



# Statement of Responsible Investment Principles

# 1.0 Introduction

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- 1.1 Fife Pension Fund (the Fund) believes that Responsible Investment (RI) supports the purpose of the Local Government Pension Scheme (LGPS) – the provision of retirement income for individuals. We believe that it should reduce the risk associated with the invested assets that the Fund owns to pay pensions when they are due.
- 1.2 This Statement of Responsible Investment Principles (SRIP) complements the Fund’s broader Statement of Investment Principles (SIP), which is a statutory requirement codified in the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010. The SRIP explains the Fund’s approach to the oversight and monitoring of the Fund’s investment activities from a Responsible Investment (RI) and Stewardship perspective.
- 1.3 RI is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and to generate sustainable, long-term returns (according to Principles for Responsible Investment). Stewardship is the responsible allocation and management of capital across the institutional investment community to create sustainable value for beneficiaries, the economy and society.
- 1.4 RI is not the same as Ethical Investment. Ethical investment is an investment approach determined by an investor’s specific views, usually based on a set of personal values. These values can take precedence over financial considerations. Fife Pension Fund should not be considered as either an “Ethical” or an “Unethical” investor, but as a responsible steward of capital. The management of ESG issues is a question of identifying and mitigating material financial risks, not a question of ethics.
- 1.5 At Fife Pension Fund, Committee members in their roles as quasi-trustees, executive officers and investment managers are bound by the legal principle of fiduciary duty. Guidance on our fiduciary responsibilities has been provided by the Scottish Scheme Advisory Board (SAB), which has taken legal advice on the matter ([Fiduciary Duty Guidance | LGPSAB](#)). The SAB advises the Scottish Government (the Responsible Authority for the Fund) and Scottish LGPS Funds on policy issues. We review this guidance on an ongoing basis to assess it against any changes to the legal or regulatory framework, and still believe it to be relevant.
- 1.6 Our Pensions Committee (the Committee), comprising nine elected councillors, is responsible for fund oversight and policy setting. In carrying out its obligations, this group of quasi-trustees must take into consideration the views of its main stakeholders, members and employers.
- 1.7 Fife Council is the administering authority for the Fund, but the Fund is not owned by the Council. Pension fund assets, which are earmarked for pension payments over the life of the fund, are ringfenced from ‘Council Money’. There are 20 employers and around 38,000 members, whose pension payments will be funded by these and further employer and member contributions.

- 1.8 At Fife, we are committed to acting as responsible investors by managing the risks associated with ESG factors. Accordingly, we believe that as responsible owners we should engage with our investee companies and appointed managers, either directly or via their collaborative partners. Where material risks remain following engagement activity, fund managers ultimately retain the ability to divest.
- 1.9 In preparing this statement, the Committee has taken professional advice from the Joint Investment Strategy Panel (JISP), which includes external advisers and members of the Lothian internal investment team who are FCA authorised individuals.
- 1.10 The Fund gratefully acknowledges the assistance of officers from Lothian Pension Fund in compiling and advising on the SRIP.

## 2. Principles for Responsible Investment

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- 2.1 The Principles for Responsible Investment (“PRI”) – previously the United Nations Principles for Responsible Investment – is an international network of asset owners and managers who are committed to the PRI’s six principles and thereby to working collaboratively towards best practice in the sphere of responsible investing.
- 2.2 Whilst Fife Pension Fund is not a signatory to the PRI, due to the resourcing implications for a fund the size of Fife, we will strive to act in accordance with the six principles with a view to contributing to the development of a more sustainable global financial system, as follows:

### **Principle 1**

**We’ll incorporate ESG issues into investment analysis and decision-making processes.**

- 2.3 The implementation of Fife’s investment strategy is delegated by the Pensions Committee to the Executive Director of Finance and Corporate Services, who delegates this role to the Head of Finance. The Head of Finance engages various external investment managers, including LPFI (Lothian Pension Fund’s investment vehicle) to invest the Fund’s assets. It is noted that Lothian Pension Fund are signatories of the PRI and have been so since 2008.
- 2.4 The way ESG issues are incorporated into investment analysis and decision-making processes varies according to not only the asset category, but also the processes of the manager in question.

### *LPFI Internal Equity investment*

LPFI’s investment managers analyse ESG data as part of the stock selection process and, on an ongoing basis, monitor ESG developments at underlying investee companies. Data and rating changes from independent providers trigger stock reviews. New financing will not be provided to companies or projects that are incompatible with aims of the Paris Agreement

### *Other Equity managers*

During the manager appointment process, we assess the approach of managers to incorporating ESG issues into their investment analysis and decision-making processes. Through our collaborative arrangement with LPFI, we monitor the managers' implementation of their approach on a quarterly basis alongside all other investment matters, and review the PRI transparency reports of external managers, and their product level Taskforce for Climate-Related Financial Disclosures (TCFD) where available. Managers are encouraged to join PRI as signatories where they are not already members. Our ambition is to appoint managers who will not provide new financing to companies or projects that are incompatible with the aims of the Paris Agreement.

### *LPFI Internal Sovereign Bond investment*

LPFI's investment managers analyse ESG reports and respond to government and market consultations, either directly or with our collaborative partners.

### *Other Corporate Debt managers*

During the appointment process, we assess the approach of managers to incorporating ESG issues into their investment analysis and decision-making processes. Through our collaborative arrangement with LPFI, we monitor the managers' implementation of the approach on a quarterly basis alongside all other investment matters and review the PRI transparency reports of external managers and their product-level TCFD reports, where available. Our ambition is to appoint managers who will not provide new financing to companies or projects that are incompatible with the aims of the Paris Agreement.

### *External Property investment:*

In making any new buy recommendations to Fife for consideration, LPFI will explicitly consider the ability of the manager to manage ESG risks during the manager appointment process. Management and monitoring of ESG matters by the manager will be reviewed on a quarterly basis alongside all other investment issues. Where available, LPFI will consider PRI Transparency and GRESB (Global ESG Benchmark for Real Assets) reports and product level TCFD are reviewed and, if they are not, managers are encouraged to articulate their approach to ESG and sustainability. Where appropriate, we will seek improvement to both the management and implementation of that approach. Managers are encouraged to join PRI as signatories where they are not already members.

### *External Real Asset management (infrastructure, timber) managers*

These investments are spread across a range of limited partnership funds which are monitored by LPFI. In making any new buy recommendations to Fife, LPFI will assess the approach of managers to incorporating ESG issues into their investment analysis and decision-making processes. LPFI will monitor the managers' implementation of the approach on a quarterly basis alongside all other investment matters, and review PRI transparency and GRESB reports and product level TCFD reports of external managers, where available. Managers are encouraged to join PRI signatories where they are not already members.

## **Principle 2**

**We will be active owners and incorporate ESG issues into our ownership policies and practices.**

2.5 *Voting*

We use a proxy voting agent to vote on all resolutions at AGMs and EGMs where holdings are with an active manager. The agent periodically presents their voting policy to the Pensions Committee to ensure there is good alignment of interests. Where holdings are with a passive manager, we monitor the manager's ESG report to ensure their voting record and policy is attuned to that of the Fund.

2.6 *Shareholder resolutions*

We are prepared to co-file shareholder resolutions where the issue at stake is important and co-filing aligns with the principles of the Fund.

2.7 *Stock lending*

The Fund participates in stock lending, which generates revenue for the Fund and contributes to making investment markets more efficient. With the ambition to vote on 100% of equity holdings at all shareholder meetings, we will begin to recall stock on a systematic basis for voting.

2.8 *Corporate engagement*

We engage with our investee companies on material ESG issues. We will use all methods at our disposal, including direct letters, open letters, company calls, company meetings, speaking at shareholder meetings, filing/co-filing of shareholder resolutions and proposing board members. We will do this primarily through working with collaborative partners or an engagement specialist.

2.9 *Government engagement*

We will engage with government officials and regulators to ensure that markets run efficiently, and that rules and regulations proportionally protect the interests of the various market participants. This will be done using all methods at our disposal, including direct letters, open letters, responding to consultations, working collaboratively with government departments and working collaboratively with regulators and quangos. We will do this either directly, through collaborative partners or through an engagement specialist / service providers or alongside them.

2.10 *Manager monitoring*

We actively and regularly monitor the approach of our investment managers to ESG issues, and what portfolio activity has occurred as a result of managing ESG risks.

2.11 *Conflicts of interest*

We will identify and manage conflicts of interests to put the interests of our members and employers first. It's incumbent on all our people to be alert to potential conflicts of interest and act accordingly.

**Principle 3**

**We will seek appropriate disclosure on ESG issues by the entities in which we invest.**

2.12 *Investee companies*

We encourage the companies, whose shares the Fund owns, to report on relevant ESG metrics. These include the reporting of greenhouse gas emissions in line with the recommendations of the Taskforce for Climate-related Financial Disclosures (“TCFD”). We do this through working with collaborative partners.

2.13 *Investment Managers*

We encourage the Fund’s investment managers to provide transparency by reporting relevant and accessible ESG-related information. This includes their commitments to and alignment with the UK Stewardship Code 2020, the TCFD, the PRI and GRESB, where appropriate. We will do this either directly, or through working with collaborative partners.

**Principle 4**

**We will promote acceptance and implementation of the Principles within the industry.**

2.14 *Commitment to PRI*

We are transparent about the fact that we are not a signatory to the PRI but attempt to show - through this document - that we are strongly supportive of its aims.

2.15 *Investment Managers*

We endorse the PRI Principles to our managers and encourage them to become full signatories to PRI. Where this is not possible, we encourage our managers to use the six principles to guide their RI approach. We do this either directly, or through working with collaborative partners.

**Principle 5**

**We will work together to enhance our effectiveness in implementing the Principles.**

2.16 *Collective Approach*

We are committed to working collaboratively to increase the reach, efficiency and effectiveness of RI. We work with a host of like-minded partner funds, service providers and related organisations striving to attain best practice in the industry and to improve industry standards. This includes working with appointed engagement specialists and groups such as the Institutional Investors Group for Climate Change, Climate Action 100+ and the Scottish Responsible Investment Group.

**Principle 6**

**We will report on our activities and progress towards implementing the Principles.**

2.17 *Annual Reporting*

We will provide details of our responsible investment activities in our Annual Report

2.18 *Pensions Reporting*

We publish voting information on a quarterly basis on our Pension Website, together with a summary of engagement activity. We will also make available to the Pensions Committee and Board, the ESG reports from our investment managers.

### 3. Climate Change & the Taskforce for Climate-Related Financial Disclosures (TCFD)

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3.1 The Fund recognises the importance of the Paris Agreement of the United Nations Framework Convention on Climate Change. The central aim of the agreement is to strengthen the response to the global threat of climate change by:

- keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius;
- strengthening the ability of countries to deal with the impacts of climate change through appropriate financial flows, a new technology framework and an enhanced capacity building framework;
- enhancing transparency of action and support through a more robust transparency framework.

More detail on The Paris Agreement can be found at : <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

3.2 At Fife, we understand that the Paris Agreement is creating change that represents both significant risks to - and opportunities for - the Fund. As such, we are making the following commitments to climate monitoring and action:

- To support the goal of transitioning the real economy to net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius by 2100.
- To begin to measure and report on carbon-equivalent emissions throughout the equity portfolios
- To support the work of Climate Action 100+
- To continue to research and support the deployment of new impact capital into projects set to benefit from the transition to a low carbon economy (as has been the case with the Fund investing in several renewables projects)

- To assess the carbon intensity of all assets (supported by external managers and using estimates if necessary) by the deadline for enhanced TCFD reporting for the Scottish LGPS.
- Using data from the Transition Pathway Initiative (TPI), to engage alongside our collaborative partners to encourage companies to adopt business models and strategies that are in line with the aims of the Paris agreements. Our ambition is that all holdings covered by TPI will have achieved a level 4 assessment and have a business plan whose carbon performance is in-line with the Paris agreement or better by 2025.
- Using data from the Transition Pathway Initiative (TPI), our ambition is not to subscribe to new equity and fixed income issuance from companies whose business plans are not aligned with the aims of the Paris agreements at the time of the fundraising.

3.3 Financial returns from current and future investments will affect our ability to fund future pension payments, and so we have committed to implement processes that adhere to TCFD recommendations as follows:

#### *Governance*

The Pensions Committee will monitor stewardship of the Fund's assets at least annually. This includes considering reporting on RI issues and specific climate related risks and opportunities. The Head of Finance will ensure that training on climate related issues is made available to all members of the Pensions Committee and Pension Board members. The Pensions Committee:

- affirms the Fund's commitment to integrate environmental, social and governance (ESG) considerations, such as carbon efficiency trends into its decision-making;
- delegates to Fund officers with advice from the Joint Investment Strategy Panel to ensure that they take ESG issues, including climate change and carbon risk, into account in their investment decision-making;
- affirms the Fund's policy of not divesting solely on the grounds of non-financial factors;
- notes that the Fund will monitor research on the link between ESG factors (including carbon-related factors) and financial performance to inform future investment strategy, such as stock selection criteria for quantitative strategies;
- agrees that the Fund will use its shareholdings in companies that perform poorly on carbon efficiency measures to influence engagement activity.

#### 3.4 *Strategy*

We will work individually and with our collaborative partners to drive for openness and transparency on climate related issues affecting our investments.

#### 3.5 *Risk Management*

We will work both individually and with the internal team at LPFI to help understand and manage the climate risk within the Fund.



### 3.6 *Monitoring*

We will use monitoring tools with the aim of mitigating risk to Fund assets from trends towards net-zero carbon and more broadly from climate change. The Joint Investment Strategy Panel reviews and scrutinises RI issues and specific climate-related risks and opportunities at least annually. The internal investment team at LPFI has access to data services and analytical tools to assist the Fund in monitoring climate risk at as granular a level as possible.

### 3.7 *Carbon Analysis*

We note that carbon-equivalent foot printing produces a simple metric, which is backward looking and can be misinterpreted. It encourages selective divestment of the shares of high emission companies as some investors 'greenwash' their portfolios. Rather than divesting, we encourage our managers to incorporate an analysis of carbon output into their risk assessment of individual companies and their stocks. In addition, we will actively engage with companies to align their business strategies with the targets of the Paris Agreement. Where analysis of carbon risk (or any other risk) points to poor financial outcomes, share divestment by fund managers is, of course, an option.

## 4. Conclusion

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- 4.1 It is our belief that we must deliver a valued and sustainable retirement savings product for our existing and future members. We believe that as a provider of responsible capital and working with our partners, the Fund should be an agent for positive change, engaging with companies to help them maintain or adopt best business practices and sustainable business models.