft Responsible investment policy was developed and approved by Committee for employer and member engagement in December 2023, recognising the importance of ensuring that this policy reflected the views and beliefs of its members.

Employer & Member Engagement

In February 2024, a copy of the draft policy was sent by email to all employers within the Fund, inviting them to provide any feedback or observations on the policy, or the embedded targets and ambitions that the Fund has approved.

Despite following up requests for feedback, only 3 formal responses from employers were received. This is very disappointing and whilst the feedback received was generally positive it clearly cannot be taken as representative of all employers within the Fund, which stood at 241 as at end of March 2024. A summary of the feedback received are as follows:-

- Whilst the net zero target of the Fund was welcomed two of the three employers had already set their own targets of 2030 and requested that the Fund consider setting a more ambitious target.
- A biodiversity review was welcomed within a future investment strategy.
- One Employer requested divestment from fossil fuels.
- Further clarification on the extent and definition of controversial weapons was requested.
- One Employer had set their own policy on the avoidance of investments in fossil fuel extraction and combustion; armaments & weapon systems; gambling; pornography; tobacco and pay day loans and welcomed the Fund's consideration of these areas within the policy.
- One Employer requested further clarity on how the annual accounting valuations (IAS19) are undertaken to ensure that carbon related asset analysis is also made available so that Pension Fund assets are fully considered within their own net zero target performance and monitoring.

The process for member engagement as always going to be more problematic for the Fund to undertake. As Committee will be aware that whilst the Fund have a strategic plan to improve communications and engagement with its members, through member self-service portals etc, the Fund does not currently hold email contact addresses for its members. As a result, following review and discussions with partner Brunel Funds, the following approach in seeking views of both active and pensioner members within the scheme was taken:

- With the assistance of the council's communications team, an on-line survey was developed to assess individual member views and beliefs on responsible investment and the draft policy proposed by Committee. The survey was open between 8th April 2024 to 19th May 2024.
- The Fund's Website was updated to include the draft responsible investment policy and to provide a link to the member engagement survey.
- An article was included within the annual pensioners newsletter which was sent to all pensioners within the Fund in April 2024, which provided a weblink and QR code link to the survey encouraging their participation.
- Details of the members survey was sent via email to all employers within the Fund asking them to cascade this information down to all their employees who are active members of the fund, encouraging their participation.
- Articles were included in the County Council's internal "Talksmart" newsletter on two occasions making staff aware of the survey.
- Due to the prohibitive postal costs associated with deferred membership engagement it was decided not to make direct contact with these members on this occasion.

The Fund received a total of 61 formal responses to the online survey. This is clearly very disappointing, and this only equates to a 0.15% response given that the fund had 39,683 active and pensioners members at the end of March 2024. Whilst the results cannot be taken as fully representative of the full membership, it does provide a small insight in some members beliefs and opinions. Further analysis of the survey results can be found in Appendix 1, but the following executive summary is provided below:

- The majority of members who engaged were active members of the Fund. (91.8%)
- The majority of the responses received were from those who were older than 50 years of age, with the largest age group being those within 50-59
- 60.7% of respondents were female.
- 34.4% of respondents felt that the Fund should actively contribute to positive impacts on society, communities, and the environment, avoiding negative ones.
- Although 39.3% of respondents felt that climate change presented a significant risk to investments, an equal number selected maybe, indicating some uncertainty.
- 54.1% agreed to the Fund investing in sustainable and low carbon assets.
- 37.7% welcomed the Fund's Net Zero target of 2045.
- Whilst Climate Change was identified as an important ESG issues, Executive pay and how companies are run, together with social issues also scored highly.

- Only 13% of respondents answered positively to the question on fossil fuel investment.
- 50.8% of respondents indicated very negative view on investing in tobacco companies.
- 42.6% of respondents support the current engagement policy to influence change in reducing negative impacts, but a further 29.5% of respondents welcomed this approach but felt that there should be consequences if companies do not implement change, including divestment.
- 47.5% of respondents welcomed the policy and felt that this was appropriate, although almost a third of respondents (26.2% indicated that they didn't know).
- 74.1% of respondents had not previously accessed the Fund's Investment Website.

Fund Affiliations and Initiatives

The Fund has exposure to a range of Responsible Investment affiliations and initiatives either directly or via Brunel. These are captured in the proposed RI policy.

Below are the newly approved Affiliations to support the Fund in meeting its net zero aspirations:

	Purpose of the Organisation/Initiative	Annual Subscription/Membership Costs
Pensions for Purpose	<p>Pensions for Purpose exists as a bridge between asset managers, pension funds and their professional advisers, to encourage the flow of capital towards impact investment. Their vision is to empower institutional investors and businesses to value people and planet alongside profit by inspiring our community to embed these priorities in how they think, operate, and invest. They have been building their network since 2017, bringing stakeholders together to share best practice and promote understanding in ESG, sustainable and impact investment.</p> <p>Currently Brunel, Cornwall, EAPF, Oxford and Wilshire are members Further information can be found:- Pensions For Purpose</p>	Membership is available without any annual subscription charges or fees.

Responsible Investment Policy

Following the recent employer and member engagement the draft Responsible Investment Policy was reviewed to ensure that it reflected the current arrangements in managing our investments through the Brunel Pension Partnership and the following changes have been incorporated within the policy:

- Section 4, Affiliations, and Initiatives has been updated to include a note that the Fund are assessing membership to Pensions for Purpose.
- Section 6.1, Strategic Asset Allocation, has been updated to reflect the current position regarding the appointment of fund managers under the new strategic asset allocation for Social, Affordable Housing.
- Section 6.4, Engagement vs Disinvestment, has been updated to provide more information of the activity-based exclusions policy which is currently under discussion with Brunel and partner funds. This would apply to equity and corporate bond listed market portfolios, (non-passive) and would set percentage parameters or limits for thermal coal & oil, sand extraction revenues, and controversial weapons and tobacco production revenues, and are intended to improve the assessment and management of investment ESG risks.

The remaining sections of the policy were unchanged from that approved by Committee for member engagement in December 2023, and considered to be appropriate. This is a fast-evolving area, and the Fund will continue to monitor and adapt this to ensure that this remains affective.

The policy includes specific climate targets which Committee approved in December 2023, and progress against these targets in achieving reductions in carbon emissions and increasing sustainable investments will be undertaken through the annual monitoring of the ACT analysis (see separate agenda item) with the findings incorporated within the Fund's TCFD reporting framework. The Fund's first Taskforce for Climate Related Financial Disclosures (TCFD) report will be presented to Committee in September 2024.

The revised policy approved by Committee in June 2024 can be found in Appendix 2.