Norfolk Pension Fund

Statement on Divestment/Exclusion & ESG (Environmental, Social & Governance) Aspects of Investment Strategy

Purpose and Governance of the Fund

Norfolk County Council (NCC) has a statutory responsibility as Administering Authority of the Norfolk Pension Fund (NPF). The Norfolk Pension Fund provides the Local Government Pension Scheme (LGPS) for 400+ eligible employers in the county of Norfolk. It currently provides pension benefits to over 100,000 scheme members. The Fund is ring fenced (in other words, it is legally segregated from NCC's other assets and liabilities) and its sole purpose is to secure and pay the pension benefits of those members and their beneficiaries.

NCC ensures that management of the Fund and its investments is kept separate from the political and administrative business of the Council by delegating responsibility for NPF to the NCC Pensions Committee and a dedicated pension fund function. The law is clear that the assets of the NPF are solely the responsibility of NCC, and decisions must be made solely in order to pay pension benefits.

The members of the NCC Pensions Committee are subject to fiduciary duties, in a way that is similar to trustees of other pension schemes. In carrying out this responsibility and complying with these duties members of the Committee are obliged to put aside their personal interests and views and make investments with the intention of achieving the best financial returns for the Fund, whilst balancing risk and return considerations. Further details of the governance arrangements of the Fund can be found on our website www.norfolkpensionfund.org

When taking any investment decisions, the law is clear that the NCC Pensions Committee must primarily act in the best financial interests of the NPF's beneficiaries. Broadly speaking, the NCC Pensions Committee must take financially material considerations into account (i.e. those which may affect investment returns) but cannot take decisions based purely on non-financial factors if investment returns may be affected.

The Committee appoints external investment managers to deliver the investment strategy, which is intentionally diversified across different asset types, public and private markets.

Disinvestment & Exclusion

NPF does not operate a disinvestment or exclusion policy with regards to any company, asset class, geography, or sector. LGPS funds receive regular calls from lobby groups to divest from a range of sectors – fossil fuel, tobacco, mining, and defence companies have all been the

subject of past campaigns. While the NPF Pensions Committee can and does take these views into account, it must ultimately give primacy to its fiduciary duties as described above.

Disinvestment may not be consistent with the overriding objective of investing to ensure that pensions can be paid. Disinvestment may be ineffectual to its stated aims and, if carried out other than on financial grounds or based on non-financial factors, may present legal issues and be contrary to the Committee's fiduciary duties - if NPF were to disinvest for non-financial reasons it would not be acting in accordance with its fiduciary duties.

A blanket, unstructured and reactionary approach to divestment (or one that is set in advance) reduces the investment universe, limits the ability of the fund to act as responsible owners and may impact investment outcomes.

Responsible Investment

However, this does not mean that NPF is only concerned with financial returns regardless of the behaviour of the companies it invests in. NPF believes in responsible investment. 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 the sustainable, long-term returns required to pay pensions. Responsible investment does not require ruling out investment in any sector or company but should frame the approach to making the decision to own and manage ownership of any specific assets.

The approach we take on ESG aspects of investments is documented in our Investment Strategy Statement (ISS), also available on our website. As stated previously we do not take a divestment or exclusion approach for any economic sector but believe the integration of ESG factors into investment decision making and engagement is the best approach to encourage company management to make changes that will ultimately provide positive benefit to our investments. To this end, we require all of our fund managers to provide records of engagement with company management and we maintain voting records for our holdings. The NCC Pensions Committee formally considers these matters every six months.

NPF believes that it, and those charged with managing its investments, will have greater influence on the future direction of companies if it remains invested in those companies. Similarly, for new investments NPF instructs its investment managers to apply the NPF's ESG approach when assessing new opportunities. Overall engagement activities are viewed by NPF as a key element of the broader approach to responsible investing. Remaining invested provides a voice on how companies are generating their revenues and how they will change in the future. Blanket disinvestment policies can be seen as too blunt an instrument that reduces the capacity for making real change.

Climate Risk

Climate risk is a significant focus for governments and society and therefore for NPF.

As you would expect, NPF treats this risk as a serious concern for the future sustainability of the Fund and the ability to maintain pension payments in the future. We look through this wider lens, rather than focusing solely on exposures to fossil fuel companies because many of the highest emitters of carbon are not energy companies but the end users of

their products; such as utility power generators for domestic and commercial customers, steel and cement producers, airlines, shipping, or other industrial companies.

The NCC Pensions Committee considers a detailed climate risk analysis of our public equity holdings as part of its overall review every six months and a summary is published on our website.

This reporting is produced by an independent consultancy and not by those managing investments on our behalf. Our actual equity exposure is benchmarked against three climate risk metrics for the global market as a whole. Currently for all three benchmarks, our public equity holdings have a significantly lower result than the equity market as a whole. We believe that this is a consequence of the requirement on our fund managers to integrate ESG matters into their investment processes, together with the push to actively engage with portfolio companies.

Generally, our view is that if assets stay on listed markets with greater transparency, then there is more opportunity to positively influence their direction of travel, which is lost if you disinvest (or remove the possibility of future ownership), or if the company you invest in divests its own potentially problematic assets. More generally, there is a broader system issue to consider. Fossil fuels in particular remain part of the system as there are still plenty of users, all of whom, need to be encouraged to change in a fair and equitable way.

In our wider portfolio, we would also note that the Fund is an active investor in infrastructure, including substantial amounts of renewable power generation and the required supporting infrastructure alongside many social assets.

Climate risk considerations also form part of the valuation approach of the Fund when setting and evaluating future funding strategy i.e., to ensure that funding strategy remains robust in various climate change scenarios (stress tests).