



## Responsible Investment Policy

July 2023



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## 1.0 Introduction

- 1.1 This document describes the North Yorkshire Pension Fund's policy on Responsible Investment (RI). RI is an approach to managing assets that takes environmental, social and governance (ESG) factors into account in the investment decision making process and in the role an investor plays as an asset owner.
- 1.2 The aim of RI is to combine better risk management with improved sustainable long-term portfolio returns. Financial and ESG analysis together can allow broader risk identification, leading to improved decision making, which can enhance performance and risk-adjusted returns.
- 1.3 Investment stewardship includes active ownership, using voting rights, engaging with investee companies, influencing regulators and policy makers, and collaborating with other investors to improve long-term performance.
- 1.4 The Policy will be kept under review with regard to applicable legislation and guidance. The Pension Fund Committee formally reviews and approves the Policy on an annual basis.

## 2.0 Financial and non-financial considerations

- 2.1 The primary objective of the Fund is to provide pension benefits for members upon retirement and/or benefits on death for their dependents, on a defined benefits basis. Investments will therefore be selected with the aim of fully funding these benefit requirements over an extended number of years. The Committee therefore takes the view that its overriding obligation is to act in the best financial interests of the Scheme and its beneficiaries.
- 2.2 The Committee's fiduciary duty requires all financially material risks to be taken into account when making investment decisions. The Fund believes that ESG risks such as climate change can be financially material and these risks should therefore be considered when making any investment decisions.
- 2.3 The Fund believes that there is an opportunity to generate better returns by making decisions with a long term investment outlook. ESG factors tend to be long term in nature and can create both risks and opportunities. Evidence shows that well managed companies tend to have strong governance, take a more robust approach to addressing ESG issues, and are more likely to be successful long term investments.
- 2.4 ESG issues considered include, but are not limited to:

Environmental	Social	Governance
Climate Change Resource & energy management Water stress	Human rights Child labour Supply chain Human capital Employment standards	Board Independence and diversity Executive pay Tax transparency Auditor rotation Succession planning Shareholder rights Political lobbying Risk management

### 3.0 Implementation

- 3.1 All of the Fund's investments are managed by external investment managers, who take decisions on which companies to invest in. The Fund requires its managers to integrate financially material ESG factors into their investment processes. The Fund requires that its managers develop their approaches in line with improvements in best practice. The Fund believes that RI can be applied to all of the asset classes that it invests in.
- 3.2 The process through which the Fund appoints a manager includes an assessment of each candidate's approach to RI. The appointees are required to maintain and continually develop policies on corporate governance, responsible investment and the use of voting rights.
- 3.3 The Fund is one of eleven owners of Border to Coast Pension Partnership Limited (Border to Coast), which over time will increasingly manage the Fund's investments. Border to Coast will appoint underlying external investment managers that the Fund will invest in. The Fund requires Border to Coast to take RI into consideration when making these appointments, and in their ongoing management of the appointees.
- 3.4 The Fund has been an active contributor to the development of the arrangements at Border to Coast, including its Responsible Investment Policy, Climate Change Policy and Corporate Governance and Voting Guidelines document, which are available at [Publications - Border To Coast - Reports](#). One of the roles of Border to Coast is to take lead in the evolution of the approach to RI on behalf of the eleven partner funds.
- 3.5 This policy document will be provided to the investment managers, who will be required to follow its principles and report on how they have taken RI issues into account.

### 4.0 Knowledge and Skills

- 4.1 The Committee and officers will keep up to date on developments and emerging best practice on RI issues through training and, where necessary, will take expert advice from consultants and advisors to fulfil these responsibilities.

### 5.0 Climate Change

- 5.1 The Committee believes that climate change presents a systemic risk to the environment, society and every economy on the planet, with the potential to impact on every investment and the Fund's employers and beneficiaries.
- 5.2 Climate change is a long term material financial risk that the Committee has a legal duty to address, which is entirely consistent with the aim of securing sustainable returns in the interests of all of the Fund's stakeholders.
- 5.3 The Fund requires its investment managers, including Border to Coast to have climate change risk fully incorporated into investment processes, and engage with investee companies, as essential components of the transition to a low carbon economy.
- 5.4 The Committee will require its investment managers to regularly report on their exposure to climate risk and describe how it is being managed. This includes disclosure in line with the Task force on Climate related Financial Disclosures (TCFD). The Fund will commence TCFD reporting as required by the regulations, expected from 2024.
- 5.5 During 2022/23 the Fund assessed its asset classes in relation to climate change using scenario analysis tools. The findings were taken forward into the investment strategy review later that year, will be integrated into future consideration of changes to the strategy, and the analysis will be refreshed when appropriate.

- 5.6 The Fund will continue to work with Border to Coast on this critical area. Issues to be explored include further developing the programme of Climate Opportunities funds in which North Yorkshire invests, expanding carbon metrics across a wider range of asset classes, and monitoring the carbon position against their roadmap to becoming carbon neutral by the target of 2050 or sooner.

## 6.0 Engagement

- 6.1 The Committee believes that it is essential to consider the impact investee companies have on their customers, society in general, and the environment. However, whilst the Fund recognises that there is the potential for investment in certain sectors to cause harm, it will not implement an exclusionary policy against investment in any particular sector or company purely based on social, ethical or environmental reasons.
- 6.2 As a responsible investor, the Fund will influence companies through engagement rather than have a policy of divestment. This is considered to be a more effective approach in effecting change.
- 6.3 The Fund requires its investment managers to regularly assess and monitor the companies that they invest in, and take appropriate action if investment returns are considered to be at risk. This action will typically be an escalation of engagement activity. In extreme situations divestment could be appropriate, if it is believed that a company is failing to adequately address the risks it faces.
- 6.3 The Fund will require the investment managers to report on engagement and stewardship activity on a regular basis.

## 7.0 Stewardship

- 7.1 The Fund believes that well run companies are more likely to outperform over the long term and that effective stewardship can lead to better risk-adjusted returns.
- 7.2 The Fund has a responsibility for effective stewardship of the companies that it invests in, whether directly or indirectly, and will practice active ownership through voting, monitoring companies, engagement and litigation. This responsibility is taken very seriously.
- 7.3 As investments transfer to the Border to Coast over time, the Committee will require both Border to Coast, and the underlying investment managers appointed by Border to Coast, to maintain compliance with the UK Stewardship Code, or the international standards applicable to their geographical location.
- 7.4 The Fund also participates in collaborative engagement that has been instigated by its investment managers including Border to Coast, and, for example, through its membership of the Local Authority Pension Fund Forum (LAPFF), and with the Cross Pool Group. LAPFF is the UK's leading collaborative shareholder engagement group, promoting ESG good practice on behalf of over 80 LGPS funds.

- 7.5 Border to Coast's management of assets on behalf of its partner fund owners provides it with significant influence when engaging with investee companies. To further bolster their approach as a responsible investor, Border to Coast has partnered with an engagement and proxy voting specialist, Robeco. This organisation engages with the senior management of investee companies and votes at shareholder meetings, holding them to account on responsible investment issues.
- 7.6 Border to Coast has also partnered with a number of organisations to further expand its influence. These include LAPFF on a wide range of issues, Climate Action 100+, the Institutional Investor Group on climate Change (IIGCC), and the 30% Club which promotes board and senior management diversity.

## 8.0 Voting rights

- 8.1 Voting rights are assets that need managing with the same duty of care as other investment assets. The effective use of these rights is essential to protect the interests of the Fund, its employers and its beneficiaries.
- 8.2 It is important that voting is carried out in an informed manner. For this reason, the Fund has delegated voting rights to its investment managers as it believes that they are best placed to undertake it. Managers are required to vote the Fund's shares wherever it is practical to do so. Voting should be undertaken where it is believed to be in the best interests of the Fund, and in accordance with this Policy.
- 8.3 Robeco advise Border to Coast on voting. They analyse voting and governance issues, implement a set of detailed voting guidelines agreed by the eleven partner funds and ensure vote are cast in accordance with the policy.
- 8.4 Whilst managers are required to adhere to the Fund's approach to RI and voting, the Fund retains the right to direct them in respect of any issue.
- 8.5 Border to Coast has a stock lending programme. Lenders do not generally retain voting rights on lent stock, however there are procedures to recall stock prior to a shareholder vote if required. Lending can also be restricted. Reasons include:
- There is a contentious resolution
  - The holding size could have a material effect on the voting outcome
  - Border to Coast has co-filed a shareholder resolution
  - A company is seeking approval for a merger or acquisition
- 8.6 Managers are required to use reasonable endeavours to consider whether, in their opinion, any issue could become controversial for the Fund or its stakeholders. Where this is the case, the issue should be referred to the Fund for discussion, and possibly direction. This applies to engagement as well as voting.
- 8.7 The Fund's investment managers are required to report quarterly on their voting activities.
- ## 9.0 Class actions
- 9.1 Where the Fund holds securities which are subject to individual or class action securities litigation it will, where appropriate, participate in such litigation.

## 10.0 Reporting arrangements

10.1 Managers' policies are reviewed by the Fund on a regular basis.

10.2 Managers must provide quarterly reports that include the following information:

- Examples of how RI issues are integrated into the investment processes and the materiality of such issues in portfolio performance
- Summaries of engagement activity outcomes during the review period
- Details of investments that are considered to have high RI related risks
- Voting records for the review period

10.3 The Fund will report on responsible investment activities in its Annual Report. This will include voting and engagement activity.

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