# Buckinghamshire Pension Fund - **July 2022**

## Environmental, Social and Corporate Governance Policy

"The Committee has a fiduciary duty to act in the best financial interests of the Fund's members and seek to obtain the best financial return that it can for members against a suitable degree of risk. This is a fundamental principle; however, the Fund is also mindful of its responsibilities as a long term shareholder.

The Committee believes that environmental, social, and corporate governance (ESG) factors, including climate change, will have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Committee recognises that long term sustainability issues present risks and opportunities that increasingly require explicit consideration when investing the Fund's assets.

The Committee will ensure that appropriate governance resources are available for developing and implementing ESG and Climate Change related governance policies. For example, the Committee intends to commission climate change scenario analysis in order to assess the Fund's exposure to physical damages and transition risk under various warming scenarios to assist the Committee when setting investment strategy.

The Committee has already committed part of the Fund's assets to infrastructure portfolios that invest in renewable energy, technologies and infrastructure. Within the first portfolio c.46% of commitments have been invested in such assets, whilst half of the second portfolio was committed to a dedicated renewables fund. Renewable investments in the third portfolio, which aims to allocate 30-60% to such investments, include low carbon and energy transition enabling investments across various sectors.

The Committee does not consider a top-down approach to disinvestment to be an appropriate strategy for reducing climate and carbon risk and contributing towards reducing carbon emissions. Instead, the Committee believes that decarbonising the Fund's portfolio over time by reducing its exposure to carbon intensive companies and assets, and seeking to influence the behaviour of companies through engagement, will have a more beneficial impact.

The vast majority of the Fund's assets are managed by Brunel. Brunel's Responsible Investment Policy Statement and Climate Change Policy clearly articulate its commitment to be responsible investors, and

as such recognises that ESG considerations and climate change are part of the processes in the selection, non-selection, retention and realisation of assets for the Fund. The Committee expects Brunel to follow good practice and use its influence as a major institutional investor and long-term steward of capital to promote good practice in the investee companies and markets to which the Fund is exposed. The Committee notes that Brunel is a signatory to the UK Stewardship Code 2020.

Brunel's intention is to align its investments with the targets set under the Paris Agreement (which aims to limit climate change to well below 2°C, preferably to 1.5°C, compared to pre-industrial levels) in relation to greenhouse gas emissions and carbon neutrality. Brunel have committed to a 50% reduction in emissions by 2030 (relative to emissions reported as at 31 December 2019), and to net zero by 2050. The Committee is supportive of Brunel's ambitions.

The Committee is also supportive of the Administering Authority's commitment to tackling climate change issues. As part of its Climate Change and Air Quality Strategy, the Administering Authority will work alongside the government to achieve net-zero for carbon emissions for Buckinghamshire as a whole by 2050. In addition, the Administering Authority will reduce its own carbon emissions by 75% by 2030, and to net zero by no later than 2050. The Committee is supportive of the Administering Authority's ambitions.

Each portfolio, in every asset class, under Brunel, explicitly includes responsible investment which includes an assessment of how social, environmental and corporate governance considerations may present financial risks to the delivery of the portfolio objectives. These considerations will therefore be taken into account in the selection, non-selection, retention and realisation of assets. The approach undertaken will vary in order to be the most effective in mitigating risks and enhancing investor value in relation to each portfolio and its objectives.

One area of Brunel's focus will be on driving real and substantial change in how investment managers invest. If investment managers are not able to robustly and credibly explain their investment strategies and how they have integrated climate risk, Brunel will look to replace them with investment managers that do. If Brunel find that their investment managers' engagement with companies is ineffective (i.e. these efforts do not deliver real change in corporate strategies on climate change so that these companies are on a trajectory to be aligned with the transition to a 2°C or below economy), Brunel will consider whether they should remove certain investment managers and/or introduce specific exclusion criteria to be applied to companies. The Committee is supportive of Brunel's approach.

On an annual basis, Brunel produces carbon footprint analysis on behalf of the Committee to monitor the Fund's progress in reducing carbon emissions. Key carbon metrics, such as the weighted average carbon intensity of the aggregate portfolio, are measured and monitored against a custom benchmark. As at 31 December 2019, the Fund was c.12% less carbon intensive than the benchmark on a weighted average carbon intensity basis. By 31 December 2020 this had improved to c.15%, driven by a c.18% reduction in the carbon intensity of the Fund (compared to a c.16% reduction in the carbon intensity of

the benchmark). By 31 December 2021 this had further improved to c.32%, driven by a 9% reduction in the carbon intensity of the Fund over the year (compared to a 14% increase in the carbon intensity of the benchmark). All of the Brunel portfolios invested in by the Fund have lower levels of carbon intensity compared to their respective benchmarks, with the exception of the Brunel Sterling Corporate Bond Fund and the Brunel Passive World Developed Equity Fund (which are broadly in line with their respective benchmarks).

The Committee will continue to develop its beliefs and approach to ESG integration and climate change, and its strategy for decarbonising the Fund's investment portfolio. The Committee will work with Brunel to ensure that these are implemented, noting that Brunel published a comprehensive Climate Change Policy in January 2020. This policy is being reviewed by Brunel in 2022, ahead of publishing an updated policy in 2023."

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