London Borough of Hackney Pension Fund

Responsible Investment Policy

Responsible Investment Policy

1. Introduction

The London Borough of Hackney Pension Fund ("the Fund") is a long-term investor aiming to invest in a sustainable manner to ensure pensions can be paid to all Fund members. . The Fund's Committee ("the Committee") has a fiduciary duty to act in the best, long-term, interests of the Fund's employers and scheme members.

Responsible Investment ("RI") is a key part of the Committee's approach to fulfilling this core fiduciary duty. Environmental, social and corporate governance ("ESG") issues can create financially material risks and opportunities for the Fund; in developing an RI policy, the Committee aims to manage these risks and generate sustainable, long term investment returns.

Responsible Investment is therefore a fundamental part of the Fund's overarching investment strategy as set out in its Investment Strategy Statement. The Committee has developed an investment beliefs statement as part of its overarching strategy; the statement includes the following beliefs in relation to ESG and Responsible Investment issues:

- Environmental, social and corporate governance ('ESG') issues can have a material impact on the long-term performance of investments
- The UN Sustainable Development Goals highlight investment risks and potential opportunities as well as areas in which asset owners can have a positive impact
- Engagement with managers, and through them with investee companies, can have a material impact on progress towards the chosen goals as well as on investment performance
- Responsible investing is relevant to the performance of the entire Fund across asset classes

The purpose of the responsible investment ("RI") policy is to set out:

- The role of the Committee in fulfilling its fiduciary duty to act in the interests of the Fund's employers and scheme members;
- The underlying objectives of the RI policy and what the Committee expects to achieve from having this policy in place;
- The actions that the Committee will take to achieve these objectives; and
- The means by which the actions will be assessed in order to judge whether the expected outcomes have or have not been achieved.

Defined below are a series of key words or phrases used throughout this policy

Climate risk is the potential impact on future financial returns that may arise from climate change. Climate risk is typically split between transition risk, i.e. the impacts that may arise from policy change and technological advancement, and physical risk, i.e. from changing weather patterns or the greater frequency/severity of extreme events.

Engagement is the purposeful dialogue by investors with their investee companies with a specific objective in mind, typically in relation to the improvement of companies' business practices, often in relation to the management of ESG factors.

Environmental, Social and Governance (ESG) factors. Companies and assets may be exposed to different risk factors arising from Environmental, Social and Governance issues which could materially impact the returns derived from such assets. The effective identification and management of ESG factors is expected to reduce risk and improve financial outcomes.

- Environmental factors include resource scarcity, waste management, pollution, carbon emissions and energy efficiency;
- Social factors include health & safety, workforce diversity, working conditions and data protection;
- Governance factors include board structure, business ethics, shareholder rights and executive compensation.

Responsible Investment (or stewardship) is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the environment and society.

The Paris Agreement was signed in 2016 by members of the United Nations Framework Convention on Climate Change (UNFCCC), dealing with greenhouse gas emissions mitigation, adaptation, and finance. Its aim is to limit the increase in global average temperature to well below 2 °C above pre-industrial levels; and to pursue efforts to cap the increase at 1.5 °C.

Net Zero is a state of carbon neutrality where carbon (and other greenhouse gases 'GHG') emissions are balanced with their removal from the atmosphere, or by simply eliminating greenhouse gas emissions altogether.

Sustainable Development Goals (SDGs) are a collection of 17 interlinked global goals designed to be a "blueprint to achieve a better and more sustainable future for all". The SDGs were set in 2015 by the UN General Assembly and are intended to be achieved by the year 2030.

2. Governance

2.1 Stakeholders

The following stakeholders are responsible for the development, implementation and oversight of this policy and the actions it requires.

- Pensions Committee (Committee): Accountable for the investment strategy and implementation of the Fund's assets, including the integration of responsible investment considerations. Ultimate owner of this responsible investment policy.
- Responsible Investment Working Group (RIWG): Responsible for developing the responsible investment policy, associated implementation process and monitoring progress against stated responsible investment goals. The RIWG's core membership will include officers and 3 Committee members, although any Committee or Board member may attend meetings.
- Officers: Responsible for advising the Committee and implementing the agreed strategy and policy.
- London CIV (LCIV): LGPS pool which is responsible for the development of mandates, the selection of investment managers to implement mandates and the provision of stewardship services across invested assets to allow the Committee to achieve its objectives.
- Investment Adviser: Appointed by the Committee to provide advice on the development and implementation of all aspects of strategy for the Fund.

2.2 Policy review and progress assessment

The RI policy, and any sub-policies, are reviewed on a periodic basis, and at least annually. The RI objectives set by the Committee are reviewed on a regular basis, as appropriate, and at least annually.

2.3 Education

The RIWG is tasked with developing knowledge and understanding of responsible investment issues on behalf of the Committee.

The Committee receives responsible investment training on at least an annual basis, and the training agenda is set by the RIWG.

3. Responsible Investment Priorities

The Committee has considered several internationally recognised frameworks in forming a basis for developing its RI objectives and policy, including the UN SDGs, UN Principles of Responsible Investment and UK Stewardship Code. The Committee has chosen to use the UN SDGs to identify three8 priority themes, which are detailed in the table below:

- **Climate Action (SDG13)**: The Committee recognises that there is an urgent action to combat climate change and its impacts and that this will be achieved through the progressive reduction in carbon emissions in pursuit of a net zero society. The Committee has an ambition of achieving alignment with a 1.5 degree warming scenario and net zero in its investment portfolio by 2040, and will set progressive targets for change that seek real world emissions reductions, not just reductions in reported emissions.
- **Developing clean energy systems (SDG7; SDG13)**: The Committee recognises that there is a need to decarbonise the production, distribution and storage of energy. The Committee further recognises that progress can come both through technological and behavioural changes. Accordingly, the Committee will seek to allocate capital to potential solutions whilst also focusing on efforts made within investee companies to create change;
- **Investing for the human condition (SDG5; SDG10; SDG13)**: The Committee recognises that climate change will affect people and there is a need to ensure that any transition to a low carbon economy is just. The Committee further recognises that issues such as human rights, diversity and gender equality are all crucial to a smoothly functioning social system. The Committee will monitor exposure to a range of social factors and engage with its investment managers where necessary to ensure that action is being taken

The Committee recognises that these issues provide a focus for monitoring the characteristics of the investment portfolio and ongoing engagement with the investment managers with the expectation that the Committee's investments contribute to or support progress on these issues. The Committee will develop an appropriate monitoring regime which is consistent with these priorities.

4. Considerations for Investment Strategy

Investment strategy refers to the broader strategic framework within which the portfolios are managed (Growth, Income and Protection portfolios).

The Committee formally reviews investment strategy every three years, alongside an actuarial valuation, although aspects of investment strategy are considered at most quarterly Committee meetings.

Climate scenario modelling is conducted as part of each investment strategy review, and the Committee considers funding and investment decisions that arise from this. The Committee will also consider whether any other ESG risk has the potential to materially impact its framing of strategy.

As part of setting investment strategy, the Committee considers whether it is appropriate to implement an exclusion policy for any investments presenting high levels of ESG risk. In doing so, the Committee has regard to the principles set out in the 2014 Law Commission report, which states that:

"Trustees may always take account of financial factors. They may also take account of non-financial factors if two tests are met.

> *1. trustees should have good reason to think that scheme members would share the concern; and*
>
> *2. the decision should not involve a risk of significant financial detriment to the fund."*

The Committee does not at present think it appropriate to define any blanket exclusions and does not currently instruct its managers to exclude particular classes of stock. However, this does not prevent the Committee from pursuing investment strategies that look to reduce exposure to financial ESG risks, such as carbon risk. The Committee's ambition is for the Fund to align with a 1.5 degree warming scenario and it therefore expects its managers to be able to justify any investments in companies who are not adapting their business models for such a scenario.

5. Expectations for strategy implementation

Oversight of the investment strategy is the responsibility of the Committee.

The Committee recognises that the selection of investment managers for assets invested by the Pool is the responsibility of the London CIV. The Committee will select mandates from those offered by the London CIV that meet its needs. Where suitable mandates are not provided, the Committee and Officers will work with the London CIV to set out its requirements.

Both the London CIV and the Fund's investment managers are expected to invest in a manner that is consistent with the Committees' responsible investment objectives. The Committee will communicate its objectives and priority themes to the CIV and its managers and where appropriate, require reporting against these objectives and themes. The London CIV and the Fund's managers must be able to clearly demonstrate how ESG considerations are integrated into their manager selection and investment processes

The Committee will ensure it remains comfortable with its managers' processes to embed responsible investment considerations into the management of the portfolios by regularly reviewing and testing these processes through the reporting cycle, seeking case studies and other evidence to illustrate how issues are considered.

The RIWG will regularly meet with its managers to explore aspects of stewardship and to test both the processes employed and exercise of ownership rights. The RIWG will document these meetings and the expected actions and outcomes that arise.

The Committee expects that the London CIV and its other managers to become and maintain signatory status to the UK Stewardship Code. The Committee further expects the London CIV to hold the managers it works with to be accountable to high stewardship standards, to ensure that underlying managers address climate risks and for the London CIV to be able to actively demonstrate this.

6. Approach to Stewardship

6.1 Voting

The execution of voting rights is delegated to investment managers. The Committee expects as a minimum that:

- All votes should be exercised where feasible;
- Where votes are cast by underlying asset managers selected by the London CIV, the London CIV is required to oversee voting policies and voting activity of underlying asset managers to ensure good practice.
- The managers provides clear monitoring and reporting on voting activity, and that this is discussed in detail on at least an annual basis
- In particular, votes on resolutions related to climate and other environmental actions should be considered carefully based on the specific request being made and the context of the company in question. The Committee expects a high level of support for votes requiring greater disclosure or setting a business transition strategy consistent with the Paris Agreement. Managers will be expected to monitor this and explain any cases where such votes are not supported.

The Committee notes that the London CIV may draw on the services of a third-party specialist stewardship service provider as part of this process.

6.2 Engagement

The Committee expects its managers to engage in active dialogue with underlying investee entities, regardless of asset class. In particular, the Committee expects engagement on climate and other environmental issues to be emphasised.

The Committee expects the London CIV to encourage underlying investment managers and its third-party specialist stewardship service, to promote underlying investee entities’ climate disclosures to be aligned with best practice, e.g. Task Force on Climate-Related Financial Disclosures (“TCFD”), as the Committee believes this will drive improved standards and transparency.

The Fund is also committed to collective engagement through its membership of the Local Authority Pension Fund Forum (LAPFF) and other opportunities that arise from time to time.

Examples of engagement activity are considered on an annual basis and this includes a summary of what has been asked for and what outcomes have been achieved. Climate-related examples are prioritised.

6.3 Advocacy

The Committee aims to have a broader influence beyond engagement with investee companies and hopes to achieve this through its managers, the London CIV and their stewardship delegates.

On a regular basis, the Committee discusses with its managers and the London CIV the issues it would like to influence and monitors feedback on the actions taken in this regard. Where relevant, the Committee may actively lend its support in support of an issue or position being taken.

7. Monitoring

The Committee will develop a series of metrics that are monitored to ensure the level of ESG-related risks and exposures are within the Committee's expectations. These metrics are set out in the Appendix.

As with broader investment exposures, where any exposure, and its associated risk, is deemed to be too high, corrective action will be taken. ESG metrics are expected to be included as part of regular quarterly monitoring by the RIWG.

Whilst the metrics above form the focus of the Committee's monitoring, the Committee expects the managers to oversee and manage all financially material ESG risks, not just those covered specifically by the metrics set out above.

8. Communication

The Committee maintains an Investment Strategy Statement, which is available to view here [insert link]

Since 2021, the Committee has produced an implementation statement annually that summarises voting and engagement activity over the previous Fund-year. This is included as part of the Committee Report & Accounts, which are available to view here [insert link]

On an annual basis from 2022, the Committee will publish a report on its approach to the management of climate risk, in line with TCFD-requirements. The Committee will also publish the annual report required to maintain signatory status for the UK Stewardship Code 2020, that sets out the activities undertaken to ensure stewardship over the previous 12 months. The Committee will also seek to highlight its actions and achievements to members and other stakeholders through its regular communication channels.

This RI policy will be reviewed on at least an annual basis and is made available here [insert link]

The Committee will periodically seek feedback from members on the RI policy and seek to incorporate views, as deemed appropriate by the Committee, as part of ongoing maintenance of the policy.

Appendix 1 - Fund's RI Investment beliefs

Belief: The UN Sustainable Development Goals highlight investment risks and potential opportunities as well as areas in which asset owners can have a positive impact

The Committee believes the UN Sustainable Development Goals highlight a number of key areas where investors have the capacity to act responsibly, and identify systemic changes where there are opportunities for strong investment performance. Where there is no detrimental impact on expected investment performance, the Committee will look to invest in line with the goals outlined below.

Belief: Engagement with managers, and through them with investee companies, can have a material impact on progress towards the chosen goals as well as on investment performance

The Committee recognises that manager engagement with investee companies is a key method of moving towards the goals set out below and that engagement can lead to better returns. The Committee will engage regularly with the Fund's managers, seeking disclosure on their approach to Responsible Investment at least annually, and will ask the managers to align with the Fund's goals.

The Committee also recognises that collaboration with other Funds is likely to improve the chances of achieving meaningful change, and will seek to work with other Funds, and the London CIV, to achieve agreed outcomes.

Responsible investing is relevant to the performance of the entire Fund across asset classes

The Committee believes that new investment opportunities and changes to the existing investment strategy which focus on responsible investing (e.g. low carbon) do not have an adverse financial impact on the ability of the Fund to achieve its long-term goals should be pro-actively sought and considered.