Responsible Investment Policy

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Cornwall Pension Fund

Contents

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> "Aspire to be at the forefront of responsible investment practice."

Responsible Investment Policy

The Cornwall Pension Fund's Pensions Committee ("Committee") has a fiduciary duty to act in the best interest of its members. To do this effectively the Committee recognises 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. What is more, there is a growing urgency with respect to long-term sustainability issues, particularly climate change. Therefore, it is imperative that ESG considerations and active ownership are integrated throughout investment processes and that they are taken into account as part of funding and investment strategy setting.

The Fund has made significant progress over the last 12 months in evolving its policies on Responsible Investment and climate change. We are continuing to focus on this as a key area for the Fund and aspire to be at the forefront of responsible investment practice. As part of this, the Committee has revisited its beliefs, updated its policies and processes, and is committed to increasing its allocation to sustainable and low carbon assets. The Committee recognises that ESG and stewardship are rapidly developing topics and will continue to develop its understanding, approaches, and ambition in these areas.

The Committee recognises the importance of working collaboratively with 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.

This policy sets out the Committee's approach to RI and details the actions the Committee, 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.

Brunel Pension Partnership and RI

As asset owners, the Fund sets its asset allocation and investment strategy. Since the introduction of pooling across the Local Government Pension Scheme, the Fund is no longer responsible for fund manager selection. This process is now handled by Brunel, who manage our investments in line with our strategic objectives. Brunel was formed in July 2017, and Cornwall, along with 8 other local authorities and the Environment Agency, each own 10%. The 10 funds and the operator, Brunel Ltd, have a mutual commitment to building a financial system which is fit for a low carbon future and feel this commitment is pivotal to driving change together.

The Brunel Pension Partnership Investment Principles and its supporting responsible investment policies clearly articulate Brunel's commitment, and that of each Fund in the Partnership and its operator (Brunel Ltd), to be responsible investors and as such recognise that ESG considerations are part of the process in the selection, non-selection, retention and realisation of assets. One of the potential principal benefits, outlined in the Brunel Pension Partnership business case, achieved through scale and resources arising from pooling, is the improved implementation of responsible investment and stewardship.

Brunel has published its Responsible Investment Policy Statement and other related policies, which lay out its approach in more detail.

More information is on the Brunel website **www.brunelpensionpartnership.org**

Responsible Investment Beliefs

The Committee holds the following RI beliefs.

Responsible investors	We believe that in the long term we will generate better financial returns by investing in companies and assets that demonstrate they contribute to the long-term sustainable success of the global economy and society.
Long time horizon	We are investors with a long time horizon. This requires us to consider long-term sustainability issues, both in terms of opportunities and risks, as relevant to the Fund and its investment strategy.
ESG integration	ESG issues can affect the performance of investment portfolios and should therefore be considered throughout the Fund's investment process.
Stewardship[1]	Good stewardship can enhance long-term portfolio performance and is therefore in the best interests of its members. Voting is an integral part of the responsible investment and stewardship process.
Corporate governance[2]	The Fund is a long-term active investor that takes seriously its role in fostering stewardship. We believe that sound corporate governance in the companies in which we invest contributes to long-term value for our members.
Climate change as a systemic risk	Climate change presents a systemic and material risk to the ecological, societal and financial stability of every economy and country on the planet, and therefore will impact our beneficiaries, employers, and our investment portfolio.
Climate change and the Paris Agreement	Investing to support the Paris Agreement goals that keep a global temperature rise this century to well below 2^{0}C relative to pre-industrial levels, is entirely consistent with securing long-term financial returns and is aligned with the best long-term interests of our beneficiaries, employers, and our portfolio holdings.

[1] Stewardship aims to promote the long-term success of companies in such a way that the ultimate providers of capital also prosper. Effective stewardship benefits companies, investors and the economy as a whole." – The UK Stewardship Guide

[2] Corporate governance is the system of rules, practices, and processes by which a firm is directed and controlled.

ESG integration

The Fund retains responsibility for setting its investment strategy and its ambitions on ESG and responsible investment. Brunel will be responsible for managing ESG issues on behalf of the Fund for the assets invested in its portfolios, in line with the agreed Brunel policies and consistent with the Fund's RI and ESG goals.

Each Brunel portfolio, across all asset classes, explicitly includes responsible investment and an assessment of how ESG considerations may present financial risks to the delivery of the portfolio objectives. The approach undertaken will vary in order to be the most effective in mitigating risks and enhancing value in relation to each portfolio and its objectives. These considerations are taken into account when constructing the Brunel portfolios and in the selection, non-selection, retention and realisation of assets.

The Committee fully supports and actively encourages Brunel's commitment to working with managers in asset classes and strategies where ESG integration is less well developed (for example multi-asset credit and private debt) and to improve this over time through better practices and product innovation, using its scale, knowledge, and influence to help drive change.

We will seek assurance through formal structures such as our interactions as a Shareholder of Brunel, the Brunel Oversight Board, Client Group, the Responsible Investment sub-group (made up of officers of the funds and Brunel officers), and ongoing reporting and presentations to the Committee, and other means that Brunel is fulfilling its policy commitments with regards to ESG integration.

In the period before our mandates transition to Brunel, the extent to which managers evaluate and manage ESG issues in their investment process is assessed in the selection, retention and realisation of investment managers.

Officers review developments in ESG processes and any relevant ESG data with its fund managers as a standing item in manager meetings. Officers also assess investment managers' approaches to ESG integration and stewardship using our Investment Consultant's ESG ratings, where applicable. Where managers are lagging behind their peers, they will be engaged and encouraged to improve.

The Fund expects its investment advisors to proactively consider and integrate ESG issues when providing investment advice to the Fund.

> Climate change presents a systemic and material risk to the ecological, societal and financial stability of every economy and country on the planet.

Climate change

The Committee recognises the commitments made by countries, regions, organisations and also local authorities such as Cornwall Council in relation to climate change. Climate change (and other long-term sustainability issues) present opportunities and risks that increasingly require explicit consideration by long-term investors.

Our climate change commitments

We are committed to:

- **Investing at least 15% of our portfolio** in sustainable and low carbon investments by 2022.
- **Decarbonising our portfolio:**
  - We will seek a carbon intensity improvement of at least 7% year-on-year in our listed equity portfolios. This will equate to over 20% lower carbon intensity than the benchmark (which Brunel is also seeking to improve – see below) by 2022.
  - We will also track and monitor (and report on) the fossil fuel exposure within our equity portfolio held with Brunel and are committed to this being materially lower than the benchmark.
- **Assessing the strategic implications of climate change on an ongoing basis** by undertaking climate change scenario analysis. This analysis seeks to understand the climate impact on return at the total Fund and asset class level. We have already undertaken this analysis and it has helped inform our decision to increase our strategic allocation to sustainable equities and renewable infrastructure.
- **Adopting the recommendations** of the Task Force on Climate-related Financial Disclosures ("TCFD").
- **Supporting Brunel in pressing the industry to make core benchmarks** more compatible with a below 2°C aligned scenario.
- **Encouraging Brunel on its engagement of the banking sector on their lending policies,** to phase out the provision of financial services to energy companies and to utilities that are not aligned with the goals of the Paris climate agreement.

Brunel's 2020-2022 climate change policy objectives

The Committee fully encourages and supports Brunel's 2020-2022 policy objectives on climate change which are set out in their Climate Change Policy. **These are laid out below.**

Brunel's 2020-2022 policy objectives

We will play an active and leading role in encouraging policy makers to establish comprehensive and robust climate change policy frameworks. **Within this, we will focus particular attention on:**

- The adoption of a meaningful price on carbon, which is material (i.e. sufficient to drive change at the scale and rate required), progressive over time and widespread (i.e. applies to all major sectors of the economy).
- The removal of fossil fuel subsidies.
- The introduction of policy measures – for example, product standards, limitations on high carbon technologies, support for low carbon technologies – that accelerate the move away from high impact activities and sectors.
- The removal or correction of regulatory barriers to progress and support financial policy makers and regulators in being ambitious and effective in implementation of plans to mitigate climate risk and under the Adaptation Reporting Power.
- The integration of climate change into the mandates and into the oversight and control processes of prudential regulators and other regulatory bodies.
- Ensuring that climate change policy is socially sustainable and takes due account of workers' rights and community interests (the 'Just Transition') when taking action to reduce greenhouse gas emissions and adapt to a changing climate.

We will play an active leading role in encouraging policy makers to integrate climate change into multilateral and bilateral trading frameworks, with a particular focus on the UK post Brexit.

We will encourage policy makers to introduce mandatory climate change disclosure requirements for companies, with a focus on providing clear, decision useful information and encouraging a clear articulation of the risks that companies and their investors face.

We will support the development of skills, knowledge and professional standards of those intermediaries who are critical influencers in the action of investors and companies. These include, but are not limited to, investment consultants, actuaries, lawyers and auditors.

Further details of Brunel's Climate Change policy are set out on its website **www.brunelpensionpartnership.org**

> Investing to support the Paris Agreement goals that keep a global temperature rise this century to well below 2°C relative to pre-industrial levels.

Monitoring and reporting progress

Reporting on climate change is an area that is rapidly developing, and we are working with Brunel and other member funds to continue to improve this. We are supportive of Brunel's involvement in initiatives, such as the Institutional Investors Group on Climate Change ("IIGCC") Paris Aligned Investment Initiative, that are working to allow asset owners and investment managers to explain, in a consistent and comparable manner, how their portfolios compare to the goals of a net zero carbon future and of keeping global temperature rise below 2°C.

We currently undertake climate change scenario analysis and carbon footprinting (measuring carbon intensity and fossil fuel reserve exposure) to better understand opportunities and risks within our portfolio. As our holdings transition into Brunel portfolios, we will be publishing the following metrics and data, as relevant, for different asset classes and strategies:

- Carbon footprints
- Fossil fuel exposures
- Green and brown share (i.e. the proportion of its portfolios invested in areas such as renewable energy)
- Its engagement and voting activities.

The Fund will use its website as the primary method of communication
www.cornwallpensionfund.org.uk

We will publicly report in line with TCFD recommendations in due course and are developing our approach in this area.

2022 stocktake and ongoing improvements

We are currently supportive of Brunel's approach of not yet issuing exclusion lists as we believe that simply stating exclusions or requiring divestment from specific stocks or sectors will not compel investment managers to develop their capacity on climate change or drive change in the companies in which they are invested.

Alongside Brunel and our partner funds, we will be undertaking a full review of our climate change policy approach in late 2022 to provide us with the opportunity to reflect on our progress, the effectiveness of our approach, and to raise our ambitions (ahead of the triennial strategy review).

One of the key questions we will be answering as part of this review is whether Brunel's decision to engage with investment managers has been effective. Specifically, whether it has been effective in delivering change in the way investment managers work and in their ongoing engagement with companies to drive improvements in corporate strategies on climate change, so that these companies are on a trajectory to be aligned with the transition to a below 2°C economy. If the answer is no, we will be expecting Brunel to take action, including the possibility of changing investment managers and/or introducing selective divestment requirements for companies.

We will continue to monitor Brunel's progress on implementing its policy objectives and will work with them to achieve our collective climate change ambitions. If the Fund does not feel action is progressing at an appropriate pace, the Fund will seek to address this with the partnership.

In addition to the full review, the Committee will be reviewing its beliefs and commitments on an annual basis to ensure that they remain fit for purpose and that strategic objectives are set with these in mind. To support this, we will ensure there is regular training on climate change for the Committee, Board, and Officers so that those in charge of the decision making for the Fund are sufficiently informed.

Stewardship

As part of Brunel, we are actively exploring opportunities to enhance our stewardship activities. At the same time, we will continue to be an active owner in our own right.

The Committee believes one of the potential benefits of pooling, achieved through the scale and resources arising from pooling, is the improved implementation of stewardship practices. Brunel has published its Responsible Investment Stewardship Policy which outlines its approach and priorities. The policy reflects the priorities of its underlying clients, and we were active in contributing to the policy.

With the support of the Cornwall Pension Fund and the other partner funds, Brunel has been using its influence to press for improved stewardship at external investment managers and has been actively involved in government consultations and other initiatives in the area. Once all equity assets have been transitioned, the Partnership and Brunel Ltd will seek to deliver best practice standards in responsible investment and stewardship in terms of company engagement as outlined in the Brunel Pension Partnership Investment Principles. More information is available on the website (**www.brunelpensionpartnership.org**).

The Committee has delegated investment powers to Brunel and the Fund's investment managers (where assets have not yet transitioned to Brunel) to act in the best interests of the Fund. Brunel and the Fund's investment managers are encouraged to engage in constructive dialogue on behalf of the Fund and to use their influence to encourage companies to adopt best practice in key areas. Brunel and the Fund's investment managers have been asked to report to the Committee on the implementation of their stewardship and engagement activities, which will be reviewed on a regular basis.

Officers of the Fund are involved in the Responsible Investment sub-group and discuss ESG and responsible investment matters and developments, and exchange best monthly. A representative from Brunel is also present at every quarterly Committee meeting to report back on these activities.

The Fund recognises the importance of collaboration with other investors to achieve more effective and wider reaching outcomes. In this respect, the Fund is a member of the Local Authority Pension Fund Forum ("LAPFF") which aims to protect the long-term investment interests of beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies. Further details can be found on their website **www.lapfforum.org/voting**

Voting

The Committee has delegated the exercise of voting rights to Brunel and the Fund's investment managers (where assets have not yet transitioned to Brunel) on the basis that voting power will be exercised with the objective of preserving and enhancing long-term shareholder value.

As part of owning publicly listed companies Brunel, on behalf of its clients, will have the opportunity to vote at company meetings (AGM/ EGMs). Brunel aims to vote 100% of all available votes. To provide guidance to its managers, Brunel has a single voting policy for all assets managed by Brunel in segregated accounts. Hermes EOS has been appointed to support Brunel as its engagement and voting service provider. Brunel will publish its voting policy and provide online voting records at least annually. The Fund will publish the voting carried out on its behalf on its website **www.cornwallpensionfund.org.uk**

Investment managers have produced written guidelines of their process and practice in this regard. They are encouraged to vote in line with their guidelines, in respect of all resolutions, at annual and extraordinary general meetings of companies. Investment managers are expected to report on their voting activity on a regular basis.

2020 UK Stewardship Code

In late 2019, the Financial Reporting Council ("FRC") published its revised 2020 UK Stewardship Code ("2020 Code"). The latest Code defines stewardship 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."

The FRC has described the 2020 Code as ambitious and highlighted the increased focus on 'activities and outcomes' as opposed to policy statements alone. As part of this increased remit, the 2020 Code covers a wider range of asset classes, requires signatories to consider the systematic integration of ESG and climate change in the stewardship and investment process, and is based on a more stringent 'comply and explain' basis. The revised 2020 Stewardship Code now has 12 principles for signatories which can be found in the appendix.

The Fund plans to become a signatory to the 2020 Code by the end of 2021, recognising the significant amount of work complying with and reporting on the new Code will entail. The Fund has already had discussions with its partner funds and Brunel to ensure appropriate structures are in place to enable this goal.

RI initiatives

To deliver our Responsible Investment policy the Fund is active in supporting a number of responsible investment initiatives. We are committed to adopting the recommendations of the Taskforce for Climate-related Financial Disclosure ("TCFD"). The Fund plans to become a signatory to the UK Stewardship code. The Fund is a member of the LAPFF. The Fund will become a member of the Institutional Investors Group on Climate Change ("IIGCC"), it also supports the Just Transition and the Transition Pathway Initiative ("TPI"). In addition, the Fund supports Brunel as a signatory to the UN supported Principles for Responsible Investment ("PRI").

Social investments

Government guidance addresses the issue of "social investments"; meaning those that deliver a social impact as well as a financial return. The Government considers that social investments are appropriate for LGPS funds where the social impact is simply in addition to the financial return. It also considers that investments where some part of the financial return is forgone in order to generate the social impact are also appropriate, where the administering authority has good reason to think scheme members share the concern for social impact, and there is no risk of significant financial detriment to the Fund. To date the Fund has not made any social investments. Social investing is an active area of consideration for the Fund and policies on this are expected to continue to develop.

Appendix

12 Principles of the 2020 Stewardship Code

1) Purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.
2) Governance, resources and incentives support stewardship.
3) Manage conflicts of interest to put the best interests of clients and beneficiaries first.
4) Identify and respond to market-wide and systemic risks to promote a well-functioning financial system.
5) Review their policies, assure their processes and assess the effectiveness of their activities.
6) Take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.
7) Systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.
8) Monitor and hold to account managers and/or service providers.
9) Engage with issuers to maintain or enhance the value of assets.
10) Where necessary, participate in collaborative engagement to influence issuers.
11) Where necessary, escalate stewardship activities to influence issuers.
12) Actively exercise their rights and responsibilities.

Contact us

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