

# Brunel Pension Partnership Ltd Policy Statement



**TO INTEGRATE**



**TO COLLABORATE**



**TO BE TRANSPARENT**

Approved by the Board of Brunel Pension Partnership Ltd. Last updated 06 June 2019.

## Brunel's Responsible Investment Policy

**Brunel aims to deliver stronger investment returns over the long term, protecting our Clients' interests through contributing to a more sustainable and resilient financial system, which supports sustainable economic growth and a thriving society.**

**Brunel Pension Partnership** was formed in July 2017 and will oversee the investment of the pension assets (around £30bn/\$40bn) of ten<sup>1</sup> Local Government Pension Scheme funds in the UK. We use the name '**Brunel**' to refer to the FCA authorised and regulated company.

### Brunel's organisational values

- We believe in making **long-term sustainable investments** supported by robust and **transparent** processes
- We are here to **protect the interests of our Clients and their beneficiaries**
- In collaboration with all our stakeholders we are **forging better futures by investing for a world worth living in**

These values are underpinned by a set of investment principles that were agreed collaboratively across the Partnership (see right).

Although **Responsible Investment (RI)** and **Responsible Stewardship** are singled out separately, all the principles are intertwined with each other.

Brunel has a comprehensive Responsible Investment Strategy. The RI Policy summarises the key elements of that strategy.

#### The purpose of the policy is to provide

- Clarity on how Brunel will deliver on some of its investment principles for all stakeholders, most particularly the nearly 700,000 beneficiaries of Brunel Pension Partnership Funds
- Support for our Clients to enhance their ability to articulate how they will fulfil their specific Investment Strategy Statement disclosure requirements<sup>2</sup>
- A framework under which we will publish supporting guidelines, position statements and annual implementation and engagement plans, proxy voting policy and voting records.

### Brunel Pension Partnership Investment Principles

- Long-term investors
- Responsible investors
- Best practice governance
- Decisions informed through experts and knowledgeable officers and committees
- Evidence and research at the heart of investments
- Leadership and innovation
- Right risk for right return
- Full risk evaluation
- Responsible stewardship
- Cost effective solutions
- Transparent and accountable
- Collaboration

The full wording is available on Brunel's website:

[www.brunelpensionpartnership.org](http://www.brunelpensionpartnership.org)

<sup>1</sup> Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire Funds.

<sup>2</sup> MHCLG (formerly DCLG) guidance for administering authorities in the formulation, publication and maintenance of their investment strategy statement, as required by [regulation 7 of the LGPS Investment Regulations 2016](#) (July 2017).

## Responsible Investment at Brunel

Brunel is a signatory of the UN-backed [Principles for Responsible Investment](#) (PRI) and aligns its practices and processes to their [six principles](#) and definition of RI<sup>3</sup>.

Our approach is informed by our investment beliefs, and our Clients' policies and priorities together with regulations and statutory guidance. The scope includes all our **own operations** (buildings, travel, people, and so on), as well as **portfolio implementation** and **responsible stewardship**. This ensures our own practices align with our expectation of the companies and assets in which we invest, that this approach is seamlessly embedded in everyday activities and that it enables everyone to contribute to **forging better futures by investing for a world worth living in**.

As responsible investors, we recognise that every company or asset we invest in operates interdependently with the economy, civil society and the physical environment. Considering whether these interdependencies create **financially material risks or opportunities** for the investments is a core part of responsible investment. But this approach goes wider than just looking at individual investments – it applies to the beliefs and principles of the investor themselves and then using these beliefs and principles to guide the investor's strategic thinking and embedding it in all that we do. It is important to emphasise that Brunel's purpose of doing this is to **better manage risk and generate sustainable, long-term returns**. All actions are predicated on fulfilling our core legal obligations – our **'fiduciary duty'** – to the Client Funds and their beneficiaries.

Responsible investment (RI) is central to how Brunel **fulfils its fiduciary duty**. Brunel adheres to the highest standards of business ethics and integrity but is **not an ethical investor**<sup>4</sup>, as the term is usually used. We expect appointed managers to weigh up Environmental, Social and Governance (ESG) risks and opportunities as part of their wider evaluation of investment risk and return objectives as opposed to treating them as a stand-alone concern.

## Thought leadership, skills and knowledge

We aspire to be thought leaders and to actively contribute to the development of the investment industry more broadly. A programme of personal and professional development, workshops and training across our Board, team and Clients ensures that "decisions are informed through experts and knowledgeable officers and committees."<sup>5</sup>

We are committed to having a strong, central core of expertise that has the breadth and depth of knowledge to manage assets and provide scrutiny of the skills and knowledge of our appointed asset managers and specialist service providers. Our website provides overviews of the whole team, summarising their [skills and knowledge](#).

## Long-term partnerships

Brunel is a long-term investor and looks to establish long term partnerships with asset managers and service providers who share our values. Whilst not legally binding, the Brunel Management Accord sets out shared expectations of the relationship with a focus on good communication and partnership working.

The [Accord](#) is available on our website.

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<sup>3</sup> **Responsible investment** is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns ([Principles for Responsible Investment](#)).

<sup>4</sup> **Ethical investment** is an investment approach determined by an investor's specific views, usually based on a set of values. These values can take precedence over financial considerations.

<sup>5</sup> See investment principles on skills and knowledge.

## Responsible Stewardship at Brunel

**Stewardship is the responsible allocation and management of capital across the institutional investment community to create sustainable value for beneficiaries, the economy and society.<sup>6</sup>**

Brunel believes in being a **good steward in all asset classes**. For example, stewardship opportunities in private markets can be particularly effective as capital (and by extension influence) is concentrated, providing opportunities to support management in embedding robust governance and working practices.

Our [Stewardship Policy](#) sets out our overall approach and will build over time to articulate specific detail for each asset class. The document contains details of our engagement and voting position on a wide range of issues, including;

- Sustainability, Climate Change and Sustainable Development Goals (SDGs)
- Human and Natural Capital
- Company Boards
  - Conduct and Culture
  - Board Composition and Effectiveness
- Executive Remuneration
- Audit
- Protection of Shareholder and Bondholder Rights (including dual share class and share buy-backs)

### Engagement

Being an active, responsible owner is essential to Brunel's ability to identify risks and opportunities in its investment portfolios. Brunel will set engagement objectives linked to the six priority themes identified from page seven. **Clients will receive quarterly engagement updates relating to both Brunel and its appointed asset managers' activities.** Summary information will be publicly available.

### Voting

As part of owning publicly listed companies Brunel, on behalf of its Clients, will have the opportunity to vote at company meetings (AGM/ EGMs<sup>7</sup>). Brunel has a single voting policy for all assets managed by Brunel in segregated accounts, articulated in our [Stewardship Policy](#).

Whilst we have centralised our voting activity, so we have one voice, our voting process activity involves our underlying asset managers and encourages them to share their insights into the companies they hold. Brunel will actively seek, where aligned with our own policy, to support its asset manager in the escalation of its own engagement and voting activity.

Implementation is supported by the appointment of an engagement and voting service provider. Assets will continue to operate under the current arrangements determined by Brunel Client Funds until they are transitioned into the new portfolios.

**Brunel will publish its voting policy and provide online voting records quarterly.**

Brunel may on occasions publish how it intends to vote ahead of a company AGM (pre-declare). We will normally do this as part of an escalation of engagement or as part of a wider collaborative engagement.

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<sup>6</sup> Source FRC, Stewardship Code Consultation, 2019.

<sup>7</sup> AGM – Annual General Meeting. EGM – Extraordinary General Meetings.

Where we hold securities that are subject to a law suit (individual or class action), Brunel will decide, considering the merits and complexities of such action, to participate in such litigation on a case by case basis.

Brunel has developed a stock lending policy which embeds our commitment to be a responsible investor. Specifically, where there is a perceived trade-off between the economic benefit of stock lending, and Brunel’s ability to discharge its obligations as a responsible long-term investor, the latter will have precedence.

## Conflicts of Interest

Brunel has a robust approach to conflicts of interest, with comprehensive controls operating at all levels within the business. The effective management of potential Conflicts of Interest is a key component of our due diligence on all asset managers and service providers, as well as our ongoing contract management. More details on Brunel’s approach are available on our [website](#).

## Our approach

### Responsible Investment focused on three pillars

- **To integrate** – More efficient and effective to ensure an investment-driven focus
- **To collaborate** – Enhanced scale from collaboration amplifies impact and is more likely to lead to desired outcomes
- **To be transparent** – Builds trust by doing, and being seen to do, what we expect of others and leading by example

The matrix below brings to life the practical steps Brunel will take to implement responsible investment and responsible stewardship.

### RESPONSIBLE INVESTMENT IMPLEMENTATION MATRIX



	To INTEGRATE	To COLLABORATE	To BE TRANSPARENT
OWN OPERATIONS	<ul style="list-style-type: none"> <li>• Board commitment</li> <li>• In all we do</li> <li>• Staff objectives</li> </ul>	<ul style="list-style-type: none"> <li>• Contributing locally and globally</li> <li>• Diversity ambassadors</li> </ul>	<ul style="list-style-type: none"> <li>• Best practice own reporting including climate change, diversity and tax</li> </ul>
PORTFOLIO IMPLEMENTATION	<ul style="list-style-type: none"> <li>• All asset classes globally through asset managers’ plans</li> <li>• Fully integrated into manager selection (see the 6 Ps below)</li> <li>• Portfolio options</li> </ul>	<ul style="list-style-type: none"> <li>• Innovating investment solutions</li> <li>• Cross pool collaboration</li> <li>• ESG risk metrics and tools</li> </ul>	<ul style="list-style-type: none"> <li>• Impact reporting</li> <li>• Positive case studies</li> <li>• Carbon and environmental footprints</li> </ul>
RESPONSIBLE STEWARDSHIP	<ul style="list-style-type: none"> <li>• Single voice</li> <li>• Active engagement</li> </ul>	<ul style="list-style-type: none"> <li>• Annual engagement plan</li> <li>• See Partnerships and Affiliations</li> </ul>	<ul style="list-style-type: none"> <li>• Proxy Voting Policy and records</li> <li>• Pre-declaration on selective votes</li> </ul>

Brunel has a comprehensive suite of policies covering operational aspects of our business. These include policies ranging from manager monitoring, tax and securities lending to those relating to human resources and procurement of goods and services. Our commitment to be a responsible investor is fully integrated and consistent across all these areas.

Responsibility for managing specific ESG risks, including climate risk, as they affect Brunel and our Clients, are being explicitly incorporated into the role specifications of our Board, executives and other key personnel.

## Priority themes

Whilst all financially material risks will form part of the risk assessment of the underlying portfolios, Brunel has identified six priority themes where the potential financial impact cuts across countries, sectors, portfolios and asset classes. The six themes are informed by an overall assessment of risk and Clients' own policy priorities and are consistent with those identified by the Local Authority Pension Fund Forum. Brunel will use these themes to focus its engagement programme and partnerships.

The six themes are summarised below, but Brunel will publish more detailed position statements on each area, outlining aims, objectives and, where applicable, targets.

1. **UK policy framework.** Brunel will support policy makers in the development of a robust framework that promotes sustainable economic growth. The principal objectives include: contributing to the **UK Corporate Governance Code** and related company law, **UK Stewardship Code** (FRC), work of **The Pensions Regulator**, **Green Finance Initiative**, **Global Social Impact Investment Steering Group** and MHCLG (the government department with responsibility for the Local Government Pension Schemes or LGPS).
2. **Climate change.** Brunel believes climate change poses significant risks to global financial stability and could thereby create climate-related financial risks to our own business operations, portfolios and Client partner funds, unless action is taken to mitigate these risks.

Our framework for assessing the impacts of climate change encompasses **adaptation** and **physical risks** (the risks posed by the consequences of climatic change) as well as those risks and opportunities arising from the **transition to a low carbon economy** (risks from addressing the root causes of climate change).

Brunel is a member of the **Institutional Investors Group on Climate Change (IIGCC)**, **PRI** and a supporter of the **Transition Pathway Initiative (TPI)** which will support our ability to apply best practice due diligence and engage with the companies in which we invest. Brunel advocates strongly for improved transparency and will disclose in line with the recommendations of the **Task Force on Climate-related Financial Disclosure (TCFD)**, including the publication of annual carbon footprints and fossil fuel exposure, alongside the development of other carbon metrics.

**Brunel does not consider a top-down approach to divestment to be an appropriate strategy for its Clients.** By integrating climate change into our risk management process, using carbon footprinting, fossil fuel exposure and challenging managers on physical risks, we seek to reduce unrewarded climate and carbon risk. This results in selective divestment based on investment risk, supporting our commitment to **decarbonising our listed portfolios**.

For more information, please see our [position statement on Climate Change](#).



3. **Cost and tax transparency.** Brunel is a signatory of the [LGPS Code of Transparency](#) and requires all appropriate managers to be signatories. Tax is complex, but it is also the way corporations contribute to the economies in which they operate. We believe there is the potential for financial consequences for companies whose tax practices are deemed inappropriate by policy makers, regulators and wider society. We believe openness about the approach taken is a key step to building understanding and trust. Brunel will publish its own approach to tax transparency and engage with companies to disclose their approach.
4. **Human capital & diversity.** Implementation of this theme will overlap significantly with manager selection and monitoring, working with the [Diversity Project](#). The proposed updates to the **UK Corporate Governance Code** place a welcome focus on culture, workforce engagement and diversity. Our engagement programme will aim to follow up on the implementation of the spirit of the new Code once published. We are members of [The 30% Club](#) and will support its aim and objectives through engagement and voting.
5. **Supply chain management.** This theme focuses on specific companies and sectors where the effective management of suppliers is a principal business risk e.g. food provenance, scarce supply base or joint ventures in high risk activities/countries. Sub-themes include animal welfare, climate risk, modern slavery, water quality and availability and the reduction of single-use plastics as part of our wider commitment to enhanced sustainability.
6. **Cyber security (IT security and misuse).** This theme covers risks relating to data security and privacy. The primary activities will be engagement with specific companies and to support research and initiatives to promote corporate awareness and action on cyber security.

#### Example of RI in action: Integration into manager selection

Asset class, geography and risk objectives will have a bearing on which RI and ESG risks will be most relevant to focus on when making an appointment. Whilst the examples below are not our manager selection criteria, they do illustrate the sort of things we consider when selecting managers:

- **Philosophy** (investment, corporate culture, Board-level leadership)
- **Policies** (commitment, policy framework, pricing and transparency)
- **People** (numbers, retention, inclusion, diversity in all senses e.g. gender, cognitive, etc)
- **Processes** (investment process, performance, reporting, stewardship)
- **Participation** (thought-leadership, innovation, contribution to investment industry)
- **Partnership** (in it together, cultural fit)

Integrating RI into **mandate design** and **risk appraisal** process prior to launching a search for a manager is therefore critical in ensuring that we focus on the right things. More information about the selection and monitoring of managers is on our [website](#).

## Reporting on progress

Brunel demands high standards of transparency from the companies and organisations it works with, so places a high priority on being transparent itself and providing high standards of reporting and communication.

As outlined above, we plan to publish position statements on each priority theme, an annual engagement plan, voting records and updates on engagement activity. Together with our PRI Transparency Report (available 2020), we will produce an annual progress report. We publish the public Engagement Plan (updated annually) and quarterly progress reports by our engagement and voting provider, Hermes EOS. Further detail is provided to Client partner funds.

Brunel is also committed to reporting on the positive impacts of the investments it makes. The [Sustainable Development Goals](#) (SDGs), provide a useful framework to translate the positive outcomes of the investments we make to real world issues.

We have committed to enhance our ability to make meaningful disclosures linked to these global priorities and encourage companies to evaluate their fitness for the future, through benchmarks such as [Future Fit](#).

We aim to use [our website](#) as the primary route for additional information and further insights to our approach into responsible investment and the risk management of ESG factors.



## Policy development, accountability, review and compliance

The Brunel Board approves and is collectively accountable for Brunel's Responsible Investment Strategy and Policy, but operational accountability on a day to day basis is held by the **Chief Responsible Investment Officer**.

The **Chief Executive Officer** is responsible for ensuring effective implementation across the whole organisation, ensuring Brunel's own operations meet or exceed best practice standards. Our CEO is also a designated Diversity Ambassador.

The **Chief Investment Officer** is responsible for ensuring the integration into the portfolio construction, implementation and overall investment decision making. All members of the **investment team** have explicit responsibility for the implementation of responsible investment within their respective roles.

Whilst the strategy and policy are designed for the long term (5+ years), they are reviewed by the Board annually. This annual review is informed by active stakeholder engagement.

The strategy and policy have been developed in conjunction with key stakeholders, including the **Brunel Oversight Board**, **Brunel Client Group** and **Client RI Working Group**, membership of which includes representatives from the administering authorities it serves and Brunel staff.

Progress and compliance is monitored by all the groups outlined above. Any significant breaches will be reported to **Audit, Risk and Compliance Committee**. Severe breaches can lead to disciplinary action or termination of contracts (where the breach is committed by an asset manager or other service provider).



## Getting in touch

If you have any questions or comments about this policy, please email Faith Ward, Chief Responsible Investment Officer, at [RI.Brunel@brunelpp.org](mailto:RI.Brunel@brunelpp.org).

For general fund manager enquiries, meeting requests and other materials (updates, newsletters, brochures and so on), please contact us on [investments.brunel@brunelpp.org](mailto:investments.brunel@brunelpp.org).

## Disclaimer

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Past performance is not a guide to future performance.

## Appendix 1

Partnerships and affiliations	
<b>30% Club</b>	Aims to develop a diverse pool of talent for all businesses through the efforts of its Chair and CEO members who are committed to better gender balance at all levels of their organisations.
<b>A4S – Accounting for Sustainability</b>	The Prince's Accounting for Sustainability Project was established by HRH The Prince of Wales in 2004 to promote improvements in reporting and transparency.
<b>British Private Equity &amp; Venture Capital Association (BVCA)</b>	Industry body and public policy advocate for the private equity and venture capital industry in the UK.
<b>The Diversity Project</b>	A group of leaders in the investment and savings profession who are working to accelerate progress towards an inclusive culture within our industry.
<b>Future-Fit Business Benchmark</b>	Not-for-profit organisation with the aim of encouraging and equipping business leaders and investors to take action in response to today's biggest societal challenges, from climate change to inequality.
<b>The Green Finance Initiative</b>	Launched in January 2016 by the City of London in partnership with the government to promote the UK as a global centre for green finance.
<b>Institutional Investor Group on Climate Change (IIGCC)</b>	A forum for collaboration by institutional investors on the investor implications of climate change.
<b>Local Authority Pension Fund Forum (LAPFF)</b>	The UK's largest collaborative forum for collective engagement, covering £200bn in collective assets under management.
<b>Pensions for Purpose</b>	Collaborative initiative of impact managers, pension funds, social enterprises and others involved or interested in impact investment.
<b>Sustainable Accounting Standards Board (SASB) SASB Alliance Member</b>	SASB standards focus on financially material issues with a mission to help businesses around the world report on the sustainability topics that matter most to their investors.
<b>ShareAction</b>	Charity that promotes Responsible Investment and gives savers a voice in the investment system.
<b>The Transition Pathway Initiative</b>	Co-founded in 2016 by the Environment Agency Pension Fund and the Church of England National Investing Bodies. The initiative assesses how companies are preparing for the transition to a low-carbon economy and will form the basis for engagement with companies.
<b>Principles for Responsible Investment</b>	United Nations-supported and investor-led global coalition promoting the incorporation of environmental, social and governance factors. Brunel was the first LGPS Pool to join.
<b>The TCFD (The Task Force on Climate-related Financial Disclosures)</b>	Will develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders.
<b>UKSIF (The UK Sustainable Investment and Finance Association)</b>	Membership organisation for those in the finance industry committed to growing sustainable and responsible finance in the UK.