



Statement of Responsible Investment Principles

1.0 Introduction

- 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 incorporation of ESG factors into our investment processes involves, managing and mitigating material risk, with the intention of achieving the best returns for the Fund while acting prudently, balancing risk and reward.
- 1.5 At Fife Pension Fund, we are guided by the legal principle of fiduciary duty. Guidance on our fiduciary responsibilities is provided by the Scottish Scheme Advisory Board (SAB), which took legal advice on the matter ([Fiduciary Duty Guidance | LGPSAB](#)). It 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 continue to consider it 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 should seek appropriate professional advice before exercising their investment powers. The Committee are supported in their role by the Pensions Board, comprising of eight representatives nominated by scheme employers and trade unions, from councils and scheduled or admitted bodies in the fund.
- 1.7 Fife Council is the administering authority for the Fund, but the Fund is neither owned nor controlled 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 18 employers and around 40,000 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. As a responsible investor we engage with our investee companies and appointed managers, directly or via collaborative partners. Committee believes that the decisions to invest in, or divest from, a particular company should be made by an investment manager based on a holistic analysis of financially material issues, including environmental, climate change, social and governance issues. 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 Forum (JIF), which includes external advisers and members of the Lothian internal investment team who are FCA authorised investment professionals.
- 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

- 2.1 The Principles for Responsible Investment (“PRI”) is a United Nations supported 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 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 regulated investment entity) 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 class, 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 assessed as having a business plan that is 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) reports, where available. Managers are encouraged to join the PRI as signatories where they are not already members. For active equity strategies our ambition is to appoint managers who will not provide new financing to companies assessed as having a business plan that is 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 Fixed Income 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 assessed as having a business plan that is incompatible with the aims of the Paris Agreement.

External Property investment:

During the manager appointment process, we assess the approach of the managers to incorporating ESG issues into their investment analysis and decision-making process. Through our collaborative arrangements with LPFI, we monitor the managers' implementation of their approach on a quarterly basis alongside all other investment matters. Where available, PRI reports, GRESB (Global ESG Benchmark for Real Assets) sustainability assessments and product level TCFD reports are reviewed and managers are encouraged to articulate their approach to ESG and sustainability. Where appropriate, we seek improvements to both the management and implementation of that approach. Managers are encouraged to join PRI if they are not already signatories.

External Real Asset investment (infrastructure, timber)

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 assessments and product level TCFD reports of external managers, where available. Managers are encouraged to join PRI signatories if they are not already signatories

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 will consider how 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 may also file or co-file shareholder resolutions on important issues at the Fund's investee companies in the interests of achieving better governance.

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 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 do this directly, through collaborative partners/service providers or alongside them. Two ESG issues are considered to be of particular relevance across our investments:

- **Climate Change:** The Fund recognises the importance of the Paris Agreement of the United Nations Framework Convention on Climate Change. Section 3 outlines our commitments to climate monitoring and action.
- **Human Rights:** The Fund views human rights as an important business issue and a potential indicator of investment risk. As such, the Fund expects companies to adopt human rights policies and management practices aligned with the UN Guiding Principles on Business and Human Rights and believes these policies and practices should be disclosed to shareholders. In addition, the Fund recognises that companies operating in Conflict-Affected and High-Risk Areas (CAHRAs) face heightened risks and expects companies to undertake heightened human rights due diligence (hHRDD) when facing such challenges.

The Fund expects its investment managers and engagement partners to engage to encourage companies to adopt human rights policies and management practices aligned with the UN Guiding Principles on Business and Human Rights. Where there are significant concerns about a company's actions relating to human rights, the Fund expects its investment managers and voting service providers to consider voting against relevant directors or other relevant resolutions.

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, regulators and industry working groups. We will do this either directly, through collaborative partners or through an engagement specialist / service provider 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. We expect our appointed managers to demonstrate how they incorporate ESG issues into their ownership policies and practices, and material misalignment from our approach will lead to review.

2.11 *Conflicts of interest*

We 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 investee companies, to report on relevant ESG metrics, including disclosure of greenhouse emissions. We expect listed companies to produce reporting aligned with the recommendations of TCFD and to incorporate voluntary implementation of International Financial Reporting Standards Sustainability disclosures as a next step. 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 Financial Conduct Authority's Sustainability Disclosure Requirements (SDR), 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, and Climate Action 100+

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

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 measure and report on carbon-equivalent emissions throughout the equity portfolios

- To support the work of Climate Action 100+
- To measure and report on the percentage of our assets allocated to climate change with an ambition to position the Fund to benefit from the energy transition by increasing exposure (across the Fund) to climate solutions (such as by investing in renewable projects).
- To develop assessment and reporting of the carbon intensity of all assets (supported by external managers and using estimates if necessary) in accordance with relevant climate risk reporting requirements applicable to the Scottish LGPS.
- 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 agreement. Our ambition is that over the next five years (i.e. by the end of 2029) we will increase the alignment of our investee companies to a future low carbon world. We focus on holdings in sectors which are currently a significant source of global greenhouse gas emissions as this is where transition is critical to achieving net zero. Initially the scope will be limited to Climate Action 100+ stocks held via LPFI managed equities and active equities.
- **“Deny debt, engage equity”**
While the trading of equities (shares) doesn’t affect the capital position of a company, subscribing to new bonds and new equity does provide companies with funding. Within our equity portfolio we engage with our holdings, and that engagement includes using the tools and strategies we have at our disposal to influence companies to commit to align with the goals of the Paris Agreement. In our debt portfolios, we aim to deny funding to those non-aligned companies. We expect this approach to be more effective if achieving necessary change – a real reduction in greenhouse gas emissions – than divestment. Where material risks remain following engagement activity, we retain the ability to divest.

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 Forum 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 Forum 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 can encourage 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 both physical and transition climate risk 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 climate risk (or any other risk) points to poor financial outcomes, we would expect to divest.

4. Conclusion

- 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.