



The United Norwest Co-operatives Employees' Pension Fund

Responsible Investment Policy

This policy has been prepared by TCG Northern Trustees Limited, the Trustee of the United Norwest Co-operatives Employees' Pension Fund ("the Fund"), to set out our views on responsible investment and how we address this within the Fund.

How does the Fund work, and who decides how its assets are invested?

The Fund aims to pay benefits to its members and their dependents as set out in the Trust Deed and Rules. These benefits are paid out of investments selected by the Trustee, who is responsible for the investments the Fund.

The Trustee's investment objectives and our approach to risk management and measurement are explained in the Fund's Statement of Investment Principles. The way we invest reflects the long term nature of the Fund – we don't pursue short term, speculative gains.

What are the Trustee's views on Responsible Investment?

As the Trustee we're required by law to act in the best interests of the members of the Fund. This means that our main responsibility is to choose investments which are expected to give the best possible chance of the benefits being paid in full.

However, we're committed to achieving these goals in a way that takes into account broader social and environmental concerns.

Responsible Investment (RI) is therefore a key aim for the Trustee. We recognise our obligations to invest in a responsible and sustainable way but we also recognise that things can change, and so we will keep this policy under review and consider other themes and opportunities as they arise

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Are there any Responsible Investment issues that are of particular importance to the Trustee?

We would like our approach to responsible investment to reflect the views of the Fund's members as far as reasonably possible. We therefore welcome member views on responsible investment issues. We also believe that our approach to responsible investment should be consistent with the values of the Co-op, and the Co-op's members and colleagues, again as far as reasonably possible. Finally, we believe that our responsible investment policy should reflect the extent to which environmental, social and corporate governance (ESG) issues might represent a risk to the Fund.

Having worked with the Co-op, we've identified three broad responsible investment issues which we feel reflect the views of the relevant stakeholders, represent particular risk to the Fund and which we believe can be well addressed by our responsible investment policy. These issues are:

- Climate change, and protection of the environment.
- Labour conditions and equal pay.
- Corporate governance.

What is the Trustee doing to ensure that the Fund invests in a responsible way?

Our main responsibility is to deliver the best possible outcomes for members. Without compromising this duty, we implement responsible investment in a number of ways:

- We consider the risk associated with ESG issues as part of our investment activities and through the investment funds chosen for the Fund's equity exposure.
- Through active ownership, via our investment managers
- We avoid, as far as reasonably possible, investing in companies that are involved in activities which we believe may conflict with the values of relevant stakeholders

We need to do this in a balanced way so that we avoid incurring high costs for the Fund, and for the Co-op as their sponsor.

Our approach to responsible investment applies to all markets and asset classes.

Climate change

In order to limit global warming to below 2°C, ideally no more than 1.5°C, global climate emissions will need to meet net zero by the middle of this century across all sources of emissions - Scope 1, 2, and 3.

Aligned with this, the Fund's ambition is to manage its investments in line with achieving net zero greenhouse gas (GHG) emissions by 2050 or sooner. We believe this is consistent with our fiduciary duty to our stakeholders, and is supported by market developments, regulations and the emergence of credible methodologies and tools. This objective is also consistent with the goals of the Paris Agreement and the UK government's legally binding targets. Finally, this is consistent with the Scheme's sponsor – in 2021 the Co-op announced a detailed net zero commitment – and the sponsor's other DB pension schemes (Pace and Somerfield) who have also set net zero 2050 targets.

'Net zero' (for a company or a business) refers to achieving a balance between the amount of greenhouse gas emissions produced and the amount removed from the atmosphere. We reach net zero when the amount we add is no more than the amount taken away. For a pension scheme, 'net zero' means that this balance in greenhouse gases applies across the companies and governments the scheme is invested in, having worked out the scheme's share of these emissions based on the proportion of those companies the scheme 'owns' and lending activity (to governments, companies etc.).

There are two different routes to achieving net zero, which can work in tandem: reducing existing emissions and actively removing greenhouse gases in an investment portfolio (or buying offsets). The Fund is primarily pursuing the first of these routes. The second route may be considered in the future should investment opportunities come available that are in the best interests of the members of the Fund.

This is with the expectation that governments (in particular, that of the UK) will deliver on commitments to achieve a 1.5°C temperature goal. The Fund is now in the process of establishing short, medium and long-term targets to deliver on this ambition.

To support this, in 2022 the Trustee agreed to target a 50% reduction in carbon emissions from our assets by 2030 (relative to a 2019 base-line). In addition, the Fund has set specific targets for its buy and maintain credit portfolios, namely a 40% reduction in emissions by 2025 and a 50% reduction by 2030. Similarly, for the equity assets, a 20% reduction by 2025 and a 50% reduction by 2030 has been targeted. The Trustee will look to broaden this to other asset classes as data availability improves. The Trustee monitors progress against these targets on an annual basis.

This is aligned with a 1.5°C pathway and is consistent with the Intergovernmental Panel on Climate Change (IPCC) special report on global warming of 1.5°C and guidance from the Institutional Investors Group on Climate Change (IIGCC).

This reduction is measured by Weighted Average Carbon Intensity – a metric which quantifies the carbon intensity of the companies we invest in, as measured by tons of carbon dioxide equivalents per \$1 million of revenue of these companies.

How does the Trustee allow for ESG issues when making investment decisions?

Many decisions are needed about how the Fund's assets should be invested. These range from high level decisions about asset allocation, which the Trustee makes, to decisions on the particular companies we invest in, which are made by our investment managers.

When the Trustee makes investment decisions, one of the factors we consider is the impact on our level of ESG risk, where this risk could impact the investments of the Fund. As part of this, as noted above, we have considered the Fund's exposure to climate change risk and will use this to inform our strategy.

The Fund has a strategic allocation to both passive ("index tracking") and actively managed equities. Both mandates are managed within pooled funds with a focus on meeting certain ESG criteria set out by the investment respective managers and in line with the Trustees ESG objectives.

The Fund's active equity investments are managed by Mirova in an actively managed sustainability focussed fund, which looks to embed ESG principles fully within its investment process and stock selection. In building the portfolio, there is a focus on thematic views, and Mirova's opinion on ESG risks and alerts on potential human rights breaches. The mandate has an implied temperature rise of 1.5 degrees which is consistent with a Net Zero 2050 objective in line with the Paris Agreement.

The aim of the active mandate is to complement the passive investment and focuses on long term sustainable approach which integrates ESG at all levels of the investment process (including through investment analysis, stock selection, active ownership and engagement with the holdings in the mandate).

The passive equity allocation was invested with BlackRock in June 2023. The BlackRock passive equity funds track an index, the MSIC World ESG Screened Index, which implements ESG screens to exclude companies that are involved in or generate a majority of their revenue and income from activities that may have a detrimental impact from an ESG perspective. Exclusions from the MSCI World ESG Screened Index include,

- Tobacco
- Controversial Weapons
- Fossil fuel extraction (more than 5% of revenue from thermal coal mining and unconventional oil and gas extraction).
- UN Global Compact Violators

The Trustee has also set specific carbon reduction targets for Royal London Asset Management ("RLAM") in the management of their Buy and Maintain credit mandate for the Fund, in order to help meet the Net Zero targets it has set. As RLAM manage a segregated mandate for the Fund, the Trustee has been able to incorporate these targets into the Investment Management Agreement and they sit alongside the other investment guidelines for the mandate.

The Trustee looks to incorporate improved ESG capabilities wherever it can. For example, within the Fund's LDI mandate with BlackRock, cash is invested in the BlackRock LEAF ("Liquid Environmentally Aware Fund"), an ESG aligned cash fund. BlackRock state that LEAF applies a tilt towards issuers with a better than average Environmental score / practices and seeks lower greenhouse gas emissions intensity than the Investment Universe. LEAF also has a number of exclusionary screens similar to the ones listed above for the equity index.

Responsible investment is also incorporated as one of the key strategic items for consideration in the Investment Committee's Business Plan.

Tell me more about the investments you are avoiding

We've decided that, where possible, the Fund will aim to avoid investing in:

- Companies involved in the manufacture or transfer of indiscriminate weapons or the manufacture or transfer of armaments to oppressive regimes
- Government bonds issued by states which deny their citizens basic human rights
- Companies involved in extractive industries with poor environmental standards.

We recognise that we may be limited in doing this, for example where we are invested in 'pooled funds' alongside other investors and don't have direct control of the underlying investments in shares or bonds, or where the list above doesn't apply (for example, for the Fund's "liability driven investments" which invest in UK government bonds and financial instruments to match our liabilities).

Where we do have direct control of investments, and where we can apply restrictions in a way that has a meaningful impact, we've taken steps to assess companies and screen out those which don't adhere to these standards before investing, working with MSCI, and our segregated investment grade credit manager, RLAM. At the time of writing, these restrictions cover the c17.5% of United's assets which we hold in segregated corporate bond mandates (i.e. the assets where we can meaningfully apply these restrictions).

We also recognise that ethics are not always clear-cut and that difficult judgements need to be made. In deciding on which investments to avoid, we take into account the degree to which a company is involved in the activities identified above, together with any evidence that it is improving its practices and other positive aspects of its business. Over time, we will continue to develop our investment strategy with respect to responsible investment.

Where we invest in pooled funds, we consider the investment manager's approach to ESG when selecting the funds to invest in, and review this on an ongoing basis.

How do you work with the fund managers in relation to responsible investment?

We recognise the growing expertise on responsible investment within the pensions industry and feel that the most effective way to align our investments with our values is to engage fund managers who take a responsible and sustainable approach to investment.

We appoint investment managers who will act as conscientious and capable stewards for the Fund's investments. As part of the selection process, we look at their expertise and track record in responsible investment, particularly when we're choosing a manager for an asset class which might be particularly exposed to ESG risks.

All of the Fund's investment managers are signatories to the UN-backed Principles for Responsible Investment and adhere to the FRC UK Stewardship Code, where it applies to them. These are also factors that we consider when we select investment managers.

We receive regular reports from our investment managers about their voting and responsible investment engagement activity, and monitor this in our quarterly Manager Monitoring and Implementation Committee meetings as well as Investment Committee meetings. In addition, our independent investment adviser, Mercer, assesses the responsible investment capabilities of our investment managers and provides a rating for each.

What information is available to members about the Fund's responsible investment activity?

As responsible investors, we believe that details of our responsible investment activities should be visible and easily accessible. Our investment performance is included in the Fund's annual report and accounts, which is published on the Co-op Pensions website. The following information on our responsible investment activities is available on the website.

- The Fund's Statement of Investment Principles.
- Our Engagement Policy Implementation Statement, setting out how we have complied with the policies in our Statement of Investment Principles.
- This Responsible Investment Policy.

Further information on our responsible investment activities will be updated on the website over time.

How often will you review the Responsible Investment policy?

We see the development of our responsible investment policy as an evolving process and intend to review our approach to responsible investment at least annually. In carrying out our review we will take into account significant developments in market practice and any changes in the views of our stakeholders, including the sponsor's values.

We also welcome members' feedback and will consider this as we continue to develop our policy for Responsible Investment. If you have feedback on the responsible investment policy, please let us know by email: staffpensions@co-operative.coop

Last reviewed March 2024