



# Greater Gwent (Torfaen) Pension Fund

## Responsible Investment Policy

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# Responsible Investment Policy

## Introduction and background

This policy defines the commitment of the Greater Gwent (Torfaen) Pension Fund ("GGTPF" or the "Fund") towards Responsible Investing ("RI"). The policy sets out the Pensions Committee's ("the Committee") approach to RI, as well as acknowledging its responsibilities as an asset owner, investment beliefs, principles, and long-term RI objectives. This is consistent with the Local Government Pension Scheme Management and Investment of Funds Regulations (2016).

The United Nations Principles for RI (PRI) defines RI as a strategy and practice to incorporate Environmental, Social and Governance (ESG) factors in investment decisions and active ownership.

The Committee has a fiduciary duty to act in the best interests of its members. In order to do this effectively the Committee recognises the importance of engaging with ESG issues, including climate change, and managing risks associated with them.

It is now widely recognised that a global climate emergency exists and that long-term sustainability, particularly in respect of climate change, is both a physical and financial risk. In 2019 the Welsh Government declared a climate emergency; in 2021 it made a commitment to achieving net zero by 2050 but has ambitions to get there sooner. As a locally administered Local Government Pension Scheme (LGPS) it is imperative that ESG considerations and active ownership are integrated into the investment management process and are actively considered as part of the investment strategy setting process.

The day-to-day investment management of GGTPF's assets is delegated to professional investment managers. Representatives of the GGTPF regularly meets with these investment managers who are expected to provide a summary of actions that they have taken, or are taking, in respect of ESG risks.

The Committee commits to an ongoing development of its RI policy to ensure that it reflects latest industry developments and regulations. The ESG policy will be reviewed annually by the Committee and its advisors and in accordance with the Investment Strategy.

As a responsible investor, the Committee strives to consider both financial return and environment, social and governance matters to bring about positive change.

The Fund strives to invest responsibly, as opposed to ethically. An ethical investor will generally exclude certain investments from the outset, or following stakeholder pressure, as this decision may be considered more important than financial considerations. A responsible investor will invest across a range of listed companies but will use the power of ownership to influence companies to improve their ESG performance to manage risk and generate long-term returns. For example, an ethical investor may rule out the prospect of investment in fossil fuels, but a responsible investor may instead consider investment in some oil and gas companies to support their investments into cleaner forms of energy, leading to positive impact and change by helping to drive the energy transition away from fossil fuels.

In addition to managing its own investments, the Fund participates in the Wales Pension Partnership (WPP) pooling entity which involves the pension assets of all eight LGPS funds across Wales. The WPP provides collective investment solutions intent on achieving investment management fee savings, improved long-term investment performance as well as enhanced governance and transparency. Although the Fund, via the Committee, remains responsible for setting the investment strategy and policies with regards to RI, the WPP has a role to play in supporting the delivery of these objectives in the long-term.

## Purpose and scope of the policy

This policy sets out the GGTPF's approach to RI activity. Our approach is informed by a number of widely recognised industry initiatives, most notably the aims and objectives of the Stewardship Code and Principles of Responsible Investment (PRI).

The Committee recognises that this policy, over time, will continue to evolve to reflect best practice, prospective developments and increasingly sophisticated methods of analysis and research. As such, the Committee is committed to reviewing this policy on at least an annual basis.

The GGTPF's purpose in developing and implementing this policy is to demonstrate to stakeholders that the Committee recognises the importance of making the Fund resilient to ESG risks and enable the appropriate steps to be taken towards this goal.

The Committee recognises that RI considerations may pose financially material risks to investment assets held within various investment mandates. Such considerations are relevant both in the way the Fund invests its assets and in the exercise of its stewardship responsibilities. The Fund will seek to apply this RI policy to all asset classes over time, working through third parties where relevant.

As detailed below, the Fund is an active member of the Local Authority Pension Fund Forum (LAPFF). The role of LAPFF is explained within this policy.

## Our Policy Objectives

The GGTPF through the implementation of this policy wants to:

1. Work with the WPP, LAPFF as well as other like-minded investors who recognise that working collaboratively can achieve a greater influence than acting unilaterally.
2. Take a proactive approach to evaluating ESG risks and opportunities which are considered more likely to result in long-term benefits for the Fund and its beneficiaries.
3. Set realistic targets in a climate change context and reduce our carbon footprint.
4. Ensure that transitioning to net zero both maximises the opportunities of a green economy and mitigates the risks.
5. Make strides towards allocating capital to positive impact investment opportunities that provide tangible benefits to society alongside an investment return required to ensure a sustainable LGPS.

## Our Responsible Investment Beliefs

The Committee has a long-term ambition to demonstrate leadership on RI practice in the management of its assets for and on behalf of its stakeholders. To shape our approach, the Committee considers its investment beliefs alongside the UNPRI:

UNPRI Principles	RI beliefs
1. To incorporate ESG issues into investment analysis and decision-making processes	The Committee believes that ESG risks can have a material financial impact on the long-term performance of Fund investments and consideration of such factors forms part of the Fund's fiduciary duty.
2. To be active owners and incorporate ESG issues into our investment and funding strategy	<p>The Committee considers the integration of ESG risks into investment processes, including climate change and that this is a prerequisite for any strategy, given the potential for financial loss and stranded asset risk.</p> <p>There is a belief that climate change should not be the Committee's sole ESG consideration, not least because action on climate change is often linked to action on wider social factors.</p>
3. Seek appropriate disclosure from the entities in which we invest in	The Committee believes that all appointed investment managers, advisors, and service providers should give appropriate consideration towards ESG risks within Fund portfolios. The Committee expects its appointed investment managers to monitor ESG risks and report on findings transparently.
4. Promote the acceptance and implementation of the UN PRI principles within the investment industry	<p>There is a belief that the Fund, as well as the WPP, should not consider the appointment of investment managers who are not signed up to the UNPRI principles.</p> <p>The Committee believes that the Fund, via its officers and advisors, should as far as possible, encourage all current investment managers not already signed up to work towards that goal.</p>
5. Work in collaboration to enhance the effectiveness in implementing the principles	<p>The Committee believes that their duty is to act in the best financial interests of the GGTPF's beneficiaries and that it is most effective engaging for change as an owner or capital provider, particularly in collaboration with other like-minded investors, as opposed to campaigning or lobbying for change from outside.</p> <p>There is a belief that the impact on corporate behaviour will be greatest when speaking with one voice, meaning that the impact on corporate behaviour will be greatest when collaborating on engagement with other like-minded peer institutional investors. The Committee consider this to be most effective by working with the WPP via its V&amp;E provider, as well as the LAPFF.</p>
6. Report on responsible investment activity and progress towards implementing principles	The Committee expect all appointed investment managers, including the WPP, to report on the ESG risks within their portfolios on a regular basis.

The Committee will seek to test the adherence of the investment arrangements for GGTPF to its beliefs on an annual basis.

## Our Responsibilities

The Committee believes in being a good 'steward' in overseeing the management of assets on behalf of its members and has ambitions to become a signatory to the UK Stewardship Code. Stewardship of assets is the responsible allocation, the management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, environment, and society. The Committee believes that proper stewardship of assets is entirely consistent with generating returns that are necessary for longer-term financial sustainability and affordability of the Fund. In fact, engaged stewardship is expected to enhance returns and reduce risks thereto over time.

In addition to good stewardship, the GGTPF also has a 'fiduciary duty' to its members and beneficiaries. Fiduciary duty can be described as a core responsibility to act in the best interests of pension scheme beneficiaries in order to assure that such scheme members in retirement, or dependants in the case of member death, can enjoy the expected income benefits. Fiduciary duty includes the requirement that all participants should act in good faith, in the best long-term interests of the client and their beneficiaries, with loyalty and prudence, and in line with generally prevailing standards of decent behaviour. The Committee believes that its fiduciary duty is in line with its RI objectives.

In order to invest responsibly, the Committee must consider ESG risks as part of the investment decision making process. In addition to setting the investment strategy of GGTPF, the Committee recognises that ESG issues can lead to financially material risks and, as such, should be part of the assessment and monitoring of investments.

## Stewardship

Stewardship is 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. We recognise that capital is required to create new industries, transform existing ones, and finance green infrastructure projects both locally and in the wider community.

The Committee believes that failing to exercise voting or other rights attached to assets could be contrary to the interests of GGTPF beneficiaries. The Committee believes that engaging with companies is preferable to a policy of blanket disinvestment and a more detailed position on Engagement is set out below.

The GGTPF, via the WPP, invests a substantial amount of its assets within sub-funds developed to meet the needs of the eight LGPS funds in Wales. Over time it is expected that the vast majority, if not all assets, will be under the investment management of the WPP or else held through the collective passive arrangement through BlackRock, which predates the movement to pool LGPS assets.

To assist with its stewardship responsibilities, the WPP (and hence the eight underlying funds) have appointed a specialist Voting and Engagement Provider (V&E provider) to undertake proxy voting on all shares held within the WPP sub-funds and to undertake direct engagement with companies on behalf of the WPP.

## Voting

Historically the GGTPF has delegated responsibility for voting activity to its externally appointed investment managers.

In collaboration with the WPP and neighbouring Constituent Authorities (CA's), the Committee has now approved the implementation of a WPP voting policy. The voting policy is implemented by an externally appointed V&E provider who are responsible for casting votes on behalf of all WPP investments.

The Committee recognises that for assets that remain invested outside of the WPP, appointed Investment Managers may adopt a single voting policy that is not entirely consistent with that of the WPP. The Committee, via the RI Working Group (RIWG), will review additional voting policies for appropriateness on a periodic basis. Progress on the development of the Funds voting policy will be reported to the Committee on a regular basis.

The Committee will receive reports on voting activity in relation to WPP investment mandates, including details of any votes which have not been cast and explanations where votes have not been cast in accordance with the agreed principles on a quarterly basis. As policy owner for the eight Welsh LGPS funds, it is the role of the WPP to raise issues or concerns with the V&E provider and report these back to CA's as necessary.

The WPP has committed to reviewing its existing voting policy in conjunction with its CA's, V&E provider, advisers, and investment managers on an annual basis.

As stated above, the GGTPF is a member of the LAPFF. As such, Fund officers and Committee members receive LAPFF alerts when there is a campaign to vote in a certain way. The Fund has instructed the V&E provider, via the WPP, to consider all such LAPFF alerts and, where considered appropriate, to vote in line with such an alert.

## Stock Lending

The Committee believes that stock lending can be an effective way to generate additional revenue in accordance with its investment strategy. However, the Committee also recognises that stock lending should not be used to the detriment of being a responsible investor. It is recognised that stock lending may inhibit the full application of a voting policy as votes may not be cast on stock on loan and so there is a balance to be achieved as a result.

The Committee has agreed to stock lending activity being undertaken on the WPP's actively managed pooled fund investments. However, within the WPP's stock lending policy is an explicit requirement not to lend 100% of holdings in any single stock so that the WPP, in collaboration with its CA's and advisers, can express views and take a policy stance on any topic it deems worthy through its right to vote.

The Committee, via the WPP, will continue to monitor the impact of this policy stance and revise its stance if required. The GGTPF, via the WPP, also retains the right to recall stock, if required, as part of its stock lending arrangements.

## Engagement

The Committee believes that engaging with companies is preferable to a policy of blanket divestment. This is because engagement, particularly in collaboration with other asset owners, can lead to positive change in corporate behaviour and strategy. The Committee considers divestment to be less "responsible" in the sense that if all the responsible investors (those who typically engage with companies) divest their shares then there will be no owners challenging boards on their strategies, and so the prospect of positive change is undermined as a result. Of course, where active engagement fails and there is no prospect of a positive change in behaviour by a particular company, divestment remains an option that would be explored by the Committee.

The Committee recognises the broader benefits of engagement on a range of thematic issues and has worked with the V&E provider appointed by the WPP to undertake this engagement on behalf of the GGTPF.

The V&E provider works with the full range of its clients to explore and agree engagement principles on an annual basis, with engagement activity expected to take place over three years. The WPP agrees a set of annual engagement principles with the V&E provider following consultation with the CA's including the GGTPF.



The Committee adopts an evidenced-based approach to assessing engagement activity and, via the WPP, will receive a report on engagement activity undertaken by the V&E provider on a quarterly basis. The content and format of this reporting will be developed over time with the V&E provider urged to become more transparent with regards to its engagement efforts across a range of thematic issues.

In addition to the specific engagement activity of the WPP, the Committee expects its appointed investment managers to engage with investee companies on its behalf, utilising existing relationships as a way of addressing the key risks and concerns of their investors. In such cases, the Committee expects that its investment managers should be able to demonstrate, when challenged, the reason for any engagement activity and the objectives of the engagement.

## Collaboration

### Local Authority Pension Fund Forum (LAPFF):

The GGTPF is an active member of the Local Authority Pension Fund Forum (LAPFF) and GGTPF's Pensions Committee Chair is a member of the Executive Committee. LAPFF is the UK's leading collaborative shareholder engagement group encompassing 82 local authority pension funds and seven investment pools with assets in excess of £300 billion. The Fund's active members membership of the LAPFF supports our engagement strategy and provides the GGTPF with:

- a) Independent research and advice on the ESG risks of companies to inform further stakeholder engagement.
- b) Advice on the governance practices of companies.
- c) A forum to engage with companies to improve governance practices; and
- d) Insight into issues such as "Just Transition". Transitioning to net zero will result in societal changes which will need to be managed in a just way to avoid reputational, legal, regulatory, and human capital risks, all of which can impact shareholder value.

### Wales Pension Partnership (WPP):

The WPP provides investment management solutions to the GGTPF along with the other LGPS funds across Wales. This collaborative arrangement allows the WPP and its eight LGPS funds to collectively and actively engage with its investment managers, advisors, and underlying corporations to achieve positive change and outcomes on over £17 billion of pension assets throughout Wales.

The WPP prepares and maintains its own RI policy which can be found here: [ri-policy-review-final.pdf \(walespensionpartnership.org\)](https://ri-policy-review-final.pdf(walespensionpartnership.org))

## ESG

ESG means using Environmental, Social and Governance factors to evaluate companies and countries on how far advanced they are with sustainability and adhering to best practice. As data, research and analysis becomes more readily available to measure performance against these factors, they can be integrated more broadly into the investment process.

The Committee considers ESG factors to broadly be defined as:

- a) **Environmental** factors include the impact a company or government makes to climate change through greenhouse gas emissions, along with waste management and energy efficiency. Other factors include resource depletion, including water; waste and pollution; deforestation.
- b) **Social** factors include human rights, labour standards in the supply chain, including any exposure to illegal slavery and child labour, as well as more routine issues such as adherence to health and safety.

- c) **Governance** factors referring to a set of rules or principles defining rights, responsibilities, and expectations between stakeholders in the governance of corporations. Governance can also refer to the standards of companies or government with factors such as executive pay; bribery and corruption; political lobbying and donations; board diversity and structure; tax strategy.

The Committee has identified two broad themes as areas of primary concern to them as asset owners which are Climate Change and Human Rights practices.

## Climate Change

The Pensions Committee maintains a separate Climate Change policy which informs the broader approach to addressing climate change which can be accessed here: [climate-change-policy.pdf \(gwentpensionfund.co.uk\)](https://www.gwentpensionfund.co.uk/ClimateChangePolicy.pdf).

The details of the Climate Change policy are not repeated here, but in summary the Committee believes that climate change presents a systemic risk that has the potential to affect economies, financial returns, and demographics. The risks arising from climate change may be characterised as follows:

1. **Physical risks**, such as damage to property from severe weather or lower precipitation giving rise to crop failure.
2. **Transition risks**, being the financial risks arising from changes in policy and technology to adjust to a lower carbon economy; and
3. **Liability risks**, being the potential costs arising from parties who have suffered loss or damage due to climate change seeking compensation from those they hold responsible.

The original UK Climate Change Act 2008 (as amended) committed the UK to an 80% reduction of greenhouse gas emissions by 2050, compared to 1990 levels. In 2019, the Climate Change Act 2008 (2050 Target Amendment) Order 2019 was passed which increased the UK's commitment to 100% reduction in emissions by 2050.

Many of the pledges made by Governments, including the UK, followed the commitment of the Paris Agreement which was signed in 2015 and included:

- Securing global net zero by mid-century and keeping 1.5-degree centigrade temperature warming scenarios in reach.
- Adapting to protect communities and natural habitats, protecting, and restoring ecosystems and building resilient and defensive infrastructure and agriculture to avoid loss of homes, livelihoods and lives; and
- International financial institutions, such as pension funds, continue to play their part in committing private and public sector finance required to secure global net zero.

Climate change is increasingly being recognised by regulatory bodies and legislators as an issue that must be explicitly addressed by asset owners and investment managers. The uncertainty arising from climate change has implications on GGTPF and the WPP more broadly through the various investment mandates.

The Fund will engage with its full range of providers to ensure that a common mechanism for monitoring climate related risks can be developed across all assets. Through this process, the Committee aims to refine the Climate Change policy over time.

The Fund will actively encourage all of its investment managers and service providers to disclose in line with the requirements of the Taskforce for Climate Related Financial Disclosure (TCFD) and will strive to comply with its own requirements once TCFD reporting requirements are applied to the LGPS.

## Human Rights



Societal expectations of companies with regard to human rights are increasing, as are legal and regulatory obligations. There is an increasing expectation on companies to ensure that they protect human rights in line with international, legal, and regulatory obligations on a global scale. The Committee recognises its role in supporting this principle and to urge improvement in company practice through its V&E activity where this is warranted.

The Committee recognises that it has an obligation to respect human rights as outlined within the UN Guiding Principles on Business and Human Rights (UNGP's) and to encourage good practice which protects against violation and exploitation. This extends to expecting compliance with normative standards and relevant legislation.

Stewardship activity around human rights is pursued both through the Fund's membership of LAPFF and via the engagement activity undertaken by Robeco on behalf of the WPP, where the latter has specific focus on engagement themes tied to human rights issues over a three-year time horizon.

The Committee expects these efforts to result in greater transparency in order to drive real world improvements.

## **Role of RIWG**

The Committee determined that there shall be a RI Working Group (RIWG) that incorporates ESG matters into all investment decision-making activity.

The RIWG operates under its own Terms of Reference and consists of members of both the Committee and Local Pension Board, supported by officers and advisors as required.

The primary responsibilities of the RIWG are:

1. To consider and evaluate the GGTPF's current approach to ESG within the overall governance structure of GGTPF.
2. To consider, following research and investigation, any proposals for change to enable GGTPF to appropriately discharge its responsibilities in respect of ESG issues; and
3. To make recommendations to the Committee for their consideration, consistent with the best interests of Fund members.

The RIWG was established in 2017 and to date has supported the development and oversight of:

- a) The GGTPF's first RI and Climate Change policies.
- b) WPP sub-fund investment proposals in the context of ESG and climate risk, including the endorsement of a "decarbonisation overlay" on many of the WPP sub-funds in which the Fund is actively invested as a first step towards reducing the Fund's carbon exposure.
- c) ESG and climate risk reporting on Fund investments; and
- d) Policy development and evolution in the context of emerging best practice and prospective developments.

The roles and responsibilities of the RIWG continue to evolve to meet the needs and demands of ESG deliberations and remains an integral contributor towards the broader Fund governance framework in respect of RI.

## **Role of The Local Pension Board**

The Local Pension Board ('the Board') is established in accordance with the Public Service Pensions Act 2013.

The role and purpose of the Board is to:

- i. Secure compliance with the regulations, and other legislation relating to the governance and administration of the Scheme as imposed by the Pensions Regulator; and

- ii. Ensure effective and efficient governance and administration of the Scheme.

The Board provides oversight of compliance and governance matters, including RI, and can make recommendations to the Pensions Committee accordingly. The members of the Board do not have the right to vote on Fund decisions but can input positively and support improvements in overall service delivery.

## Reporting

The importance of accountability to Fund beneficiaries is key to the Committee's desired approach. Therefore, as far as reasonably practical, the Fund will strive to:

- 1) Publish RI specific papers for public disclosure within the Pensions Committee and Local Pension Board agenda, highlighting the ongoing work of the RIWG, WPP as well as other collaborative engagements such as the LAPFF.
- 2) Prepare within the Pension Fund annual report and accounts, a detailed summary of RI activity undertaken during the period, in fulfilment with this policy and the results achieved.
- 3) Prepare reporting in line with regulatory requirements and best practice expectations.

The Committee considers a broad target audience when reporting on RI activity including:

- Scheme members and their dependents
- Scheme employers
- Elected Councillors
- Welsh Government
- UK Government (DLUHC)
- Regulatory bodies
- Future Generations Commissioner
- The wider Public (in particular, council taxpayers and council service users and lobby groups)

This policy will be subject to annual review. Any comments on this policy are encouraged as part of the GGTPF's ongoing policy development work and should be directed towards the Head of Pensions via email: [alexander.bull@torfaen.gov.uk](mailto:alexander.bull@torfaen.gov.uk).

**Torfaen Pensions,  
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