

# Cardiff University Pension Fund – Environmental, Social & Governance and Stewardship policy summary

The Trustees monitor the Environmental, Social & Governance (“ESG”) and Stewardship policies employed by their investment managers on an ongoing basis. This document provides a high-level summary of these policies for each of the investment managers.

## Legal & General Investment Management (“LGIM”)

The Pension Fund invests in an actively managed fund (Dynamic Diversified Fund) and a passively managed (World Equity Index Fund (GBP Hedged)) with LGIM.

The Dynamic Diversified Fund makes use of both passive and active investments in its underlying asset allocation and has moved towards greater incorporation of ESG factors into investment decision making in recent years. Specifically, LGIM are increasingly looking to integrate ESG and stewardship factors into the Dynamic Diversified Fund’s investment process. The LGIM Dynamic Diversified Fund is not obligated to adopt such an approach, the management team are increasingly looking to utilise LGIM’s “Future World” index fund range when accessing passive investments within the Fund. This fund range makes use of Environmental, Social and Governance (“ESG”) “tilting”, rewarding companies with better ESG credentials by investing more than the benchmark index in them, and penalising those companies with lower ESG credentials by allocating less capital to them. As at the end of 30 September 2021, approximately 33% of the LGIM Dynamic Diversified Fund was invested in the Future World Index funds.

For LGIM’s active investments (including those within the Dynamic Diversified Fund), the integration of ESG-related criteria in the assessment of companies is not intended to result in any negative or exclusionary lists. Rather, LGIM’s aim is to enhance their ability to separate between likely outperformers and underperformers within each sector, with the purpose of supporting the process of security selection.

For all investments/funds (including those that are passively managed), LGIM focus on “active ownership”; encouraging companies to improve their behaviours/management of ESG matters. LGIM integrate their thoughts and the consideration of ESG risks and investment opportunities into their communication and engagement with individual companies and believe that well-governed companies are more likely to provide better long-term returns. LGIM’s expertise in passive investment strategies has allowed them to develop a track record of being active owners of the companies in which they invest, whether they invest passively or actively. Specifically, LGIM’s objective is to effect positive change in the companies and assets in which they invest, and for society as a whole.

LGIM’s main focus over 2020 in terms of active ownership objectives have been Climate Change, COVID-19 and the societal impact of the companies that they invest in, including Diversity. For example, during 2020 LGIM: (i) engaged with a total of 665 companies, voting on over 66,000 resolutions; (ii) opposed the election of more than 4,700 company directors globally; (iii) committed to a target of net





zero emissions by 2050 or sooner across all assets under management; (iv) supported its parent company in decarbonising assets on its balance sheet; (v) took sanctions against 13 companies named as laggards under LGIM's Climate Impact Pledge; (vi) wrote to investee companies encouraging them to ensure employees and suppliers are retained and to demonstrate restraint; (vii) asked global pharmaceutical companies to work with governments across all levels of income to ensure equitable access to vaccines; (viii) opposed 208 directors globally due to concerns over board diversity; and (ix) launched 20 new responsible investment strategies.

LGIM are a signatory to the United Nations Principles for Responsible Investing ("UNPRI") and have been awarded a rating of A+.

Further information on LGIM's ESG and stewardship policies can be found on their website (<https://www.lgim.com/uk/en/capabilities/corporate-governance/>).

## Newton Investment Management ("Newton")

The Pension Fund invests in the BNY Mellon Real Return Fund, which is managed by Newton.

Newton have worked to integrate ESG analysis into their formal investment process and believe that responsibly managed companies are best placed to achieve sustainable competitive advantage and provide strong long-term investment opportunities. Newton believe that their role requires them to be not only conscious of the highest standards in corporate responsibility and the challenges presented by the voting proxy process, but also of the individual requirements of their clients. Newton believe that their approach to responsible investment seeks to capture best practices across the globe and where companies do not conform to best practice, a valid explanation should be provided.

Newton have a designated Responsible Investment Team, which ensures Newton's investment rationale for a company is supported through research into ESG matters, voting decisions and engagement work; it aims to achieve a better understanding of the relevant ESG risks and to seek an improvement in the behaviour of the investee company. This is achieved, in part, by formal ESG quality reviews conducted by the team, on all stocks recommended by Newton's global sector analysts. Companies are then awarded two quantitative scores out of 10, a current ESG score and a forecast ESG score. This approach is not geared towards the exclusion of potential investments on ethical grounds, but the responsible investment team do hold a veto in the security-selection process and throughout the lifetime of an investment.

Newton publishes quarterly reports on its responsible investment activities, which provides details of voting decisions, together with research and engagement undertaken by the responsible investment team. In addition, Newton publishes thematic reports on topical and relevant ESG issues. In Q2 of 2021, Newton engaged with 60 companies for the primary purpose of raising ESG concerns.

Newton complies with each of the seven principles of the UK Stewardship Code, which is overseen by the Financial Reporting Council, and is Tier 1 rated. The Code aims to enhance engagement between institutional investors and companies. Newton has obtained an independent assurance opinion over their stewardship activities as recommended by the UK Stewardship Code.

Newton are a signatory to the UNPRI and have been awarded a UNPRI rating of A+.



Further information on Newton's ESG and stewardship policies can be found on their website (<https://www.newtonim.com/uk-institutional/responsible-investment/responsible-investment-quarterly-report> ).

## M&G Investments ("M&G")

The Pension Fund is invested in the M&G Episode Allocation Fund and the M&G Long Dated Corporate Bond Fund.

M&G consider factors that they believe can have a meaningful impact on the long-term performance of the investments they make, as far as possible, which include the full range of ESG issues.

M&G undertake climate change scenario analysis and have participated in a pilot initiative run by the United Nations Environment Programme Finance Initiative (UNEP FI) to develop an industry-leading methodology to enable investors across asset classes to assess both transition and physical risks related to climate change at portfolio level.

M&G is essentially a long-term investor and ESG issues often evolve over a longer period. Consequently, ESG factors are considered a fundamental component of the investment process at M&G and are incorporated into the investment analysis process across all asset classes, including fixed income. M&G have a significant fixed income capability – lending to companies, governments, infrastructure projects, housing associations and other borrowers. M&G embed responsible investing into their fixed income investment processes, so that all of their investment professionals have a duty to assess and evaluate the role of ESG issues and risks in any given investment. Such assessments are factored into credit analysis and investment decision making and are a contributing component of valuations. These assessments focus on all issues that could impair the future creditworthiness of a borrower and interrupt expected future investment returns. ESG risks are assessed in conjunction with all other risks. M&G generally do not use external ESG company scores within fixed income as they have a large team of credit analysts and engage directly with borrowers on ESG issues to enhance the value of their clients' investments.

Within the multi-asset space, as top-down asset allocators, the extent to which M&G can analyse specific factors at an individual security level is limited.

The board of M&G plc is ultimately responsible for all of M&G's stewardship activities and the M&G ESG Executive Committee (ESG exco) reports into the board. Within M&G Investments, the head of each investment team (Equity, Multi Asset, Fixed Income, Real Estate and Private Equity) reports into the Chief Investment Officer (who sits on the M&G ESG exco), while the Corporate Finance and Stewardship team reports to the Chief of Staff.

M&G's scale allows them to represent their clients' interests on ESG initiatives, which can range from responding to public consultations to acting as a sounding board for, and consulting with, government departments and regulatory bodies.

M&G do not invest in securities issued by companies directly involved in the manufacture, development or trade of cluster munitions and anti personnel mines across all funds, where investments are made directly in an issuer.



M&G have been supporters of the UK Stewardship Code since its inception. M&G actively seek to realise the principles of the code and have a robust policy in place to support such, and obtain independent assurance of their compliance with the principles.

M&G has been a signatory of the UNPRI since January 2013 and seek to encourage best practices in the interest of both their clients and the wider market. In their most recent UNPRI submission, M&G obtained an A+ score for Strategy and Governance.

Further information on M&G's ESG and stewardship policies can be found on their website (<https://global.mandg.com/responsibility>).

## Partners Group

The Pension Fund is invested in the Partners Group Generations Fund.

Partners Group state they are a committed and experienced responsible investor and have sought to develop and enhance their approach to incorporating ESG factors into the investment decision making process informed by the UNPRI. Partners Group integrated the ten principles of the United Nations Global Compact in its investment processes in 2006 and was one of the first private markets signatories to the UNPRI when it joined in 2008 and have scored A+ each year, for the past five years. For 2020 the scores were: Partners Group scored A+ or A across all UNPRI areas of assessment.

Partners Group support a range of external initiatives including voluntary participation in the Carbon Disclosure Project since 2008, being the first adopted of the IFC's Operating Principles for Impact Management in 2019, and supporting the Task Force on Climate-related Financial Disclosures, a framework to help public companies and other organisations to report climate-related risks and opportunities. Furthermore, Partners Group have been a constituent of the FTSE4Good Index Series since 2018.

Partners Group have developed a Responsible Investment Policy and Framework, which they seek to apply to each investment opportunity in order to integrate ESG factors into the investment decision making process. Partners Group believe this approach mitigates investment risk and has the potential to enhance investment returns in the best interest of the firm's clients and their beneficiaries.

To successfully implement ESG into their investment and ethical objectives, the implementation of the methodology is tailored to different asset classes (e.g. private equity, private debt etc.) and investment types (e.g. direct and secondary) depending on the opportunities for engagement and value creation. At present, Partners Group has an internal, dedicated ESG team (of 6 professionals) that work with external ESG providers. The team is embedded within the wider investment team that comprises over 500 professionals globally.

Partners Group's integration of ESG factors into its investment activities is guided by the following principles:

- ESG factors are part of the investment process and considered when identifying potential investment opportunities and / or potential investment risks.
- Investment returns must be generated in a way that complies with relevant local and international laws, including adherence to international protocols on banned products.
- Partners Group avoids investing in companies whose practices or products cause significant social or environmental harm.



- Partners Group is committed to using its corporate governance influence as a private markets investor to encourage companies and assets in which it has invested to improve their ESG performance.
- Partners Group bases its judgments regarding ESG factors on its own research as well as third-party research, respecting that ESG topics are often diverse and vary over time.
- Partners Group strives to collaborate where reasonably possible with likeminded investors and organisations on responsible investment matters.

Please note, Partners Group do not invest in companies/assets whose main business is the exploration or direct extraction or production of fossil fuel, regardless of their origin or use. They also refrain from investing in companies associated with products such Tobacco, Weapons and Fire Arms, landmines and Cluster Bombs and Pornography. However, the Generations Fund may be exposed to such investments via its liquid holdings.

Partners Group extend exclusion to:

- assets that would not exist if their main product or service did not support coal extraction, transportation, or use for energy generation;
- service providers to the coal industry that generate more than 10% of their revenue from thermal coal and have no plans to reduce this percentage over time;
- service providers for the shale oil and gas industry, such as drilling rig operators, fracking sand suppliers, and oilfield service providers;
- treatment and logistics services for tar sands and heavy oil; and
- deforestation or the burning of vast natural ecosystems for the purpose of land clearance.

Partners Group have not committed to the UK Stewardship Code. This is a voluntary code that Partners Group feel has been designed primarily for institutional investors that hold minority positions in UK public companies. Such investments make up a very small proportion of Partners Group's overall assets under management and therefore whilst they do generally support the objectives that underline the Code, they feel it would be disproportionate to comply with this voluntary Code, particularly in light of the various other ESG standards to which Partners Group, as a global business, commits.

Further information relating to Partners Group's policies can be found at the following website:  
<https://www.partnersgroup.com/en/sustainability/>

## Insight Investments ("Insight")

The Pension Fund's LDI strategy managed by Insight utilises UK government bonds and derivative instruments (such as swaps). Insight's ability to apply an ESG procedure is limited due to the nature of the investment and the counterparties/sellers of these instruments. Insight do, however, adopt a screening framework which incorporates ESG factors, when assessing and selecting the counterparties they use. Poor ESG scoring by one of Insight's counterparties can merit engagement with the company.

Central to Insight's consideration of ESG issues are the below themes:

- Integrated ESG analysis across the investment process, from assets to counterparties.
- Active engagement with all relevant parties to foster collaborative progress on ESG issues.
- Supporting sustainable markets and protecting client interests by working with policy makers and regulators to best serve client interests.



Insight were a founding signatory of the UNPRI in 2006 and climate change is addressed through the application of this. For 2020, they have been awarded a UNPRI rating of A+ across most of the relevant categories including Firm strategy and governance.

As a firm, Insight believe that ESG issues can be important drivers of risk and investment value and have integrated ESG into their entire investment decision making process. Insight's analysts and credit analysts maintain a large focus on ESG factors when undertaking investment research.

Further information on Insight's ESG and stewardship policies can be found on their website (<https://www.insightinvestment.com/uk/responsible-investment/>).

## Future reviews

This report will be reviewed annually, and the ISC will have the opportunity to question the investment managers at the ISC meetings they attend.

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