Responsible Investment Policy

Heart of England Co-operative Society Pension Scheme

September 2024

About

The Responsible Investment Policy reflects the current views of the Heart of England Pension Trustee Limited ("the Trustee") as Trustee of the Heart of England Co-operative Society Pension Scheme ("the Scheme"). This document contains the opinions and views of the Trustee. Whilst the Trustee has sought the views of the Society when forming this policy, the Trustee is a distinct entity from the Society.

Investment Beliefs

As a long-term investor, the Trustee believes that financially material environmental, social and governance ("ESG") issues can impact the value of financial assets and the ability to generate long-term sustainable returns for members.

The Trustee recognises that taking these issues into consideration is consistent with the Trustee's fiduciary duty and needs to be integrated within the investment strategy and throughout the investment process.

Further, the Trustee considers climate change to be a significant long-term financial and systemic risk that if not managed, has the potential to negatively impact the value of the Scheme's, and therefore members', investments.

The Trustee believes that active ownership (i.e. voting and engagement) plays an important role in effective management of ESG and climate change risks and in influencing positive change in the membership's best interest.

Purpose and Scope

This policy sets out key aspects of the Trustee's responsible investment approach which is applied to all asset classes the Scheme invests in, as far as practicable.

Where the Scheme invests in pooled funds, the Trustee acknowledges that it cannot directly set requirements for the investment managers. Rather, the Trustee has set clear expectations and will seek to ensure that the investment parameters governing the pooled funds in which the Scheme is invested are aligned with their own expectations in order to ensure the Scheme's assets are managed in line with this policy.

Governance

The policy is maintained and approved by the Trustee. The Trustee is responsible for overseeing the implementation of the policy and will monitor that the Scheme's investments comply with the policy.

Implementation

The responsible investment approach is described below and is guided by the United Nations Principles for Responsible Investment (UN PRI).

Exclusions Policy

As the Scheme invests in pooled funds, any exclusions applicable to each mandate are determined by the investment manager who has responsibility for ensuring the exclusions are appropriate and adhered to. As such, it is not practicable for the Trustee to specify its own exclusions policy which will apply to the purchase and sale of investments.

However, the Trustee has set its own "watch-list" of activities, which represent activities which are deemed unsustainable practices in the long term. This list will be used for the purpose of assessing the exclusion policies and underlying holdings of the appointed manager. The watch-list is detailed below:

- Companies whose actions constitute a violation of global norms, as per norms such as the UN Global Compact.
- Companies with exposure to the following practices (as defined by 10% or more revenue derived from the practice):
    - Coal (mining and power generation)
    - Controversial weapons (including anti-personnel mines, nuclear weapons, cluster weapons, biological and chemical weapons, depleted uranium manufacture, and white phosphorus munitions)
    - Fossil fuels (including 1. exploration and extraction of fossil fuels 2. processing/refinement of oil 3. transport of fossil fuels 4. essential and specific products or services for the exploration, extraction, or processing of fossil fuels)
    - Adult entertainment

The Trustee will communicate this watch-list to managers and indicate that the holdings within these areas will be reviewed.

On an annual basis, the Trustee will review the exclusions utilised by each appointed manager and the actual underlying holdings against the above list and consider whether the manager's holdings are appropriate for the particular asset class(es) and mandates concerned. If this is not deemed to be appropriate, the Trustee will consider engaging with the investment manager to understand the rationale for the exclusion(s) and holdings.

ESG integration

The Scheme's assets are managed by external investment managers. In taking a responsible approach to investing the Scheme's assets, the Trustee requires the investment managers to consider the materiality and impact of ESG and climate change risks (and opportunities) within the entire investment process including:

- **Selection** i.e. within the due diligence before any investment is made;
- **Retention** i.e. through ongoing monitoring and stewardship of an asset; and
- **Realisation** i.e. through decisions to divest.

The Trustee requires that ESG considerations including climate change are integral to any appointed investment manager's policies and processes and therefore will only select those managers who demonstrate a commitment to investing responsibly as described below.

The Trustee expects that the appointed managers will continually improve their own processes and contribute to raising industry standards but recognise that in some cases managers may be constrained by developments in the wider industry.

Manager Selection and Due Diligence

ESG considerations are fundamental to the due diligence in any manager selection exercise and are a function of the research process, manager rating and recommendation of the Trustee's Investment Consultant.

The Investment Consultant's due diligence process is tailored to each asset class/mandate and results in an ESG rating. At a high level, all investment managers' policies and processes are assessed in five key areas:

- **Philosophy** i.e. the commitment of the manager to investing responsibly and sustainably.
- **ESG Integration** i.e. how and the extent to which ESG considerations are incorporated into the investment processes alongside fundamental analysis.
- **Climate Change** i.e. the active consideration of climate risks in investment processes, innovation of tools and commitment to driving forward the global climate change agenda.
- **Stewardship** i.e. outcome-oriented stewardship activity to drive positive change within invested companies.
- **Reporting** i.e. transparency of managers' activity to all stakeholders.

The Trustee requires that all investment managers are expected to demonstrate a sufficient minimum level of ESG risk management, and that all new investment manager appointments must meet minimum overall Green ESG rating as measured by the Investment Consultant.

Stewardship and Active Ownership

Given that all the Scheme's assets are managed by the appointed investment managers, and the fact the Trustee cannot directly influence the policies and practices of the investment managers, the Trustee delegates all stewardship activity to the investment managers as it believes the managers are best placed to conduct stewardship given their expertise and access to company management.

The Trustee encourages the appointed investment managers to engage with investee companies and vote whenever it is practical to do so on financially material matter such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impacts (including climate change) and corporate governance as part of their decision-making processes. The Trustee requires the Investment Managers to report on significant votes made on behalf of the Trustee in an annual Implementation Statement. The Trustee has agreed the following priority areas for engagement in which the Scheme will go above and beyond the standard stewardship approach:

- Conduct/culture and ethics;
- Human and Labour rights;
- Diversity and inclusion; and
- Health and safety.

Stewardship is a key element of the manager selection due diligence process, and the Trustee expects their investment managers to adhere to the principles of the UK Stewardship Code through engagement with investee companies and the exercise of voting rights on material ESG and climate change related issues alongside other non-ESG related issues.

Given the importance of the UK Stewardship Code, should an appointed investment manager not be a signatory to the Code, the Trustee, with the assistance of the Investment Consultant, will seek an explanation from the investment manager detailing the reasons for not achieving signatory status as well as the steps to be taken to resolve this.

The Trustee will monitor the stewardship activity of the managers at firm level as well as their activity related to the Scheme's specific holdings on a regular basis. It expects the investment managers to evidence via case studies and stewardship related statistics the actions they are taking to drive positive behaviours and change within underlying holdings. The Trustee will look to seek this evidence via both reporting from the investment manager and from meeting directly with them on a frequent basis.

If the Trustee becomes aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that it deems inadequate or that the results of such engagement are mis-aligned with the Trustee's expectation and the investment mandate guidelines provided, then the Trustee may consider terminating the relationship with that Investment Manager.

Climate change is expected to be a feature of the investment managers' overall stewardship activity.

Climate change

The Trustee expects the investment managers to integrate material climate related risks into their investment decision making process and stewardship activity. Further, the Trustee recognises that the data, tools and methodologies to assess climate risk are evolving and so encourage the appointed managers to innovate and contribute actively to raising standards in the industry and driving the climate change agenda.

All of the investment managers currently utilised by the Scheme are signatories of the Net Zero Asset Managers Initiative ("the Initiative") and have committed to achieving net zero alignment by 2050 or sooner. Such initiative is aligned to the Trustee's desire to decarbonise the portfolio over time. The Trustee will not invest in a new investment manager which is not a signatory to the Initiative. Additionally, should an investment manager stop being a signatory to the Initiative, the Trustee will consider the use of alternative managers (in the context of the asset class in question and other scheme objectives.)

The Trustee will review the emissions of the Scheme, with a specific focus on the Scheme's portfolio of growth assets, over time and use the following means (but not limited to them) to manage the carbon footprint and climate risk exposure of these assets:

- Ongoing monitoring of the Scheme's exposure to climate risk through measurement of carbon metrics, scenario analysis and any other relevant methodologies, where relevant and available, by the investment managers.
- Purposeful stewardship and engagement with the appointed investment managers expected to drive change within the underlying holdings.
- Monitoring progress of overall emissions over time, noting that total emissions may fluctuate year on year given some of the challenges and complexities around the topic (availability of data and estimation methodologies).
- Where appropriate, collaboration on industry initiatives to drive collective change.
- Consideration of investment in sustainable funds with specific intention to reduce the carbon intensity of the portfolio as well as taking advantage of transition related opportunities so long as it does not compromise the Scheme's other objectives.

As part of the ongoing monitoring, the Trustee will review how the underlying managers are assessing and mitigating climate risks when making investment decisions and, within their stewardship activity, encouraging innovation and improvement. This will be assessed using forward looking process-based metrics, for example:

- Qualitative assessment by the investment consultant of the investment manager's consideration of climate risks; and
- Alignment of portfolio to Transition Pathway Initiative – a well-recognised indication of investee company preparedness for the low carbon transition.

Monitoring of investments

The Trustee will monitor and review the investment managers' activity related to ESG and climate change issues within the portfolio on a regular basis, via the investment consultant ESG ratings review process. Should the monitoring process indicate that the manager's actions are not aligned with the Trustee's expectations, the Trustee will engage with the manager to encourage further alignment.

In addition to the regular monitoring, the Trustee, together with the Investment Consultant, will review the ESG assessment of the appointed managers on an annual basis with a view of engaging with managers to improve where processes and policies are not aligned with expectations. If, following engagement, the Trustee are not satisfied with the manager's actions, this may initiate consideration over the ongoing role of that manager within the Scheme.

In line with the Climate Change section below, the Trustee will review an annual carbon dashboard provided by the Investment Consultant which will provide an oversight of the carbon footprint of the Scheme's investments and broader exposure to climate change risks.

As noted within the "Exclusions Policy" section, on an annual basis the Trustee will review the exclusions adopted by each appointed manager and the actual underlying holdings against the Trustee's watch-list and consider whether these are appropriate. In line with the wider policy set out in the Statement of Investment Principles the Trustee will monitor the voting carried out by relevant managers to ensure the voting carried out on behalf of the Scheme.

Monitoring and External Reporting

The Trustee will review the impact and progress of its ESG and climate activity against this Policy on a regular basis. The Trustee will also hold managers accountable by maintaining oversight of the manager's ESG and stewardship activities in line with the policy as described in the various sections above.

The Trustee will maintain transparency by communicating ESG and climate related activity within the Scheme to relevant beneficiaries and stakeholders by:

- Making this ESG and climate policy publicly available alongside the Statement of Investment Principles;
- Providing a summary of the Scheme's ESG and Stewardship related activity in an annual report;
- Disclosing the Trustee's approach to managing climate change risk using the TCFD framework (once the Scheme becomes subject to the regulatory requirements).

Collaboration

The Trustee will consider on a case-by-case basis the appropriateness of participating in its own capacity to wider forums and initiatives.

Conflicts of interest

The Trustee has a suite of policies which covers any potential conflicts of interest which are applied to identify and manage any conflicts of interest.

Declaration

The Trustee confirms that this Responsible Investment Policy reflects the strategy they have decided to implement for the Scheme. The Trustee acknowledges its responsibility to ensure the assets of the Scheme are invested in accordance with this Policy.

Approved and adopted by the Trustee of the Heart of England Co-operative Society Pension Scheme on 10/10/2024

Contact us

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