CHESHIRE
PENSION FUND

Responsible Investment Policy

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Council Offices, 4 Civic Way, Ellesmere Port,
CH65 0BE
www.cheshirepensionfund.org

RESPONSIBLE INVESTMENT POLICY

1. Introduction

1.1 The Cheshire Pension Fund ("the Fund") is the name of the Local Government Pension Scheme (LGPS) in Cheshire.

1.2 Cheshire West and Chester Council ("the Council") as the administering authority of the Fund, has a fiduciary duty to act in the best, long-term, interests of the Fund's scheme members and participating employers.

1.3 The Fund's primary investment objective to meet its fiduciary duty is to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers given the long term nature of the scheme.

1.4 The Fund believes that in order to fulfil this duty, it must have a clear policy on how it invests in a responsible manner. Consideration of Environmental, Social and Governance ("ESG") issues are fundamental to responsible investment, particularly where they are likely to impact on the primary investment objective.

1.5 This Responsible Investment (RI) policy sets out the Fund's approach to embedding consideration of ESG issues in the investment process, utilising the various tools available to manage ESG risks and harness opportunities presented by ESG factors.

2. What is our policy on Responsible Investment?

2.1 The Fund's core principles guiding our approach to Responsible Investment are:

- We will apply **long-term thinking** to deliver **long-term sustainable returns**.
- We will seek **sustainable returns** from **well-governed assets**.
- We will use an **evidence-based** long-term investment appraisal to inform **decision-making** in the implementation of Responsible Investment principles and consider the costs of Responsible Investment decisions consistent with our fiduciary duties.

2.2 The Fund will invest in sustainable assets to deliver long term financial returns to enable pension promises to be paid now and into the future. This approach places the full consideration of financially material ESG factors at the heart of the Fund's investment decision making and monitoring process. This approach is distinct from the commonly used definition of 'ethical' investing: an approach in which the values or moral beliefs of an organisation or its key decision makers takes primacy over its investment considerations. Such an approach is often typified by an exclusions policy whereby certain sectors or groups of companies are excluded at the initial stage of the investment analysis process.

3. What actions will the Fund take to meet these principles?

Core Principle	Associated Actions
We will apply long-term thinking todeliver long-term sustainable returns	- Investment objectives are clearly set out in the published Investment Strategy Statement. - Set longer-term performance objectives for investment managers. - Seek to ensure that long term interests are aligned with that of its investment managers on all issues including on ESG considerations. - Policies relating to ESG will be considered as part of the Fund's long term investment planning process, following a thorough and robust investment appraisal.
We will seek sustainable returns from well-governed assets	- Apply a robust approach to stewardship, linked to the Fund's approach that engagement can positively and effectively influence behaviours. - Engage with companies when engagement to improve ESG outcomes and add value to the Fund. - Comply with the UK Stewardship Code and work within the spirit of the United Nation backed Principles of Responsible Investment ("PRI"). - Hold investment managers to account to ensure compliance with this policy. - Collective engagement through membership of the Local Authority Pension Fund Forum (LAPFF), the LGPS Central pool and other opportunities that arise from time to time. - Exercise voting rights in all markets where practicable.
We will use an evidence-based long-term investment appraisal to inform decision-making in the implementation of RI principles and consider the costs of RI decisions consistent with our fiduciary duties.	- Consider the potential financial impact of ESG related issues (such as climate change or executive remuneration) on an ongoing basis. - Consider the potential financial impact of investment opportunities that arise from ESG related factors (e.g. investment in renewable energies or housing infrastructure). - Monitor the carbon footprint of its publically listed investment assets and actively manage any potential financial risks that this identifies through a Climate Change Stewardship Plan. - Consider investment opportunities that have positive impacts and recognises that the changing external environment presents new opportunities i.e. renewable energy, green technology and social impact investments.

4. How will we monitor performance on Responsible Investment?

4.1 The Fund will be **transparent and accountable** in terms of its performance on Responsible Investment.

4.2 To achieve this the Fund will: -:

- publish the Investment Strategy Statement on the Fund's website in line with the scheme regulations
- explain decisions relating to the setting of the investment policy
- publish the Responsible Investment Policy on its website, review the policy on an ongoing basis and formally consult on the policy at least every three years
- closely monitor its appointed investment managers whom the Fund rely on to partly implement its Responsible Investment Policy
- publish a Climate Change Report showing the carbon footprint of the Fund's publicly listed investment assets and how the Fund will manage any related risks
- undertake an annual review of corporate governance, voting and engagement activity undertaken by the Fund and its underlying managers
- publish an annual summary of voting and engagement activity
- ensure that its decision makers are properly trained and kept abreast of ESG issues
- include ESG as standing item on the Investment Sub Committee (or equivalent) agendas with a view to reporting on manager performance in relation to ESG investing, and noting any hot topics / issues arising
- undertake a fundamental review of any specific ESG issues that are considered by the Investment Sub Committee to be of potentially material financial impact
- consider and respond to feedback from stakeholders in relation to issues of concern.

5. Responsible Investment and LGPS Central pool

5.1 The Fund has joined with seven other LGPS Funds (Derbyshire, Staffordshire, Shropshire, Leicestershire, Nottinghamshire, West Midlands and Worcestershire) to create the LGPS Central pool. This is one of eight pools across the LGPS.

5.2 The pool was set up to deliver the Government's requirement for all administering authorities in England and Wales to join together and pool the way they managed their investment assets to drive economies of scale and increase opportunities in asset classes which partner funds may not have had the capacity to invest in individually.

5.3 In April 2018, the partner funds created a jointly owned company called LGPS Central Ltd, a Financial Conduct Authority accredited investment company, to manage their pooled investment assets, collectively valued at some £40bn.

5.4 It will take a number of years to transition assets securely and economically from current management arrangements across to LGPS Central Ltd.

5.5 LGPS Central Ltd has now launched a number of investment products and the Fund will continue to work with LGPS Central Ltd and partner funds to help shape further investment products that meet the requirements of the Fund's Investment Strategy Statement.

5.6 All partner funds retain ownership and control of their Investment Strategy and asset allocation decisions. Day to day investment decisions such as to engage or dismiss investment managers, and monitoring of investment performance passes to LGPS Central as assets transfer.

5.7 To date the Cheshire Pension Fund has transitioned over £1billion of assets across to LGPS Central (approx. 20% of the Cheshire Fund's total assets) and this figure will increase as LGPS Central launch new investment products.

5.8 It is expected that the Fund's ability invest in a responsible way will be enhanced through LGPS Central due to the inherent benefits of scale, collectivism and innovation that will result from the project.

6. Engagement versus Exclusion

6.1 The Fund believes that its influence as a shareholder is most effective by engaging with companies, in order to influence behaviour and enhance shareholder value.

6.2 Consequently, the Fund does not implement a disinvestment approach that excludes certain types of investments, companies or sectors except where barred by UK law.

6.3 The Fund actively engages with companies in which it is invested through LGPS Central Ltd, its investment managers and though membership of the Local Authority Pension Fund Forum (LAPFF).

6.4 Ultimately the Fund retains the right to disinvest from certain companies or sectors in the event that all other approaches are unsuccessful, and it is determined that the investment is no longer aligned with the interests of the Fund or that the issue poses a material financial risk.

6.5 Specifically, in respect of climate change, the Fund does not adopt an approach to disinvest from companies or sectors on a mechanistic basis. For example, calls to disinvest from fossil fuel companies by default take insufficient account of the relatively high carbon footprint of many companies outside of the energy sector. In addition, there is strong evidence that some companies within this sector are transitioning quickly and effectively to a net zero carbon emissions position and/or are engaging positively with the requirements of the Paris Climate Change agreement. The Fund therefore believes that it is not sensible to disinvest from such companies when pursing a holistic and evidence based approach to managing and monitoring climate change risk.

7. Responsible Investment Engagement Themes

7.1 Working in partnership with LGPS Central the Fund has adopted the following key engagements themes for particular focus during the year:

7.1.1 Climate Change
7.1.2 Single Use plastics
7.1.3 Technology and disruptive industries
7.1.4 Tax transparency and fair tax payment

7.2 LGPS Central Ltd has appointed a specialist engagement provider, Hermes EOS. Every quarter LGPS Central Ltd reports on their activities and progress in a Quarterly Stewardship report, which is publicly available at:

https://www.lgpscentral.co.uk/wp-content/uploads/2020/11/LGPSC-Quarterly-Stewardship-Update-Q2-2020-21-1.pdf

7.3 In addition to the focus on the four themes outlined above, LGPS Central Ltd have a wealth of active engagement activity on numerous other themes including executive remuneration, board composition, diversity and workforce rights.

8. Exercise of Voting Rights

8.1 The Fund exercises its ownership rights by actively voting stock it holds.

8.2 The Fund delegates responsibility for voting to LGPS Central Ltd or the Fund's directly appointed investment managers who are required to vote wherever the Fund has a voting interest.

8.3 For Fund assets managed by LGPS Central Ltd, wherever practicable, votes must be cast in accordance with LGPS Central's Voting Principles (available on LGPS Central's website at:

https://www.lgpscentral.co.uk/wp-content/uploads/2020/04/LGPSCentralVotingPrinciples-Apr-2020.pdf

8.4 For Fund assets managed by appointed external investment managers, votes must be cast in line with industry best practice as set out in the Combined Code of Corporate Governance with a clear focus on enhancing long term shareholder value.

8.5 Investment managers' quarterly performance reports are required to include a specific briefing on corporate governance, detailing all votes cast on the fund's behalf. The Investment Sub Committee receives these reports on a quarterly basis and any exceptions or examples of non-compliance are addressed directly with the Fund's managers.

8.6 The Fund is committed to becoming accepted as a signatory to the recently relaunched and revised UK Stewardship Code and will submit an annual stewardship report for assessment by the Financial Reporting Council by the required deadline.

9. Climate Change

9.1 The Fund recognises that, in addition to the wider impacts of climate change, owning investment assets with a significant exposure to fossil fuels, poses a particular potential investment risk in that markets may re-price fossil fuel assets in response to growing public concerns over climate change and the response of policy makers to this concern.

9.2 It is impossible to predict the timing or quantum of any market re-pricing. Given this, the Fund believes it is sensible to adopt a precautionary approach to climate change related investment risk and this approach was articulated in the Fund's Climate Change Strategy document which was published in December 2020. In the document the Fund commits itself to:

i) Support the Paris Climate Agreement, which seeks to limit increases in global temperatures below 2 degrees centigrade. By extension, the Fund expects all investee companies to align their business activities with the Paris Agreement.
ii) The belief that climate change is a long-term material risk and therefore it is correct that the Fund consider it as an integral part of its statutory fiduciary duties.
iii) The belief that climate change may impact the Fund through asset pricing, life expectancy, employer covenants, long term inflation and interest rates.
iv) The belief that the Fund believes that the transition to a low carbon world economy presents both risk and opportunities and therefore, the Fund will consider climate change as a part of all asset allocation, manager selection and individual investment decisions.
v) A process whereby the Fund decarbonises its investment portfolio with the aim of being carbon neutral by 2050.
vi) To support the long-term aim of net zero by 2050 by setting specific shorter-term targets to lower the carbon footprint of its equity portfolio year on year compared to the general market.

9.3 Further details of the Fund's approach to climate change are included in the Fund's Climate Change Strategy document which is available at:

https://www.cheshirepensionfund.org/members/wp-content/uploads/sites/2/2020/12/Climate-Change-Strategy-December-2020.pdf

and is attached to this Responsible Investment policy as an Annex.

9.4 The shorter-term decarbonisation targets that the Fund has set are:

i) A commitment to reduce the carbon footprint of the Fund's equity portfolio by 7.6% per year.
ii) A commitment to reduce the carbon footprint of the Fund's equity portfolio to a level 50% below that of the general equity market by the end of 2023.
iii) The Fund will seek to invest an increasing proportion of total Fund assets in low carbon and sustainable assets.

9.5 The Fund believes that the above targets can be delivered without jeopardising its fiduciary duty to act in the best long-term financial interests of members and employers.

ANNEX

Climate Change Strategy

Introduction

This Climate Change Strategy sets out the Cheshire Pension Fund's approach to managing the risks and opportunities to its investment portfolio from climate change.

The publication of a separate Climate Change Strategy reflects the Fund's view that there is a significant material risk from climate change to the value of the Fund's investment assets and this risk needs to be actively monitored and managed.

Climate Change Risk

Climate action failure is *the* stand-out, long-term risk the world faces in likelihood and impact according to the 2020 Global Risks Report from the World Economic Forum. If 'business as usual' continues, the world could heat up by about 5 degrees by 2100 which would cause profound societal damages and significant human harm. According to the Intergovernmental Panel on Climate Change (IPCC), greenhouse gas (GHG) emissions need to fall by 45% vs 2010 levels by 2030 in order to avoid the worst effects of climate change.

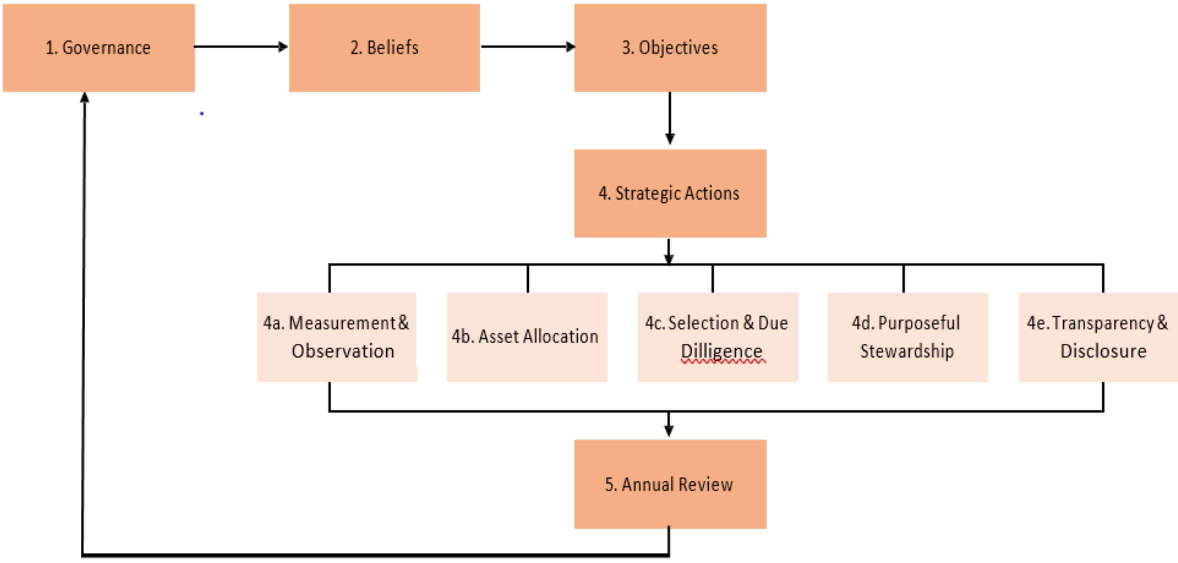
As a long-term asset owner, the Fund would like to see stable, well-functioning and sustainable markets which will foster long-term value creation and sustainable returns. Climate change cuts across industries, markets and economies and is a risk that cannot be fully diversified. How companies manage climate-related transition and physical risks and opportunities is highly likely to affect long-term profits and company returns. The Fund will endeavour to take a holistic approach to managing climate change risk and to act in a manner that will enable the broader transition towards a low-carbon economy through a combination of portfolio construction, engagement and policy advocacy.

Governance of Climate Change Risk

The Pension Fund Committee is responsible for endorsing the Fund's policies and procedures including the Fund's *Climate Change Strategy.* Responsibility for the implementation of the Strategy is held by the Head of the Cheshire Pension Fund and the Finance and Investments Manager. The Pension Fund Committee will review the strategy on a bi-annual basis and agenda time will be scheduled twice a year for discussion of progress on the strategy.

The Fund is committed to providing decision-makers with appropriate training, including specialised training on climate change. The Investment Sub- Committee includes responsible investment (including climate change) as a standing item on the Investment Sub-Committee agendas, and investment managers' quarterly performance reports are required to include a specific briefing on responsible investment (including climate change as relevant).

As a primarily externally managed Fund, the implementation of much of the management of climate-related risk is delegated onwards to portfolio managers, with oversight from Fund officers. Where appropriate, the Fund's asset pooling company, LGPS Central Ltd, assists in assessing and managing climate- related risks.
Figure 2: Depiction of the Climate Change Strategy



Evidence-based beliefs related to climate change

The Fund believes that:

i) Climate change is a financially material risk for the Fund. It has the potential to impact our beneficiaries, employers and all our holdings across asset classes. Due consideration of climate risk falls within the scope of the Fund's fiduciary duty.
ii) There is overwhelming evidence that climate change is impacting the environment. This will have long-term consequences for our financial system. The Fund holds that the economic damages of climate change will outweigh the costs of precautionary mitigation.
iii) As a result of human activities, the world is warming at an unsustainable rate. Already the world is approximately 1°C warmer than pre-industrial levels. Unabated, such change would be devastating for our way of life.
iv) Climate change has the potential to impact the funding level of the Fund through impacts on employer covenant, asset pricing, and longer-term inflation, interest rates and life expectancy.
v) The Fund strongly supports the Paris Agreement on climate change.
vi) The Fund believes that a transition to a low-carbon economy is essential. This requires greenhouse gas emissions to decline to

net-zero well before the end of this century. This will happen not only by focussing on the suppliers of energy but also, the demand for energy must undergo a major transformation.

vii) The Fund believes all companies should align their business activities with the Paris Agreement on climate change. It is possible for a high- emitting company to undergo this transformation and thrive in the transition to a low-carbon future.

viii) Investors have an important role to play in the transition to a low-carbon economy. The Fund believes the global economy will be less likely to realise a Paris-aligned energy transition were investors to cease influencing company behaviours.

ix) A global co-ordinated response is needed to limit the rise in temperatures. No individual investor is influential enough to act alone. Governments, policymakers, consumers, companies and investors all have a role to play. Acting in collaboration will increase the likelihood of an orderly transition to a low-carbon economy.

x) Climate-aware decisions can only be made with accurate, relevant, complete, and comparable data.

Objectives

Identify, understand and assess risks and opportunities

The Fund aims to utilise the best available information and tools to identify, understand and assess climate change risks and opportunities across regions and sectors that are material to our Fund. This includes both relevant climate-related transition and physical risks and opportunities likely to impact on the Fund's Investment Strategy and Funding Strategy.

Integration

The Fund intends to ensure that its investment portfolio; Funding Strategy and Employer Covenant Framework are resilient to climate change impacts.

To achieve climate change resilience, the Fund will ensure that material short, medium and long-term climate change considerations play an integral part in the stewardship of our investment portfolio. This includes climate change integration in the selection and due diligence, and continuous monitoring of assets.

The Fund will seek to influence investee companies and fund managers through routine engagement and voting on climate change issues.

Climate solutions and decarbonisation

The Fund aims to promote the transition to a low carbon economy through identifying and investing in sustainable and low carbon products across all asset classes. The Fund will also aim to benefit from the opportunities posed by the transition to a low carbon economy.

To further support the low carbon transition, the Fund will continue to steadily decarbonise our listed equities portfolios.

Policy advocacy and transparency

The Fund will work alongside like-minded organisations to support the ambitions of the Paris Agreement. This includes advocating for Paris-aligned regulations and policies with governments, policy makers, the investment industry and other stakeholders.

The Fund will aim to be fully transparent with our stakeholders through regular public disclosure, aligned with best practice.

Strategic Actions

Measurement & Observation

The Fund recognises that methodologies for assessing investment related climate change risk are evolving rapidly and we will seek to use the best information available. The Fund will make regular measurements and observations on the climate-related risks and opportunities relating to investment performance. This will include:

- Identification of the most material climate-related risks and opportunities relevant to the Fund;
- Economic assessment of the Fund's asset allocation against plausible climate-related scenarios;
- A carbon risk metrics assessment of the Fund's listed equities and fixed income assets. This includes the following metrics; Portfolio Carbon Footprint, Fossil Fuel Exposure, Carbon Risk Management and Clean Technology. The Fund aims to expand this type of analysis to other asset classes once reliable climate-related data becomes available.
- Regular assessment of progress against the Fund's carbon reduction targets.

Recognising the deficiency of relevant, consistent and comparable climate-related financial data, the Fund will encourage disclosure and the adoption of the recommendations of the TCFD across our investment chain, including external managers and investee companies.

Asset Allocation and Targets

Where permitted by a credible evidence base, the Fund will integrate climate change factors into reviews of our asset allocation, subject to the requirements of the Investment Strategy statement (ISS) and Funding Strategy Statement (FSS). In light of this, the Fund will actively consider allocations to asset classes that improve our ability to meet our investment objectives.

In addition, the Fund believes that the setting of meaningful and measurable targets can be a meaningful aid to set, measure and demonstrate progress towards net zero. Therefore, as a result the Fund commits to:

- Reduce the carbon footprint (scope 1 and 2 emissions) [1] of the Fund's listed equities portfolio from its current 30% below the general market (the FTSE All World baseline) to 50% below by the end of 2023.
- The Fund will also reduce the carbon footprint of its listed equities portfolio by a minimum 7.6% each year. This would ensure the Fund's equity portfolio is aligned with the recommendations of the United Nations Environment Programme's report (published November 2019), which stated that global greenhouse gas emissions must fall by 7.6% per year between 2020 and 2039 to deliver the Paris Climate target of reducing the rise in global temperatures to 1.5C.
- The Fund will seek to invest in an increasing proportion of total Fund assets in low carbon and sustainable assets. The paucity of carbon emissions data across many asset classes makes it impossible to set a meaningful Fund wide target for this commitment at present. The Fund will regularly review this with a view to setting a target once sufficient data is available.

The Fund commits to review progress on delivering against these targets on an annual basis. The targets themselves will be regularly reviewed and the Fund expects to amend the targets as both the scope and quality of investment asset carbon data improves.

Selection, Due Diligence and Monitoring

When considering all new investment decisions, the Fund will assess the material climate-related risks and opportunities and the investment manager's approach to managing climate-related risks. Wherever possible, the Fund will fully assess the impact of all new investment decisions on the carbon footprint of the investment portfolio.

Appointed investment managers will be regularly monitored to ensure climate-related risk is fully integrated into the managers investment process. The Fund will also regularly monitor and review the managers climate-related engagement and voting activity.

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[1] Scope 1 Greenhouse Gas Emissions: Direct emissions from owner or sources controlled by the owner, including: on-campus combustion of fossil fuels; and mobile combustion of fossil fuels by institution-controlled vehicles. Scope 2 Greenhouse Gas Emissions: Indirect emissions from the generation of purchased energy

Purposeful Stewardship

The Fund will develop an Annual Climate Stewardship Plan, which will set clear goals of engagement, particularly on Paris Alignment, with companies, fund managers, policymakers and other organisations of influence. It is clear that the transition to a low carbon economy will depend on policy intervention, changes in corporate behaviour and changes in technology. It is therefore critical that the Fund engages in these discussions to help shape the policy and business landscape. The Fund's engagement efforts are carried out through its asset pooling company LGPS Central Ltd and through other investment managers.

The Fund will use stewardship techniques to manage the risks and opportunities within our investment portfolio, focusing on the risks and opportunities of greatest magnitude. Engagement will be prioritised using the following criteria: perceived level of climate risk, considering carbon risk metrics; weight of the company in the portfolio; likelihood of achieving change; and ability to leverage investor partnerships. Climate related investment risk is not restricted to just companies in the energy sector; the Fund will therefore engage across all relevant sectors and on both the energy supply and demand side, including but not limited to fossil fuels, diversified energy, mining, cement, aviation and utilities.

The Fund will collaborate with like-minded investors where possible and be an active participant in selected collaborative initiatives that support the Fund's stewardship aims, such as the Climate Action 100+ (CA100+) engagement project. The objectives of this engagement activity with companies will be largely aligned with a Benchmark Framework launched by CA 100+ in September 2020. In line with this Framework, the Fund will ask companies to:

i) Work toward providing disclosures consistent with the Framework enabling investors to assess a company's potential for long-term value creation;
ii) Set an ambition to achieve net zero emissions by 2050 or sooner across all material GHG emissions, and establish short, medium, and long-term targets to support that ambition;
iii) Work with investors on action plans to develop and implement net zero transition pathways toward achieving net zero emissions for specific sectors or value chains.

The Fund will make full use of its voting rights and will co-file or support climate-related shareholder resolutions where these align with the Fund's Climate Change Strategy.

Transparency & Disclosure

The Fund will prepare and publish a TCFD report annually, which will include our carbon risk metrics.

The Fund will disclose the stewardship reports of the Fund's key investment managers on a quarterly basis and report on progress against the Fund's Climate Stewardship Plan every year.