Responsible Investment policy

Introduction

1. The Trustees of the Parliamentary Contributory Pension Fund ("the Fund") are responsible for ensuring that the Fund's assets are invested in a manner which meets their overriding objective to pay benefits to members as they fall due. The Trustees recognise that responsible investment considerations pose a financially material risk to the Fund. Responsible investment considerations are relevant when it comes to the manner in which the assets are invested and in the exercise of stewardship responsibilities. This document sets out the Trustees' policy for incorporating Responsible Investment considerations within the investment process. The Trustees recognise that this is a continually evolving area and will seek to improve their policy on an ongoing basis in light of up to date evidence, best practice and to support the delivery of the Fund's overriding objectives.

Definition of Responsible Investment

2. Responsible Investment is considered to be those investment practices where Environmental, Social and Governance ("ESG") issues, collectively considered to be a series of risk factors that may impact on the value or future performance of an investment, are explicitly or implicitly integrated into investment management processes and asset ownership practices.

3. The Trustees acknowledge that there are a broad range of ESG risks which operate over different timeframes and with differing potential degrees of impact on the Fund. A sample of these risks are summarised in the table below:

	Environmental	Social	Governance
Systemic risks	• Climate Change • Resource scarcity • Water stress • Biodiversity loss	• Growing inequality • Continual focus on consumption as a measure of growth • Power shift to emerging economies • Population pressure and demographic shifts • Machine learning	
Operational risks	• Energy efficiency • Waste management • Pollution	• Customer satisfaction • Community relations • Working conditions • Diversity • Health & Safety • Employee wellbeing • Data protection	• Executive remuneration • Board Structure • Accounting & Audit • Bribery & corruption • Shareholder rights • Transparency

4. Of these risks, the Trustees have identified that climate change represents a risk which warrants more detailed scrutiny given the potentially widespread and uncertain impact on financial, economic and demographic outcomes. The Trustees also regard Executive Remuneration as a material governance-related risk and support the mitigation of this risk predominantly through active engagement by investment managers.

Objectives

5. The Trustees' investment objectives are set out in their Statement of Investment Principles.

Investment beliefs

6. The Trustees have agreed a series of investment beliefs that serve to underpin their decision-making process. These beliefs include an explicit reference to the material impact that ESG issues will have on the Fund's long-term returns.

7. In framing their approach to Responsible Investment, the Trustees have placed emphasis on three key areas being: Integration, Stewardship and Transparency. The Trustees may also explore the possibility of incorporating the United Nations' Sustainable Development Goals into their beliefs and broader policy.

Integrating Responsible Investment issues into decision making

8. The Trustees recognise that Responsible Investment considerations can be integrated into each stage of the investment decision-making process.

Investment strategy/structure

9. The Trustees' investment strategy represents the broad balance between different asset classes such as equities, debt and real assets. The Trustees frame their investment strategy by reference to long-term risk and return assumptions which make implicit allowance for operational and many systemic ESG risks.

10. The Trustees' investment structure represents the allocation to different mandate types within each broad asset class. The Trustees will consider opportunities arising from a greater understanding of ESG factors, such as infrastructure/property with a social focus, when setting their investment structure. However, the Trustees will assess any opportunity with regard to the broader risk/return requirements of the Fund.

11. The Trustees recognise the influence of benchmarks on the selection of assets by investment managers, particularly within rules-based or index-tracking mandates. The Trustees will consider the ESG characteristics of such mandates and will actively consider alternative approaches in the determination of appropriate approaches for the Fund. The Trustees will review the benchmarks of any index-tracking mandate on at least a triennial basis. As part of this process, the Trustees will seek input from their advisors and investment managers to understand the potential implications and impact of ESG factors on different approaches.

Implementation of strategy

12. The Fund's active investment managers take account of ESG-related risks and issues as part of their investment analysis and decision-making process. The Trustees engage with their managers to understand how ESG-related risks are considered in the decision-making process, and to determine that this is consistent with the Fund's policy.

13. In selecting new investment managers for the Fund, where relevant to the investment mandate, the Trustees will explicitly consider potential managers' approach to responsible investment and the extent to which managers integrate ESG issues in the investment process as a factor in their decision making. The Trustees impose minimum standards for all managers and monitor compliance with these standards on a regular basis.

14. The Trustees expect all their investment managers to be signatories to the UN-sponsored Principles of Responsible Investment (PRI) or to be able to provide an explanation as to the reasons for not signing. The Trustees will monitor their investment managers' compliance with the PRI reporting requirements annually.

15. The Trustees expect that, where appropriate, all their investment managers to be signatories to the FRC's UK Stewardship Code. The Trustees monitor the investment managers' compliance with the UK Stewardship Code and their track record of engaging with companies on issues such as climate change risk, fossil fuels and broader ESG issues on an ongoing basis.
16. The Fund's investment managers are expected to incorporate ESG-related issues into their regular reporting. This includes information on voting and engagement, in addition to details on how they are assessing and managing ESG-related risks in relation to their respective mandates.

Active stewardship

17. The Trustees have a policy on voting and engagement and monitor their managers' records on a quarterly basis. The Trustees recognise that they can influence the behaviour and practices of their investment managers with regard to stewardship through ongoing and forceful engagement, even where assets are invested through pooled funds.
18. Where the practices adopted by their investment managers differ from the Trustees' policy, the managers will be challenged on its approach. Managers exhibiting weaker practices over a sustained period will not be considered for future appointments to the Fund and their appointment will be reviewed.
19. The Trustees support, and are signatories to, the FRC UK Stewardship Code and believe that, where relevant, the Fund's investment managers should be signatories to the Code.

Voting

20. The Trustees believe that failing to exercise voting or other rights attached to shares could be contrary to the interest of the beneficiaries of the Fund. They have therefore instructed the investment managers to take this into account in exercising such rights on their behalf. The Trustees have instructed the managers to provide them with a statement on their corporate governance and voting policy.
21. The Trustees work closely with the Fund's investment managers to help support good corporate behaviour. This policy enables the Trustees to document their position and expectations for their fund managers and to hold managers accountable for the decisions they make.
22. The Trustees have adopted the voting guidelines issued by Institutional Shareholder Services (ISS) as the basis against which they will judge good voting practice.
    a. For segregated mandates, the Trustees will instruct their managers to adopt the ISS voting guidelines. Where a manager does not vote in line with the ISS guidelines; this will be reported to the Trustees and explanation will be required.
    b. For pooled mandates, where possible the Trustees will instruct their managers to adopt the ISS voting guidelines. Where not possible to instruct their managers how to vote, the Trustees will review the policies employed by the manager against the ISS guidelines and where appropriate request that the manager take account of the ISS guidelines in the execution of voting policy.
23. All managers are expected to report their voting records to the Trustees on a quarterly basis. The Trustees require that their active managers provide an explanation where votes have not been cast in accordance with the Fund's policy. The Trustees will review managers' voting activities on a regular basis and will challenge managers on voting practices during regular review meetings.
24. On an annual basis and where relevant, the Trustees will request their Investment Managers to provide details of any change in their house voting policy and review any changes against the ISS guidelines.

25. In making any future manager appointments, the Trustees will assess the manager's voting policy as part of the due diligence process and will instruct the appointed manager accordingly.

Shareholder engagement

26. The Trustees believe that successful engagement with investee companies can protect and enhance the long-term value of the Fund's investments.

27. The Trustees consider that, in most cases, its managers are best placed to engage with investee company management due to (a) the practical constraint of investment in pooled funds which limits their own ability to make alternative directions, (b) the resources available to these managers, which are funded by the investment management fees paid by the Trustees, and (c) the existence of relationships between investment managers and the underlying investee companies.

28. The Trustees believe that their investment managers are accountable to them for all engagement activity and should be able to demonstrate, when challenged, the reason for any engagement activity, the objectives of the engagement activity, the approach taken to achieve the objectives, the timeframe over which the engagement is expected to take place and the consequences should engagement be unsuccessful.

29. In appointing new managers, the Trustees will assess the prospective manager's approach to engagement to ensure consistency with the Trustees' own policies and reporting requirements. When appointing new managers the successful candidates will demonstrate that their approach is consistent with the Fund's policies and in line with developing best practice.

30. The Trustees adopt an evidence-based approach to assessing engagement activity by managers. The Trustees require their investment managers to report on all engagement activity on a quarterly basis and, where appropriate, the Trustees will challenge their investment managers on actions taken. The Trustees will publish a summary of engagement activity undertaken by their managers and issues on which they have been challenged on an annual basis.

31. The Trustees encourage their investment managers to actively participate in collaborative engagements with other investors, fund managers and organisations where this is deemed to be in the best interests of the Fund.

32. The Trustees consider opportunities to collaborate with other stakeholders and industry bodies, with regard to the resources available to support the Fund. The Trustees also monitor the views of its members and the UK Government in the development of investment policy.

33. The Trustees' investment consultant is required to provide input and analysis to assist the Trustees in assessing their managers' performance on engagement activities.

Other engagement activity

34. The Trustees aim to meet all their investment managers on an annual basis. Managers are asked to address Responsible Investment matters as part of presentations to Trustees, setting out how these are incorporated within the investment process. Investment managers are challenged on their approach where this is not aligned to the Trustees' policy.

35. The Trustees monitor the investment managers' compliance with the UK Stewardship Code and their track record of engaging with companies on issues such as climate change risk, fossil fuels and broader ESG issues on an ongoing basis.

36. The Fund encourages its investment managers to complete and publish a response to the Stewardship Disclosure Framework, which provides a common reporting template for assessing manager approaches to stewardship and engagement. Explanation is sought from those managers who have not published a response.

Transparency

Reporting/Monitoring

37. The Trustees aim to be aware of, and monitor, financially material ESG-related risks and issues through their investment managers, by reviewing each individual manager's activities in relation to ESG issues on an ongoing basis through regular reporting (as noted above). The Trustees take Responsible Investment factors into account when monitoring and selecting investment managers.

38. The Trustees have requested and ensure that reporting received from their investment managers and advisors addresses Responsible Investment issues. For example, investment managers are required to provide voting and engagement reporting on a quarterly basis.

39. The Trustees consider analysis of the Fund's carbon exposure and intensity on a regular basis and consider implications relative to their longer term objective.

Disclosure

40. A report on the Fund's Stewardship and Governance activities, including voting and engagement undertaken on behalf of the Fund, will be included in the Annual Review issued to all members of the Fund. To maintain transparency and accountability to stakeholders, the Trustees will also disclose the Fund's top 20 equity holdings annually.

Monitoring adherence to policy

41. The Trustees have a commitment to monitoring the adherence of their investment managers to this policy. The Trustees have instructed their investment managers to report annually on their adherence to the policy.

42. The Trustees will also review their own adherence to this policy on an annual basis and will publish the results of their assessment as part of their annual stewardship and governance report.

Governance

Maintaining knowledge

43. The Trustees recognise the need for ongoing education on a broad range of investment matters, including Responsible Investment. As part of their annual business planning, the Trustees will ensure that at least one formal training session is directly focused on Responsible Investment.

44. Training is sought from the Trustees' investment advisors, investment managers, external specialists and other engaged pension funds to provide exposure to a range of opinions and approaches to effective governance.

Review of policy

45. The Trustees will review this policy at least annually to ensure it remains appropriate and in line with the long-term objectives for the Fund, as well as broader industry developments.

For and on behalf of the Trustees of the Parliamentary Contributory Pension Fund.