Responsible Investment Policy

The Pension Fund Committee of the Orkney Islands Council Pension Fund ('the Committee') is committed to being a responsible investor. Responsible Investment (RI) ensures the management of environmental, social and governance (ESG) factors, including those of climate change, and the requirement for asset owners and investment managers to consider stewardship are incorporated into an investment strategy.

1 Introduction

The purpose of the Responsible Investment ("RI") policy is to set out:

- The underlying objectives of the RI policy, beliefs of the Committee on behalf of the Fund and what the Committee expects to achieve from having this policy in place;
- The actions that the Committee will take to achieve these objectives; and
- The means by which the actions will be assessed in order to judge whether the expected outcomes have or have not been achieved.

Defined below are a series of key words or phrases used throughout this policy:

- **Climate risk** is the potential impact on future financial returns that may arise from climate change. Climate risk is typically split between transition risk, i.e. the impacts that may arise from policy change and technological advancement, and physical risk, i.e. from changing weather patterns or the greater frequency/severity of extreme events.
- **Environmental, Social and Governance (ESG) factors**. Companies and assets may be exposed to different risk factors arising from ESG issues which could materially impact the returns derived from such assets. The effective identification and management of ESG factors is expected to reduce risk and improve financial outcomes.
    - **Environmental factors** include resource scarcity, waste management, pollution, carbon emissions and energy efficiency;
    - **Social factors** include health & safety, workforce diversity, working conditions and data protection;
    - **Governance factors** include board structure, business ethics, shareholder rights and executive compensation.
- **Responsible Investment (or 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 environment and society.
- **Engagement** is the purposeful dialogue by investors with their investee companies with a specific objective in mind, typically in relation to the improvement of companies' business practices, often in relation to the management of ESG factors.
- **Net Zero** is a state of carbon neutrality where carbon (and other greenhouse gases 'GHG') emissions are balanced with their removal from the atmosphere, or by simply eliminating greenhouse gas emissions altogether.

2 Governance

2.1 Stakeholders

The following stakeholders are responsible for the development, implementation and oversight of this policy and the actions it requires.

- **Pension Fund Sub Committee and Pension Board ('Committee')**: As set out in the Fund's annual reports, the members of the Pensions Sub-Committee together with the Pensions Board act as quasi-trustees and oversee the management of the Orkney Islands Council Pension Fund. Their overriding duty is to ensure the best possible outcomes for the Fund, its participating employers and scheme members. The Committee are responsible for developing the RI policy, associated implementation process and a monitoring framework for assessing progress against stated RI goals.
- **Fund advisers**: Hymans Robertson is appointed to act as Actuarial and Investment Advisers to the Fund. The services provided include advice on investment strategy, funding level and actuarial valuations. Hymans Robertson also provides independent performance measurement services for the Fund and has responsibility for measuring and reporting on the performance of the Fund during the year.

Further information on the governance structure of the Fund and how it relates to ESG/climate-related issues is set out in the appendix.

2.2 Policy review and progress assessment

The RI policy will be reviewed on a periodic basis, and at least triennially. The RI objectives set by the Committee are reviewed on a regular basis, as appropriate.

2.3 Education

The Committee has and will continue to receive regular RI training in order for them to have sufficient understanding of the topic to support and inform decision making The training agenda is set by the Committee, with input from Officers and the Committee's advisers.

The Committee is tasked with developing deeper knowledge and understanding of RI issues. The Committee also discusses RI issues at all relevant meetings and on at least an annual basis, which includes updates and developments within an RI context.

3 Objectives and beliefs

3.1 Objectives

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases. In pursuit of this goal, the Committee will incorporate financially material ESG issues into investment analysis and decision-making processes, actively seek to manage the long-term environmental, social and governance risks of the portfolio and capture any investment opportunities that may arise.

RI issues will be considered at both the strategic level and at the point of implementation.

The Committee recognises climate change as a key risk and opportunity to the Fund and as such focuses its investment portfolio monitoring and ongoing engagement with the asset managers on this particular theme with the expectation that the Committee's investments contribute to or support progress on this issue. The Committee will develop an appropriate monitoring regime which is consistent with this priority.

Wider ESG factors are also recognised as having the potential to impact the Fund and these factors will still feature as part of the Committee's ongoing monitoring and assessment.

3.2 Committee beliefs

The Committee undertook a Responsible Investment beliefs workshop in November 2023, where they discussed and agreed their initial beliefs with respect to ESG and climate-related issues. The Committee's full Responsible Investment beliefs are set out in Appendix 2.

These beliefs will be reviewed by the Committee on at least a triennial basis.

4 Considerations for Investment Strategy

Investment strategy refers to the broader strategic framework within which the portfolio is managed (growth, income generating and protection portfolios).

The Committee formally reviews investment strategy at least every three years, alongside an actuarial valuation, although aspects of the investment strategy are considered at most quarterly meetings of the Committee. This is primarily undertaken via analysis and monitoring in the quarterly reporting as well as meeting with the Fund's managers.

Climate scenario modelling will be conducted as appropriate to inform future investment strategy reviews, and the Committee will consider funding and investment decisions that arise from this. Climate change will also be considered within the Committee's risk management processes. The Committee will consider whether any other ESG risk has the potential to materially impact its framing of strategy.

As part of setting future investment strategy, the Committee will consider whether there are any investments that should be explicitly excluded as a consequence of them presenting high levels of environmental or climate risk. There are currently no exclusions being applied although this is kept under regular review.

4.1 Climate Risk and Net Zero

The Committee considers that climate change represents a material financial risk with the potential to disrupt economic, financial and social systems. Climate is therefore considered within the Fund's risk management framework.

As well as climate change presenting a significant risk to the Fund's investment strategy, the Committee believes that long-term asset owners such as the Fund can play a significant role in supporting the transition to Net Zero. The Fund therefore has intended to work towards setting an ambition to reach Net Zero emissions by no later than 2050. To help support this ambition, the Committee are and will continue to consider appropriately compliant funds; as of the date of this policy the Committee are in the process of considering a significant investment in a Net Zero fund.

The Committee also recognises that the potential impact of climate change on the Fund and its investments is unknown given policy uncertainty and the unknown physical feedback from environmental systems, particularly over the medium to long term.

5 Approach to Stewardship

5.1 Voting

The execution of voting rights is delegated to the asset managers, where rights exist. The Committee expects as a minimum that:

- All votes should be exercised where feasible;
- Votes are cast by underlying asset managers selected by the Committee. The Committee oversees voting policies and voting activity of underlying asset managers to ensure good practice on a periodic basis.
- In particular, votes on resolutions related to climate and other environmental actions should be considered carefully based on the specific request being made and the context of the company in question. The Committee expects a high level of support for votes requiring greater disclosure or setting a business transition strategy consistent with the Paris Agreement.

5.2 Engagement

The Committee expects the Investment Adviser to promote active dialogue by investment managers with underlying investee entities, regardless of asset class. In particular, the Committee expects engagement on climate and other environmental issues to be emphasised. The Committee believes that monitoring investment managers and engaging with them is crucial to ensure that managers are accountable for their voting decisions. Therefore, manager monitoring forms a crucial part of the Committee's stewardship approach. The Committee requests the attendance of investment managers at committee meetings throughout the year in order to maintain sufficient scrutiny of investment manager activity.

The Committee expects its Investment Adviser to encourage underlying investment managers to promote underlying investee entities' climate disclosures to be aligned with best practice, e.g. Task Force on Climate-Related Financial Disclosures ("TCFD"), as the Committee believes this will drive improved standards and transparency.

The Committee meets with its managers on a regular basis to discuss many aspects of their mandates. Engagement activity, with relation to ESG factors, is often a topic discussed at these meetings.

Examples of engagement activity are considered on an annual basis and this includes a summary of the engagement outcomes that have been achieved. Climate-related examples are prioritised.

5.3 Advocacy

The Committee aims to have a broader influence beyond engagement with investee companies and hopes to achieve this through its asset managers.

6 Monitoring

The Committee is expected to agree with the Investment Adviser a series of metrics that are monitored to ensure the level of ESG and climate-related risks and exposures are within the Committee's expectations.

As with broader investment exposures, where any exposure, and its associated risk, is deemed to be too high, corrective action will be taken. ESG and climate metrics may, once agreed, be included as part of regular monitoring by the Investment Adviser.

Whilst the agreed metrics are expected to form the focus of the Committee's monitoring, the Committee expects the asset managers to oversee and manage all financially material ESG and climate risks, not just those covered specifically by the agreed metrics.

As part of monitoring, reporting and communication, on which further information is below, the Committee will work towards the production of a climate risk report and additional reporting that will be made available to the Fund's members where appropriate. This will both help the Committee document in more detail their approach to climate-related risks and opportunities, monitor the metrics they use to assess climate-related and broader ESG exposures, and publish relevant information on the related activities being undertaken.

7 Communication

The Committee maintains a Statement of Investment Principles, which is available to view here . The Committee also conduct carbon footprint exercises to monitor the carbon footprint of the investments. Once required by legislation, the Committee will publish a report on its approach to the management of climate risk, in line with TCFD-requirements. The Committee will also seek to highlight its actions and achievements to members through its regular communication channels.

The Committee will periodically seek feedback from members on the RI policy and seek to incorporate views, as deemed appropriate by the Committee, as part of ongoing maintenance of the policy.

Appendix 1: Governance Structure

Fund management – Key parties

Pension Fund Sub Committee

The Committee incorporates RI considerations into its management of the Fund's assets, identifying and managing ESG related risks and opportunities in all areas including asset allocation decisions, manager appointments and its monitoring of the Fund's current investment managers. The Committee relies on information provided by the Fund's investment and actuarial advisers and investment managers in making these assessments.

The Investment Adviser reports to the Committee on its activities at regular Committee meetings which will include actions taken in regard to RI.

The key aims with respect to RI are to identify and carry out all key tasks required to enable the Committee to:

- Act in line with the beliefs and principles set out in the Committee's agreed RI policy.
- Continue to progress towards becoming more active in all areas of RI.
- Meet the requirements of the new climate related regulations once they come into force.

Investment Advisers

The Fund's Investment Advisers, Hymans Robertson, are responsible for assisting the Committee to ensure climate related risks and opportunities are embedded into all investment decisions. They provide advice and training to the Committee regarding regulatory requirements and are expected to incorporate RI considerations into any advice regarding any strategy changes or manager appointment.

The Committee has set objectives for its Investment Adviser which include objectives relating to the adviser's support in all RI considerations. The Investment Adviser is assessed against these objectives annually and the objectives themselves are assessed regularly to ensure they remain appropriate. The current Investment Adviser objectives are available as separate document and are updated on a regular basis.

Actuarial Advisers

The Fund's Actuarial Advisers, Hymans Robertson, are responsible for identifying any RI considerations which should be incorporated into the Fund's funding strategy (both short and long term) and in the Fund's integrated risk management processes. This will include the setting of individual financial and demographic assumptions.

Investment Managers

The Fund's investment managers are expected to integrate ESG considerations, to the extent possible, into their management of each of the Fund's mandates.

On the appointment of any new manager, the Committee assesses each manager's RI capabilities, with assistance from their Investment Adviser, to determine if that manager's approach is aligned with the Committee's RI Policy. Once appointed, the Committee monitors all managers regularly, assessing each manager's RI processes and policy at the manager meetings and challenges managers on any issues identified. The Committee also liaises with the investment managers in relation to RI matters, as required.

Any issues identified and the outcome of the Fund's monitoring is discussed at regular meetings.

Appendix 2: Committee Responsible Investment beliefs

The Committee has considered their main values, principles and priorities as part of setting a number of investment beliefs. These beliefs underpin the Fund's approach to Responsible Investment and are set out below:

Fund Governance and reporting

Belief 1 – Training and reporting

Regular training and reporting on ESG factors is important in order to inform the Committee's approach to RI and ESG issues, as well as decisions made.

Belief 2 – RI Policy

The Committee believes it is important to have an RI policy with statements on climate risk.

Belief 3 – Stakeholders

Reporting on the Fund's ESG activities to stakeholders is important, where the information is relevant.

Objectives and Constraints

Belief 4 – Decision making

The Fund to embed ESG factors in investment decision making as long as it does not counteract other important financial factors.

Strategic considerations and selecting investment managers

Belief 5 – Manager selection

The Fund's investment managers should be embedding ESG considerations factors embedded into their investment process and decision making, including stock specific ESG issues.

Belief 6 – Fund target

The Fund should set an ambition for the investment strategy to reach net zero. This should be no later than 2050.

Belief 7 – Investment opportunities

To take advantage of climate-related opportunities, the Fund should be invested across a balanced range of climate-related solutions with a bias towards generating a positive, measurable environmental and social impact alongside a financial return.

Stewardship

Belief 8 – Monitoring managers

Monitoring and engaging with investment managers, and holding managers accountable for their decisions, will form an important part of our stewardship approach.

Belief 9 – Engagement

Change will be pursued through engagement rather than disinvestment, but the latter is an option to consider if meaningful improvements in responsible investment processes are not seen over time. Restrictions on ESG issues will also be considered within discussions with managers.

Responsible ownership

Belief 10 – Manager reporting

Reporting from the Funds' investment managers on ESG related issues is important in order to ensure ESG issues are being taken into consideration within the Fund's investments. This includes information on voting and engagement, in addition to details on how they are assessing and managing ESG-related risks in their respective mandates. We will monitor and challenge the Fund's managers as appropriate.