



KENT COUNTY COUNCIL
ADMINISTERING AUTHORITY FOR KENT PENSION FUND
RESPONSIBLE INVESTMENT POLICY

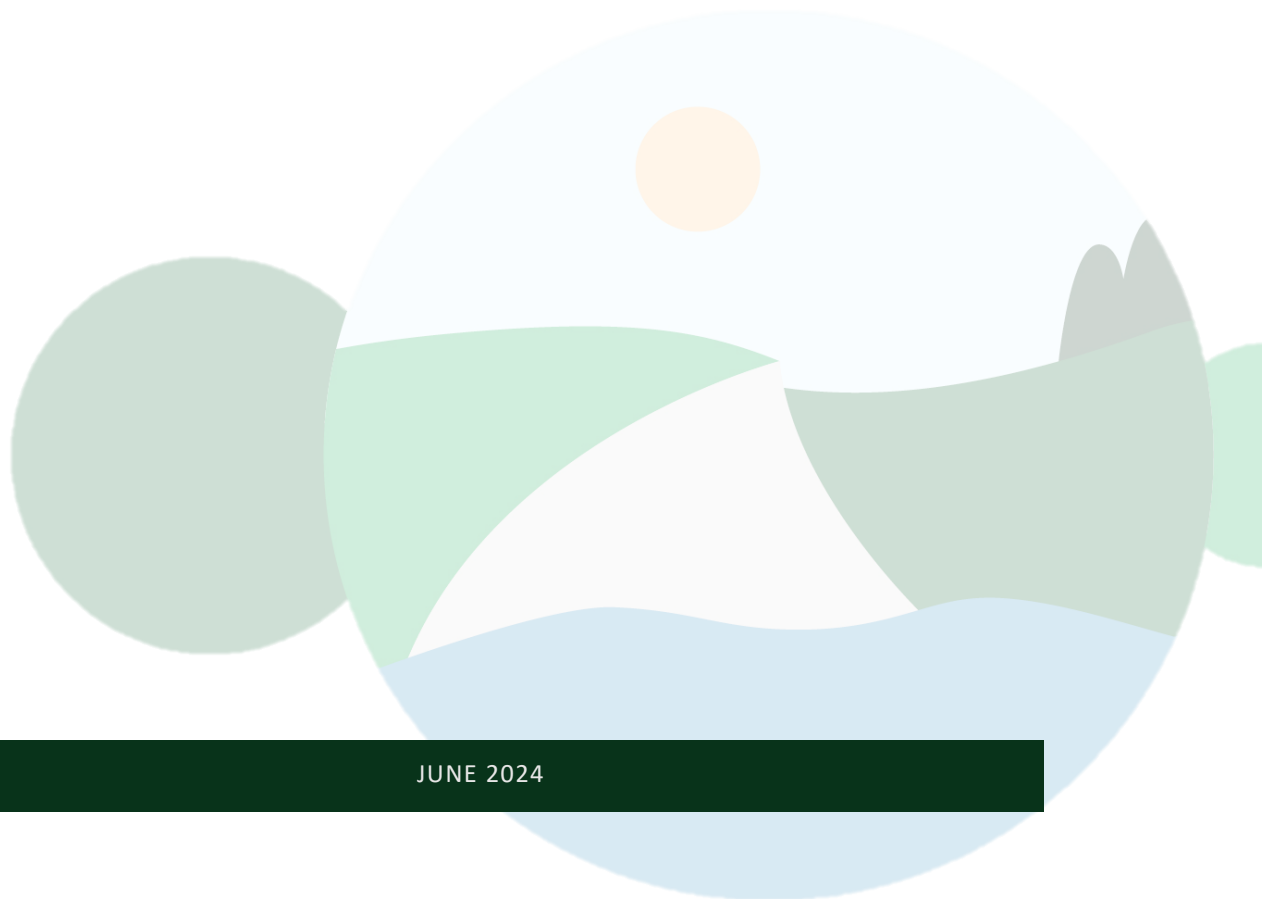


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INTRODUCTION

The Kent Pension Fund (the Fund) is committed to being a responsible investor and a good long-term steward of the assets in which it invests. The Pension Fund Committee (the Committee) has a fiduciary responsibility to act in the best interests of its members. The Fund expects the approach outlined in this policy will enhance and protect the value of its assets over the long term and is therefore consistent with its fiduciary duty.

This policy sets out the Fund's approach to responsible investment including where responsibility lies; how environmental, social and governance (ESG) considerations are embedded in the Fund's investment processes; and how the Fund stewards its investment assets in the interests of its beneficiaries.

The Responsible Investment Policy forms part of the Fund's overall investment strategy, which is articulated in the Investment Strategy Statement. The Responsible Investment Policy applies to all the investment assets held within the Kent Pension Fund.

GOVERNANCE

The Committee is responsible for approving the Responsible Investment Policy and for overseeing its execution and implementation via the investments team, external asset managers and service providers (including the ACCESS asset pool).

In recognition of the potential materiality of ESG factors to the Fund's investment strategy, the Pension Fund Committee established the Responsible Investment Working Group in 2020 to develop the Fund's responsible investment approach and policy. The Group is comprised of members of the Committee. The Group has an established annual workplan (approved by the Committee) to direct its activities and to advance the Fund's approach in this area.

The Local Pension Board (the Board) is comprised of scheme member and employer representatives, and as such it undertakes a crucial consultative role in ensuring the Responsible Investment Policy is consistent with beneficiaries' interests, as well as applicable laws and regulations.

Example stakeholder interests:

- **Employers:** under defined benefit pension schemes (such as the LGPS) sponsoring employers maintain investment risks, and employer contribution levels may be adversely impacted by the inadequate management of ESG risks.
- **Members:** scheme members may wish to know how their pension contributions are invested, and therefore the Fund recognises that it should provide transparent information around its responsible investment activity. Members are also likely to have interest in enjoying their retirement in a sustainable and healthy economy, now and in the future.

As an asset owner, the Fund implements its investment strategy via external asset managers and service providers, who play a critical role in delivering and discharging the Fund's Responsible Investment Policy. As such this policy sets out the key requirements and expectations that the Fund places upon its appointed asset managers and service providers. A copy of the Responsible Investment Policy will be shared with all of the Fund's external asset managers.

Increasingly the Fund's investment assets are pooled via the ACCESS pool, one of the LGPS collective investment pools in England and Wales that have been established to drive scale, develop expertise and enhance returns. The Fund pursues its responsible investment objectives via the pool and, alongside other ACCESS members authorities, actively contributes to the development and evolution of the pool's responsible investment approach. ACCESS has developed Responsible Investment Guidelines and Voting Guidelines which apply to all pooled assets. The Fund inputs into the development of these Responsible Investment Guidelines and Voting Guidelines.

REGULATORY BACKGROUND

The Local Government Pension Scheme (LGPS) Investment Regulations (2016) require the Fund to set out its policy on how ESG considerations are taken into account in the investment approach, and to explain how it exercises the rights (including voting rights) attaching to investments.



OBJECTIVES AND BELIEFS

The Fund's investment strategy aims to ensure that over the long term the Fund has sufficient assets to meet pension liabilities as they fall due. The Committee believes Environmental, Social and Governance ("ESG") factors can have a financially material impact on the delivery of the investment objective, and therefore the Fund recognises that it is consistent with its fiduciary duty to identify and manage ESG risks (and opportunities) appropriately. The Fund has identified several responsible investment beliefs as integral to its approach:

- As a long-term investor, seeking to deliver long-term sustainable returns, taking a sustainable investment view is more likely to create and preserve long-term investment capital.
- The identification and management of ESG risks that are financially material is consistent with our fiduciary duty.
- The Fund seeks to integrate ESG issues at all stages of its investment decision making process, from setting the investment strategy to monitoring its investment managers.
- Active ownership helps the realisation of long-term shareholder value. The Fund has a duty to exercise its stewardship and active ownership responsibilities (voting and engagement) effectively by using its influence as a long-term investor to encourage responsible investment behaviour.
- The Fund recognises that taking a collaborative approach with other investors can help to achieve wider and more effective outcomes. This is evidenced by participation in the various initiatives outlined in this document.
- The Fund seeks to identify sustainable investment opportunities where aligned with its broader investment objectives.
- It is important that the Fund be transparent and accountable to members and stakeholders with respect to its RI activities.

DEFINITIONS

The Fund recognises that the language and terminology surrounding responsible investment can be complicated, creating a potential barrier to transparency. To assist stakeholders, this section sets out the definitions of key terms used throughout the Policy. These definitions are drawn from relevant practitioner resources and are (in the Fund's view) consistent with generally accepted best practice in this field.¹

- **Responsible Investment:** Responsible investment involves considering environmental, social and governance (ESG) issues when making investment decisions and influencing companies or assets (known as active ownership or stewardship). It complements traditional financial analysis and portfolio construction techniques.
- **Sustainable Investments and Sustainability:** Sustainable investments are investments that positively contribute to environment objectives or social objectives and do not harm those objectives. The Fund uses the UN Sustainable Development Goals (SDGs) as a general framework for identifying and prioritising sustainable investment opportunities and stewardship activities. The Fund also recognises that some assets are on a journey to becoming sustainable and that investors have a role to play in making assets sustainable.
- **ESG Factors:** Environmental, social and governance issues that are identified or assessed in responsible investment processes.
 - Environmental factors are issues relating to the quality and functioning of the natural environment and natural systems.
 - Social factors are issues relating to the rights, well-being, and interests of people and communities.
 - Governance factors are issues relating to the governance of companies and other investee entities.

¹ The definitions set out in section 2 are sourced from and/or informed by resources published by the Principles for Responsible Investment, the UK Stewardship Code, the EU Sustainable Finance Disclosure Regulation and the LGPS Scheme Advisory Board.



- **ESG Integration:** Ongoing consideration of material environmental, social and governance (ESG) factors within an investment analysis and decision-making process with the aim to improve risk-adjusted returns.
- **Stewardship / Active Ownership:** Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. Stewardship is often used interchangeably with active ownership, which is the use of the rights and position of ownership to influence the activities or behaviour of investee companies. Active ownership can be applied differently in each asset class. For listed equities, it includes engagement and voting activities.

There are many other terms relating to responsible investment which are used by practitioners. The LGPS Scheme Advisory Board has published an A-Z guide of responsible investment concepts online which readers may wish to consult here:

<https://ri.lgpsboard.org/items>.

INCORPORATING ESG CONSIDERATIONS INTO THE INVESTMENT PROCESS

This section of the Responsible Investment Policy outlines how the Fund incorporates ESG considerations into its investment process.

ESG INTEGRATION

The Fund predominantly incorporates ESG factors into its investment process through *ESG integration*, which in essence means that ESG issues are systematically and explicitly included in investment analysis and investment decisions. This does not mean that every investment decision is affected by ESG issues, and neither does it mean that portfolio returns are sacrificed. On the contrary, the Fund considers ESG issues as part of its investment process to *better* manage (i.e. lower) risk and improve returns. ESG integration is carried out in the following ways:

- **Responsible investment is embedded in investment strategy:** the Fund has developed this policy, as part of its investment strategy to ensure that ESG considerations are factored into strategic level decision making.
- **ESG considerations are factored into asset allocation:** as part of its investment strategy the Fund has set a target to allocate 15% of the portfolio to sustainable assets by 2030.
- **ESG criteria embedded into the process for selecting asset managers and pooled sub-funds:** The Fund seeks to ensure that current and prospective asset managers and pooled sub-funds have appropriate ESG capabilities and expertise and that there is a sufficient alignment of interest with the Fund's responsible investment beliefs. Asset managers and sub-funds are required to have a documented responsible investment policy and to demonstrate their competency in ESG incorporation. The Fund assesses this as part of the selection process and through ongoing due diligence and monitoring, as set out below.
- **Monitoring asset managers and the ACCESS pool:** the Fund monitors its appointed and prospective asset managers and other relevant service providers to ensure that the Fund's expectations in respect of the Responsible Investment Policy are met. The Fund does this by reviewing external managers' policies, exposures and responsible investment activities to ensure an alignment of interests and that the Fund's policy objectives are being met. ESG risks and developments are a standard feature of ongoing due diligence of appointed asset managers. The Fund utilises asset manager ESG ratings provided by the appointed Investment Consultant as part of this activity.

As a member of the ACCESS asset pool, the Fund contributes to and influences the pool's responsible investment activities and ensures the Fund's responsible investment objectives are delivered effectively by the pool. The Fund is an active contributor at the various levels of the pool's governance structure that develop and oversee the continuing effectiveness of the Pool's responsible investment approach including the RI/ESG Working Group, the Officer Working Group, S151 Officer Working Group and the Joint Committee. The Fund also participates in Investor User Group meetings, which are the pool's main engagement forum with appointed sub-fund managers. Through the IUG, the Fund seeks to proactively ensure sub-fund managers are managing ESG issues effectively.

- **Reporting and transparency:** responsible investment activity, including stewardship outcomes, are reported to, and discussed by, the Pension Fund Committee at every formal meeting. The Fund also publishes voting activity on its website, and discloses its responsible investment activity on an annual basis via the PRI reporting framework. The Fund is committed to providing TCFD-standard reporting with respect to its climate risk strategy and will explore the viability of reporting stewardship activities in line with the UK Stewardship Code 2020.



- **Specific strategies developed for systematic sustainability issues:** the Fund has developed a specific strategy for managing climate risk (discussed below). The Fund uses the UN Sustainable Development Goals (SDGs) to identify ESG priorities (including sustainable investment opportunities and stewardship priorities) at a strategic level.

CLIMATE RISK

As a sophisticated institutional investor, the Fund holds a highly diversified, long term investment portfolio that is effectively representative of global capital markets. As such, the long term value of the Fund is contingent upon the continued good health of the global economy and the Fund recognises that it has a vital interest in contributing to the maintenance of a sustainable financial system. There are some systematic sustainable risks that cannot be diversified, and which pose a threat to long term global economic performance. The Fund has identified climate change as pre-eminent amongst these risks and has developed a specific strategy for managing this risk.

The Fund has undertaken climate scenario analysis to estimate the potential impact on the long term value of the Fund's assets under various climate transition scenarios and has found the impact of a failed transition to a low carbon global economy would be financially material. This analysis supports the view that it is consistent with the Fund's fiduciary duty, as a long term investor, to undertake actions (including in concert with others) to seek to bring about an orderly transition away from fossil fuels towards a low carbon economy, and the uncertainties embedded in the transition. The analysis also identified that under a rapid transition scenario, greater sustainable allocations were expected to reduce the risk of capital losses related to the transition to a low carbon economy.

The Fund's climate risk strategy rests on three pillars:

1. **Decarbonisation:** the Fund has set a clear ambition to reach net zero portfolio emissions by 2050 and to reduce emissions emanating from its equity allocation by 43% by 2030 and 69% by 2040, which is consistent with the latest (2022) decarbonisation curves available from the International Panel on Climate Change (representing the global decarbonisation required by the latest science to limit warming to 1.5 degrees Celsius by 2100). As the global economy moves away from fossil fuels over the coming decades, these interim milestones will be critical in helping the Fund to navigate transition risk.
2. **Transition alignment:** The Fund's approach is grounded in the recognition that a reduction in the Fund's portfolio emissions must result from real-world decarbonisation. Investors have an important role to play in driving the transition to a low carbon economy and the Fund will identify opportunities to invest in companies and industries that are aligned with the transition.
3. **Climate solutions:** the transition to a low carbon economy also presents opportunities for investors, and the Fund seeks to explore the potential to enhance portfolio level risk-adjusted returns through climate solutions. The Fund has set an ambition to invest 15% of portfolio in sustainable assets by 2030, including climate solutions.

SUSTAINABILITY INVESTMENT OPPORTUNITIES

The Fund will look for opportunities to create value through long-term ESG trends consistent with its investment objectives, including the transition away from a fossil fuel-based global economy to renewable energy.

The Committee has used the UN Sustainable Development Goals (SDGs) as a framework for identifying responsible investment priorities. The Fund recognises that some of the SDGs are more suitable as sustainable investment opportunities, whereas others have a clearer role as stewardship priorities (discussed in section 4). The Committee has identified the following sustainability outcomes as current priority area:

- Climate and nature (SDGs 13, 14 and 15),
- Quality education (SDG 4)
- Clean energy (SDG 7)
- Sustainable cities and communities (SDG 11)



SCREENING / EXCLUSIONS POLICY

The Fund is committed to active ownership as a means to preserve and enhance value in the interest of beneficiaries. The Fund believes that, for the vast majority of assets that it owns, there is limited opportunity to bring about positive real-world outcomes by divesting from specific economic sectors, industries or companies/assets, given that such assets are acquired and disposed of via secondary markets.

CONFLICTS OF INTEREST

Decision makers inside the Fund and external service providers must act in the interests of the Fund's ultimate beneficiaries when carrying out responsible investment activities.

The Fund has a formal Conflict of Interest Policy which applies to all members of the Committee, the senior management team, and external service providers (including asset managers and investment advisors). The Fund also has a specific conflict of interest policy for the Local Pension Board, having regard for the Public Service Pensions Act 2013.

STOCK LENDING

The ACCESS pool has established a stock lending programme, which covers the Fund's pooled equities. The programme includes the provision for investment managers to recall lent stocks in order to discharge voting rights. For equities currently held outside the pool, the Fund can engage in stock lending, and has the ability to recall lent stocks in order to discharge voting rights.

STEWARDSHIP (VOTING AND ENGAGEMENT)

This section of the policy sets out the Fund's approach to active ownership, principally its voting and engagement approach.

HOW THE FUND APPROACHES STEWARDSHIP

The Fund regards the exercise of ownership rights, including voting rights, as a critically important activity that enhances value and supports the maintenance of a sustainable financial system in which the interests of the Fund's beneficiaries are effectively accounted for when companies make important strategic decisions.

As an asset owner that implements its investment strategy via appointed external asset managers and the ACCESS asset pool, voting rights are exercised by asset managers in line with their own respective voting policies. Appointed asset managers also carry out direct engagement activities with companies in which the Fund invests, on the Fund's behalf. Additionally, the ACCESS pool has established voting guidelines, which it expects asset managers appointed the pool to adhere to on a comply or explain basis.

In practice, this means that the Fund is unlikely to engage directly with underlying companies in normal circumstances. Instead, the Fund's role is to ensure that as an asset owner, both the Fund and the ACCESS pool have adequate arrangements in place for selecting, appointing and monitoring external asset managers and service providers to ensure that voting and engagement activities are carried out in accordance with the highest corporate governance standards and in alignment with the Interests of the Fund's beneficiaries.

For the investment chain described above to work in the interests of the Fund's ultimate beneficiaries, it is incumbent upon the Fund to set clear expectations for asset managers.

STEWARDSHIP EXPECTATIONS FOR ASSET MANAGERS

- Asset managers are required to establish and operate robust stewardship policies to ensure engagement and voting activity is carried out on a systematic and effective basis.
- Asset managers are expected to actively engage with companies to monitor and develop their management of material ESG issues to protect and enhance the value of the Fund's investments.



- The Fund expects the investment managers who hold shares on its behalf to fully comply with the UK Stewardship Code 2020 (the Code) and to be a signatory to the UN supported Principles for Responsible Investment.
- Asset managers are required to carry out all voting decisions at company meetings on behalf of the Fund. For pooled assets, voting should be carried out in accordance with the ACCESS voting guidelines on a comply or explain basis. For non-pooled assets with voting rights, asset managers should adhere to their own voting policies. However, the Fund will seek to ensure consistency across its voting activity and it will work with its appointed asset managers to increase and maintain alignment.
- Asset managers are required to provide feedback information on voting decisions on a quarterly basis.
- Asset managers are expected to have regard for the Fund’s stewardship priorities (listed below) and to disclose to the Fund, all engagement and voting activity relating to these topics on a timely basis.

The Fund will monitor asset managers’ stewardship activities by reviewing voting and engagement activity disclosures and in routine meetings with asset managers. The Fund will provide feedback to asset managers and challenge practices where necessary. In doing so it seeks to ensure voting and engagement activities are carried out in accordance with the highest corporate governance standards and in alignment with the interests of the Fund’s beneficiaries.

ASSET STEWARDSHIP VIA THE ACCESS POOL

As one of eleven member authorities that comprise the ACCESS asset pool, the Fund actively contributes to the development and implementation of the pool’s stewardship approach. By working collaboratively with ten other like-minded LGPS funds through the pool, the Fund recognises that it has an opportunity to leverage collective influence and resources, and to develop best practice stewardship.

The ACCESS pool’s stewardship policy is embodied within the pool’s *Voting Guidelines* which sets out the stewardship expectations for listed companies in relation to reports, accounts and audit, directors and remuneration, shareholder rights and environmental issues. The latest version of the Voting Guidelines can be found on the ACCESS website.

PRIORITISATION

In a process supported by *Pensions for Purpose* the Committee has identified **climate and nature** (SDGs 13, 14 and 15), **clean water and sanitation** (SDG 6) and **responsible consumption and production** (SDG 12) as current stewardship priorities for the Fund. The Fund will engage proactively with its appointed asset managers on these topics to seek to ensure that the relevant material risks and opportunities arising from these themes are being managed effectively.

As part of its climate risk strategy, the Fund has identified the most strategically important emitting assets within its portfolio and it engages with its appointed asset managers to understand how these assets are being managed in accordance with the long-term interests of the Fund’s beneficiaries. The Fund will incorporate the findings of this exercise into its overall investment decision-making process.

COLLABORATIVE ENGAGEMENT

The Fund recognises that as a single asset owner, the efficacy of its individual stewardship actions should not be overstated. The Fund seeks to amplify its influence by acting in concert with other institutional investors where this is consistent with the Fund’s fiduciary duties. The Fund is an active member of various collaborative initiatives, as set out below.

- Under the ACCESS pool, the Fund works with ten other LGPS funds to implement a common responsible investment approach for pooled assets.
- As a member of the Local Authorities Pension Fund Forum (LAPFF), the Fund acts with other LGPS funds on corporate governance issues. The LAPFF aims to promote the highest standards of corporate governance to protect the long-term value of local authority pension funds.
- The Fund is a signatory to the UN-supported Principles for Responsible Investment (PRI), the world’s leading proponent of responsible investment, through which it has committed to the PRI’s six principles for responsible investment.



- The Fund is a member of the Institutional Investors Group on Climate Change (IIGCC), a network of institutional investors which provides resources and tools to enable investors to collectively work towards a net zero and climate resilient future.
- The Fund has also joined Pensions for Purpose, an initiative that provides resources and comprehensive information to empower institutional investors in their decision-making and understanding of impact investment.
- The Fund is committed to exploring signatory status to the UK Stewardship Code 2020.

Although an individual asset owner's power should not be underestimated, the Fund recognises that effective change is often contingent on a consistent and supportive public policy environment. The Fund will engage public policy makers on systemic ESG issues where it is consistent with the Fund's fiduciary duties.

REPORTING

The Fund is committed to transparency around its responsible investment activities and it expects high levels of transparency from its appointed asset managers and service providers.

Responsible investment is discussed at every meeting of the Pension Fund Committee and the Local Pensions Board is routinely consulted on the Committee's activity in this area.

The Fund publishes voting information on a quarterly basis on its website alongside news about its responsible investment activities. The Fund participates in the PRI's annual reporting exercise which serves both to aid transparency and to facilitate internal learning and development by providing an assessment of responsible investment practice.

The Fund is committed to implementing TCFD-standard reporting on its climate risk strategy in order to demonstrate its approach to stakeholders and to be accountable.

The Fund provides further reporting on its responsible investment activities within its Annual Report is also committed to exploring the feasibility of implementing annual stewardship reporting in line with the requirements of asset owners per the UK Stewardship Code 2020.

MONITORING AND REVIEW

The Committee will review this Responsible Investment Policy on an annual basis. The Committee will consider how well the policy is being implemented (including by appointed asset managers) and whether its goals and targets are being achieved. The Fund expects best practice in this area to evolve and it is committed to working with stakeholders (including asset managers and other service providers) to ensure the Fund's approach to responsible investment remains appropriate in the context of the Fund's investment objectives and consistent with regulatory and legal requirements.

