Responsible Investment Policy

This Responsible Investment Policy details the approach that Bedfordshire Pension Fund will have for its RI and stewardship responsibilities.

1. Introduction

The primary objective of Bedfordshire Pension Fund (BPF) is to meet its pension liabilities. This has to be achieved by producing superior financial returns whilst not undertaking undue levels of risk and protecting returns over the long term. Environmental, social and governance (ESG) issues can have a material impact on the value of financial assets and on the long term performance of investments, and therefore need to be considered across all asset classes in order to better manage risk and generate sustainable, long term returns. Well-managed companies with strong governance are more likely to be successful long-term investments. BPF will endeavour to be an active owner and steward of its investments, both internally and externally managed, across all asset class both in externally managed direct holdings and through pooled vehicles, and ultimately through Border to Coast Pensions Partnership Ltd (BCPP). The commitment to responsible investment is communicated in the BPF UK Stewardship Code compliance statement.

2. What is responsible investment?

Responsible investment (RI) is the practice of incorporating ESG issues into the investment decision making process, to better manage risk and generate sustainable, long-term returns. Investment stewardship, which involves being an active owner and using shareholder rights to improve long-term performance, is also an integral part of the process. The incorporation of ESG factors in the investment process is part of the fiduciary duty to beneficiaries of funds. The Law Commission’s 2014 report ‘The Fiduciary Duties of Investment Intermediaries’ states that Trustees should take into account any factors which are financially material to the performance of an investment including ESG factors.
3. Governance and Implementation

The Responsible Investment Policy is aligned to the BCPP policy, which was created after collaboration and engagement with the 12 Partner Funds. Implementation and day-to-day oversight of the policy is by the Pension Fund Manager. The policy will be monitored with regular reports to the Pensions Committee. It will be reviewed at least annually or whenever revisions are proposed, and updated as necessary.

4. Skills and competency

BPF will, where needed, take proper advice in order to formulate and develop policy. The Pensions Committee and officers will maintain appropriate skills in responsible investment and stewardship through continuing professional development; where necessary expert advice will be taken from suitable RI specialists to fulfil these responsibilities.

5. Integrating RI into investment decisions

BPF will only appoint active managers that will consider material ESG factors when analysing potential investments, and will expect BCPP to do the same. Internally managed portfolios by BCPP, that BPF might invest in, will also be expected to integrate RI into their decision making process. ESG factors tend to be longer term in nature and can create both risks and opportunities. As a long term investor, it is therefore important that they are taken into account when analysing potential investments. The factors considered are those which can cause financial and reputational risk, ultimately resulting in a reduction in shareholder value. ESG issues will be considered and monitored in relation to internally managed assets and also within externally managed mandates.

Issues considered include, but are not limited to:

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5.1 Climate change

BPF will consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect its investments when setting its investment strategy. It will require appointed managers, including BCPP, to consider the impact of climate change in detail. It poses significant investment risks and opportunities with the potential to impact the long-term shareholder value of investments across all asset classes. Risks and opportunities can be presented through a number of ways and include: physical impacts, technological changes, regulatory and policy impact, transitional risk, and litigation risk. BPF will expect and encourage external managers and BCPP to:

- Assess its portfolios in relation to climate change risk where practicable
- Incorporate climate considerations into the investment decision making process
- Engage with companies in relation to business sustainability and disclosure of climate risk inline with TCFD recommendations
- Encourage companies to adapt their business strategy in alignment with a low carbon economy
- Support climate related resolutions at company meetings where appropriate
- Co-file shareholder resolutions at company AGMs where appropriate on climate risk disclosure
- Monitor and review its fund managers in relation to climate change approach and policies
- Collaborate with other investors including other pools and groups such as LAPFF

Engage with policy makers with regard to climate change.

6. Stewardship

As a shareowner BPF has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It will practice active ownership through voting, monitoring companies, engagement and litigation. As a responsible shareholder, BPF is a signatory to the UK Stewardship Code\(^1\) and its statement of compliance can be viewed here Link. All external fund managers and BCPP will be expected to be signatories or comply with international standards applicable to their geographical location.

Responsible investment and ESG considerations will be specifically referenced when conducting fund manager due diligence. They will be factored into the selection and appointment process, and included in investment management agreements. Managers will be expected to

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\(^1\) The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. [Link](https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Stewardship-Code.aspx)
include ESG issues within their investment decision making process and take into account both financial and “extra-financial” considerations. Managers will be required to report back to BPF regarding their RI activities on a regular basis.

6.1 Voting

Voting rights are an asset and BPF will exercise its rights carefully to promote and support good corporate governance principles. BPF will aim to vote in every market in which it invests and where it is a direct asset owner, through segregated mandates. It will vote in line with its voting policy, which is aligned to the BCPP voting policy, and can be seen on our website at www.bedspensionfund.org. Once assets are moved into the management of BCPP, BPF will require BCPP to vote in line with the collaborative voting policy developed with the Partner Funds which can be viewed on BCPP’s website. The voting guidelines are administered and assessed on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific company and meeting circumstances.

Where stock lending is permissible, lenders of stock do not generally retain any rights on lent stock. BPF expects that there will be procedures along to enable stock to be recalled prior to a shareholder vote in certain circumstances. This will only occur if the benefits of voting outweigh the benefits of stock lending. Stock will be recalled ahead of meetings when:

- The resolution is contentious
- The holding is of a size which could potentially influence the voting outcome
- An investment manager needs to register its full voting interest
- A shareholder resolution has been filed.
- A company is seeking approval for a merger or acquisition
- BPF deems it appropriate

Lending can also be restricted in these circumstances.

6.2 Engagement

The best way to influence companies is through engagement; therefore BPF will not divest from companies principally on social, ethical or environmental reasons. As responsible investors, the approach taken will be to influence companies’ governance standards, environmental, human rights and other policies by constructive shareholder engagement and the use of voting rights. The services of LAPFF will be used when necessary to identify issues of concern.
Meeting and engaging with companies is an integral part of the investment process. As part of our stewardship duties we require our external managers to regularly monitor investee companies and take appropriate action if investment returns are at risk, which would include directly engaging with companies. Managers are required to report such engagement to the BPF on a regular basis.

BPF will encourage companies to improve disclosure in relation to ESG and to report and disclose in line with the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD)\(^2\) recommendations.

\(^2\) The Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD) - The TCFD developed recommendations on climate-related financial disclosures that are applicable to organisations (including asset owners) across sectors and jurisdictions. https://www.fsb-tcfd.org/publications/final-recommendations-report/