Citrus Pension Plan

Responsible Investment Policy

August 2023

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INTRODUCTION

The Trustee of the Citrus Pension Plan (the ‘Plan’) is committed to being a responsible investor and integrating environmental, social, and corporate governance (‘ESG’) considerations into investment and asset ownership activities.

As a not-for-profit DB master trust, run by employers for employers, Citrus aims to deliver members’ benefits safely and cost effectively. The Trustee recognises that ESG issues will have an impact on the Plan’s objectives, as these will influence long-term asset returns, investment risk and the Plan’s reputation. Given this, the Trustee acknowledges that it has a responsibility to be an active and engaged owner of the assets held within the Plan. For example, this can be achieved through considered voting of shares and engaging with investee companies as part of the investment process.

This also extends to the Plan’s professional investment managers who are responsible for the day-to-day management of the Plan’s assets. Regular meetings should be held with the Plan’s managers where they are expected to provide a summary of actions that they have taken, or are taking, to reflect ESG factors in investment decisions. The Trustee also relies on the Plan’s investment advisor, Hymans Robertson, to provide advice and guidance around ESG issues on an ongoing basis and to monitor the approach and actions of investment managers from an ESG perspective (alongside regular performance monitoring).

This document sets out the Plan’s policy and beliefs on Responsible Investment and summarises the Trustee’s approach to managing the Plan’s assets in light of ESG issues. It includes the following:

1) Responsible Investment Beliefs
2) Stewardship Policy
3) Exclusions and Disinvestment Policy
4) Climate Change Policy

The beliefs and policies included in this document have been reflected in the Plan’s Statement of Investment Principles (‘SIP’) and seek to highlight the Plan’s ambitions for addressing ESG issues. These also provide a framework for engagement with the Plan’s investment managers.

The Trustee is committed to the ongoing development of its Responsible Investment practices and, as part of that process, this Policy will be reviewed on an ongoing basis.

RESPONSIBLE INVESTMENT BELIEFS

Setting responsible investment beliefs

Investment beliefs reflect the way in which the Plan's objectives are incorporated into its investment arrangements. Having a well-defined set of Responsible Investment beliefs offers several benefits:

1. **Clarity on the role of each asset mandate for the Plan** – this benefits the Trustee, Employers and Plan members. It offers a basis for framing decisions and communication on ESG issues.
2. **Prioritisation** - having identified which investment decisions are most important, advice can be sought and progress made around these key priorities.
3. **Long-term thinking** - having a set of stated beliefs means that the Trustee is better able to avoid being unduly influenced by short-term market noise and in-vogue investment ideas.
4. **Consistency and continuity, both of advice and decision-making** – this allows all decisions to be reached using the same consistent underlying framework.

The Plan's beliefs will be revisited on a regular basis to ensure they remain appropriate. These beliefs will be reflected in the Plan's asset portfolio and wider approach to investment governance.

Responsible Investment beliefs

Overarching ESG beliefs

Belief 1: ESG issues are likely to be one of the biggest drivers of long-term performance. Part of the Trustee's fiduciary duty is to ensure that the Plan is positioned to protect against related risks and seek to capture related opportunities.

Belief 2: Responsible investing is a relevant consideration and, where practical, should be assessed and monitored for all the asset classes the Plan invests in.

Climate and carbon emissions

Belief 3: Companies and other investments which actively participate in and support the climate transition are likely to do better than equivalent investments which do not. Therefore, the Plan should consider investing in ESG-linked investments, including climate-related solutions, with a bias towards generating a positive, measurable environmental and social impact alongside a financial return.

Belief 4: A material proportion of the Plan's asset portfolio should involve exposure to climate transition supporting revenues. This may include investing in companies whose revenues are derived from the following environmental impact themes: alternative energy, energy efficiency, green building, pollution prevention, sustainable water or sustainable agriculture.

Engagement and stewardship

Belief 5: Engagement with managers, and through them with investee companies, is important and can have a material impact on progress towards the Plan's funding and investment objectives. The Trustee should engage proactively with managers to ensure that their ESG approach is effective.

Belief 6: The UN Sustainable Development Goals provide a useful framework for thinking about engagement topics and can be used as the basis of prioritisation for the Plan's engagement activities. Some of the initial areas of focus for the Plan will be around climate action (SDG 13), gender equality (SDG 5) and biodiversity (SDGs 14 and 15).

STEWARDSHIP POLICY: ENGAGEMENT AND VOTING

Stewardship approach

The Trustee views engagement as an important stewardship tool available to investors. This typically involves meetings, calls or email communication between the investor and engagement target in which specific ESG issues are discussed, and clear expectations and objectives are set. Voting and proposing shareholder resolutions are further forms of stewardship available to the Trustee.

The Trustee recognises its position as an asset owner with ultimate responsibility to its members and beneficiaries. It believes that effective stewardship can help protect and enhance the long-term value of its investments to the ultimate benefit of its beneficiaries.

The Plan obtains exposure to equity and credit markets through synthetic mandates which invest in derivatives to provide leveraged exposure to global markets. This currently limits the Plan's potential for engagement as there no direct voting rights associated with synthetic holdings.

The Trustee recognises that stewardship and active ownership principles apply across all the Plan's investments. In selecting investment managers, the managers' policy on and approach to stewardship is an important factor in the process, with expectations tailored according to the different asset classes and the investment style of the manager in question. Effective stewardship is a key component in addressing ESG issues related to the Plan's investments.

The Trustee is a supporter of the UK Stewardship Code and expects, where applicable, its investment managers to adhere to the principles within the UK Stewardship Code. The Trustee expect its investment managers to apply the principles of the Code to all holdings where possible.

Principles and process for engagement

The following principles underpin the Trustee's approach to engagement:

1. Engagement is a positive activity, and the Plan's investment managers are expected to engage with underlying holdings with the aim of adding value and reducing risk.
2. All engagements should have well-defined objectives, and the Plan's managers are expected to report on these along with details of the consequent success or failure of their activities.
3. As a minimum, engagement activity should seek to achieve:
   - Greater disclosure of information on the ESG related risks that could affect the value of an investment; and
   - Transparency of an investments' carbon exposure and how such companies are preparing for the transition to a low carbon economy.
4. The Plan's investment managers should actively participate in collaborative engagements with other investors where this is deemed to be in the best interests of the Plan.
5. The effectiveness of the Plan's engagement activity, and investment managers' policies and procedures should be reviewed by the Trustee at least every three years.

EXCLUSIONS AND DISINVESTMENT POLICY

Exclusions approach

The Trustee's primary objective as a responsible investor is to achieve positive "real world" change as an asset owner. Often, this is best achieved through effective stewardship (see previous section). However, the Trustee's view is that the use of exclusions and disinvestment based on ESG considerations can also play a role in the Plan's investment policy. Exclusion policies can pre-empt the need for divestment and can be effective if applied in a targeted manner.

The Trustee believes that exclusions can be justified on financial grounds, on the basis of potential for significant financial risk, and/or where there is no expectation of a diminution of financial return. The Trustee's view is that exclusions should primarily be placed on assets where there is limited ability for the asset owner/ manager to have any meaningful impact through stewardship (e.g. a company whose only business is in mining thermal coal).

Careful consideration needs to be applied in setting any formal exclusions and there should be a clear rationale for their adoption. Potential exclusion screens might include investment in:

1) any government or company which is currently subject to legal sanctions by the UK;
2) controversial weapons, including weapons of mass destruction, cluster munitions, landmines or chemical and biological weapons;
3) companies which derive significant revenue from fossil fuels, or fossil fuel related activities;
4) companies which are associated with significant deforestation or destruction of biodiversity;
5) companies which violate the UN Global Compact.

The Trustee appreciates that exclusion policies are becoming increasingly common in investment fund design. To that extent, the Plan may already be invested in funds which have asset class exclusions built into their design. In these cases, the Trustee is comfortable the exclusions do not prevent the Trustee in carrying out their fiduciary duty to members.

In order to align current investments with any new exclusion policy substantial engagement with investment managers may be required.

Engagement vs Disinvestment

The Trustee believes that whilst engagement and disinvestment are often positioned as an either/or, they are both necessary elements of an effective approach to stewardship and thus they should not be seen as mutually exclusive. Whilst engagement is the preferred default option of the Trustee, divestment is, at times, a necessary alternative and forms a key part of an escalation strategy when engagement proves to be ineffective.

The Trustee retains responsibility for setting investment strategy and policies, which will continue to have a significant impact on stewardship activity and outcomes. Changes to investment strategy (strategic asset allocation) can, for example, lead to partial or full divestment from entire asset classes or economic sectors.

CLIMATE CHANGE POLICY (AND NET ZERO)

The Trustee considers that climate change represents a material financial risk with the potential to disrupt economic, financial and social systems. As a responsible asset owner, the Trustee recognises the urgent need to address the systemic risk posed by climate change, including the risks it poses to the Plan's investments and its beneficiaries.

The Trustee understands that there are many financial risks arising from climate change, including:

Physical risks	Transition risks	Liability risks
• Direct effects of climate change. • In the short-term, this might include damage to property and other physical assets as well as business disruption due to extreme weather. • In the long-term, this may include rising sea levels, ocean acidification, biodiversity loss and changing rainfall patterns affecting agriculture and water access.	• Risks associated with transition to a low carbon economy. • Economic and societal shifts may materially reduce returns of the Plan's investments. • Can lead to "stranded assets" where a company/sector is unable to extract value from an asset due to restrictions on its activities leading to a collapse in its value.	• Where third parties have suffered damage or losses and seek compensation. • This could include lawsuits filed against companies for historical failure to acknowledge the impact of climate risks to their business. • This may be further exacerbated by the introduction of stronger climate regulation and legislation.

As well as climate change presenting a significant risk to the Plan's investment strategy, the Trustee believes that long-term asset owners such as the Plan can play a significant role in decarbonising modern economies through the capital allocation decisions they make and the stewardship of the companies they finance. The Trustee has therefore decided that climate is an issue that should be explicitly addressed within the Plan's investments.

The Trustee uses a three-dimensional framework to achieve its climate and wider ESG objectives

1. **Climate metrics and monitoring**- including interim targets and long-term objectives
2. **Climate opportunities**- assessing new mandates and existing investments on climate/ESG
3. **Engagement and collaboration**- with a robust ESG manager engagement programme

However, the Trustee also recognises that the potential impact of climate change on the Plan and its investments is unknown given policy uncertainty and the unknown physical feedbacks from environmental systems, particularly over the medium to long term.

Therefore, the Trustee considers climate when setting and monitoring strategy, but also recognises that there is a link between what can be achieved and the wider environment the Plan is exposed to.