



Responsible Investment Policy

March 2022

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Introduction

Gwynedd Council is the Administering Authority for the Gwynedd Pension Fund (the Fund). The Fund administers the Local Government Pension Scheme (LGPS) on behalf of around 49,600 members which comprises of Gwynedd, Anglesey and Conwy Councils, Snowdonia National Park Authority, Police and Crime Commissioner for North Wales, Cartrefi Conwy, Adra, various town and community councils, and other scheduled and admitted bodies.

Within its Constitution, Gwynedd Council has delegated responsibility for the administration of the LGPS to a Pensions Committee of elected councillors. The Pensions Committee is the decision-making body for the Fund, advised by Fund officers in their role as scheme administrators. Officers and the Pensions Committee are assisted by a Local Pension Board, made up of representatives of LGPS members and LGPS employing organisations.

The day to day management of the Fund's investments is delegated to professional asset management firms. Regular meetings are held with the Fund's managers, where they are expected to provide a summary of actions that they have taken, or are taking, to consider responsible investment on a day to day basis.

Responsible Investment

Gwynedd Pension Fund aims to deliver strong investment returns over the long term, protecting our stakeholders' interests through contributing to a more sustainable and resilient financial system, which supports sustainable economic growth and a thriving society.

Gwynedd Pension Fund's purpose in doing this is to better manage risk and generate sustainable, long-term returns. All actions are predicated on fulfilling our core legal obligations – our 'fiduciary duty' – to the employers and scheme members.

The Fund recognises that environmental, social and corporate governance ('ESG') issues can represent a material financial risk to its stakeholders and can influence the Fund's long-term returns and reputation. Given this, the Committee aims to be aware of, and monitor, financially material ESG factors.

The United Nations Principles for Responsible Investment describe these as:

- Environmental issues: climate change – including physical risk and transition risk; resource depletion, including water; waste and pollution; deforestation.
- Social issues: working conditions, including slavery and child labour; local communities, including indigenous communities; conflict; health and safety; employee relations and diversity.
- Governance issues: executive pay; bribery and corruption; political lobbying and donations; board diversity and structure; tax strategy.

The Committee considers the Fund's approach to stewardship also as a key area by acting as a responsible and active investor, by commissioning considered voting on the Fund's behalf as shareholders, and by indirectly engaging with investee company management as part of the investment process.

Legal Guidance

In 2014, the Law Commission clarified existing law on divestment decisions which concluded that trustees and administering authorities have the power to make investment decisions based on non-financial factors. However, it said that administering authorities need "good reason to think scheme members share the concern" and that there is "no risk of significant financial detriment to the fund".

Investment Beliefs

The Committee has agreed the following set of investment beliefs in relation to Responsible Investment:

- In accordance with the Committee's fiduciary duty, financial considerations should carry more weight than non-financial considerations when making investment decisions, even though ESG matters can materially affect risk and returns. Therefore, ESG factors should be embedded in the investment processes and in the decision-making processes of asset managers appointed by the Fund / by the Wales Pension Partnership.
- The Fund's Committee will seek to invest in sustainable assets, including investing within the Wales area when non-financial investments can derive from this, on condition that they satisfy the requirements of the fiduciary duty.
- The Committee accepts that it has a duty to be a responsible investor. It is expected that consulting with companies, rather than avoiding investing, will be more effective in changing corporate behaviour and reducing risk. Wherever possible, collaborative action (such as that taken via Local Authority Pension Fund Forum (LAPFF) membership and commissioned from Robeco alongside Wales Pension Partnership partners) provides the most successful route to influence outputs.
- As a long-term investor, the Fund is vulnerable to systemic risks such as climate change and the expectation of a transfer to a low carbon economy. Financial outcomes can be improved through managing how open to such risks the Fund is.
- Shareholder comprehension and outcomes can be improved through providing transparency at each step of the value-adding chain.
- Training and education is likely to form a key element in developing the Fund and its Committee position on ESG related matters.

Engagement

The Committee recognises that successful engagement can protect and enhance the long-term value of the Fund's investments. The Committee encourages the Fund's asset managers to engage with the companies they invest in, where they believe that value can be added, or risk can be reduced.

This engagement can apply across a range of assets. The Committee endorses the principles embedded in the UK Stewardship Code and intends to apply to become a signatory to the updated UK Stewardship Code 2020. The Committee expects both the Wales Pension Partnership and any directly appointed asset managers to be signatories to the UK Stewardship Code 2020. In addition, the Fund believes in collective engagement and is a member of the LAPFF, through which it collectively exercises a voice across a range of corporate governance issues.

The Committee supports engagement activity that seeks to:

- Achieve greater disclosure of information on the ESG related risks that could affect the value of an investment;
- Achieve transparency of an investment's carbon exposure and how such companies are preparing for the transition to a low carbon economy;
- Encourage its asset managers to actively participate in collaborative engagements with other investors where this is deemed to be in the best interests of the Fund.

The Committee's investment consultant is required to provide input and analysis to assist the Committee in assessing the Fund's asset managers' performance from an ESG engagement perspective, and this is also a key consideration when the Committee is allocating money to a new fund, or when the Wales Pension Partnership are appointing a new asset manager. The investment consultant's role also includes working closely with the officers to develop appropriate training arrangements.

The Committee liaises closely with the Wales Pension Partnership to ensure that they also adopt the approaches set in this policy. The Fund's asset managers are encouraged to sign up to the appropriate industry initiatives, including the UK Stewardship Code, LGPS Cost Transparency, the Principles of Responsible Investment and upcoming TCFD requirements.

Disclosure and Reporting

The Fund recognises that transparency and disclosure is an important aspect of being a responsible investor. The Fund will:

- make the Fund's Responsible Investment Policy available to members, and incorporate this fully into the way the Fund communicates and interacts with its members,
- make the Fund's Responsible Investment Policy available to wider stakeholders, online in the public domain, and
- report on the Fund's progress and developments in the way it approaches Responsible Investment matters.

Reducing the Fund's Carbon Emissions and Future Goals

Where appropriate, the Committee considers how it wishes to approach specific ESG factors in the context of its role in asset allocation and investment strategy setting. Taking into account the ratification in October 2016 of the Paris Agreement, the Committee considers that significant exposure to high carbon emitting companies and projects within the Fund's portfolio could pose a material financial risk.

The Committee recognises that the Fund's assets are invested globally, and across many sectors, which means reducing the Fund's carbon emissions is more challenging than it would be for an individual organisation. However, the Committee has committed to set a goal for the Fund to be net zero by 2050, supported by an undertaking to assess the feasibility of the Fund reaching net zero 5,10 or 15 years earlier. The factors considered by the Committee when setting this goal are discussed below.

The Committee believes it is important for LGPS funds to take a leading role in shaping the future, both in terms of supporting the transition to a low carbon economy and achieving broader ESG goals. The Committee is able to exert influence in two ways: through the investment decisions it takes; and through ongoing engagement with the companies and projects the Fund invests in. Against this background, the Committee believes it is appropriate to set a realistic goal while also looking at the feasibility to achieve a more ambitious goal.

At the same time, the Committee believes that the reduction in the Fund's carbon emissions should be achieved in a measured way. The Fund must remain focused on its primary obligation to pay benefits to its members, including consideration of any associated risks. A measured approach allows the Fund to capture investment opportunities arising from the transition to a low carbon economy, as well as mitigating the risks. Further, a measured approach supports active stewardship, giving the Committee more time and greater scope to effect change and achieve a just transition through ongoing engagement.

Framework to support the Fund's Climate ambitions

The Committee has developed a framework to support the Fund's climate ambitions, covering Opportunities, Engagement, and Monitoring & Metrics.

Opportunities

- Review the Fund's existing mandates in the context of climate risk and net zero ambition (continuous development as shown in in Appendix 1).
- Consider if any mandates could evolve further, or possibly if they should be replaced, due to climate-related investment opportunities to support, and benefit from, the low carbon transition.
- Support the Wales Pension Partnership's initiatives (such as the 'decarbonisation overlay' and 'disinvestment from fossil fuel extractors') and plans to reduce the carbon exposure of the funds it oversees (currently, c82.5% of the Fund's assets sit within the Wales Pension Partnership framework, and this percentage is expected to grow over time).

Engagement

- Co-operate with the Wales Pension Partnership's collective engagement protocol, such as jointly commissioning Robeco to engage with the Fund's asset managers with respect to voting activity on climate-related issues, and to engage with the companies we invest in to influence and improve their behaviour on climate-related issues.
- Engage regularly with the Fund's asset managers to challenge actions and encourage best practice, referencing Fund's beliefs and climate ambitions.
- Consider disinvestment / reallocation of capital if engagement does not give impact.
- Working together with other LGPS funds through the LAPFF. The LAPFF aims to promote the highest standards of corporate governance to protect the long-term value of local authority pension funds. The Forum engages directly with hundreds of companies and their chairs. This is done by building trust and having a two-way dialogue on corporate responsibility in the areas of stewardship, climate risk, social risk and governance risk.

Monitoring and metrics

- Agree backward / forward looking metrics and set short, medium and long-term targets for each, that support the Fund's overall net zero goal (this is currently challenging, while standard climate ambition metrics for the LGPS are still awaited, and the means by which we may achieve climate ambitions goals are jointly commissioned with several partners).
- Review the Fund's investments in relation to these metrics and set a plan for progress.
- The current monitoring and positive progress of Gwynedd Pension Fund's asset managers can be seen in Appendix 1.

Contacting the Gwynedd Pension Fund

You can contact us in several ways:

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Appendix 1: Monitoring of Gwynedd Pension Fund Asset Managers

Fund Manager	Fund	Target allocation	Developments as at March 2022
WPP – Russell Investments	Global Opportunities	14%	A 'decarbonisation overlay' has been implemented by Russell Investments, reducing the carbon footprint by 25%.
WPP – Baillie Gifford, Veritas, and Pzena	Global Growth	14%	Asset managers within this fund have taken steps to reduce its carbon footprint. Baillie Gifford's Paris Aligned fund disinvests from fossil fuel extractors and fossil fuel service providers. Veritas always sought investments synonymous with sustainability. Pzena have sold their holding in a company which formerly contributed to 35% of carbon emissions of Pzena's part of the fund.
WPP – Russell Investments	Absolute Return Bond	15%	Improving responsible investing practices by the fund managers supported by detailed consideration and a number of initiatives.
WPP – Russell Investments	Multi Asset Credit	7.5%	Strong ESG practices across all fund managers and future commitments very strong.
WPP – Russell Investments	Emerging Markets	2.5%	A 'decarbonisation overlay' has implemented which reduces the carbon footprint by 25%.
BlackRock	Aquila Life UK Equity Index	10.5%	BlackRock are signatories to the UK Stewardship Code and engage regularly with companies.
BlackRock	Aquila Life GBL Dev Fundamental	7%	BlackRock are signatories to the UK Stewardship Code and engage regularly with companies.
BlackRock	ACS World Low Carbon Equity	12%	BlackRock's low carbon fund which screens fossil fuels before low carbon optimization, thus reducing carbon relative to a standard global equity index by an additional 44%.
BlackRock	Property	2.5%	BlackRock are in 7th place in the GRESB rating (Global Real Estate Sustainability Benchmark - a global ESG rating for property funds).
Lothbury	Property	2.5%	Lothbury are in 4th place in the GRESB rating.
UBS	Property	2.5%	UBS are in 1st place in the GRESB rating for the 5th year running.
Columbia Threadneedle	Property	2.5%	Columbia Threadneedle are in 32nd place in the GRESB rating, but are improving yearly with improvements in energy consumption, GHG emissions and asset energy performance.
Partners Group	Private Equity	5%	Partners Group embed ESG into the strategy, direction and goals of their portfolio companies.
Partners Group	Infrastructure	2.5%	Partners Group's fund invests in green energy, low carbon fuels and carbon capture infrastructure.