

**London Borough of Hackney**

**Pension Fund**

**Investment  
Engagement  
Policy**



# **HACKNEY PENSION FUND**

## **INVESTMENT ENGAGEMENT**

### **POLICY**

#### **Introduction**

This Engagement Policy outlines Hackney Pension Fund's approach to investment stewardship and sets out how the Fund aims to practise effective stewardship as part of our fiduciary duty to act in the best financial interests of our members. The policy aims to ensure that engagement efforts are targeted, impactful, and aligned with the Fund's goals and beliefs.

Engagement lies at the core of the Fund's beliefs and is a key element of Hackney's responsible investment behaviours. We define engagement as purposeful dialogue by investors with investee companies (or other assets) with a specific objective in mind, typically seeking improvements to companies' business practices, often in relation to the management of Environmental Social and Governance (ESG) factors.

Active stewardship is widely considered one of the most effective strategies for mitigating risks, maximising returns, and positively influencing society and the environment. We tend to favour this approach over divestment, which deprives investors of a voice and the opportunity to promote responsible corporate behaviour.

The Fund looks to adopt best practice in its stewardship and engagement approach and seeks to adhere to the UK's Financial Reporting Council Stewardship Code Principles as one of the best ways to demonstrate it is meeting best practice guidance.

The Fund in the drafting of this engagement policy has taken scheme member views into account following a survey conducted in 2025. This showed over 60% felt the Fund should engage, with a further 25% believing the Fund should engage depending on the situation.

#### **Resourcing Engagement**

Because the Fund's approach to stewardship is grounded in fiduciary duty, we recognise the importance of financial value and prioritisation within the engagement approach. The aim of prioritisation is to deliver value for beneficiaries and also seeks to take consideration of the values and expectations of stakeholders. The Fund pays attention to developing best practices within the broader investment community, including opportunities for collaboration that make engagement more effective and are also resource efficient.

The majority of the Fund's engagement is taken forward by London CIV and its stewardship service provider Hermes EOS, or by the Fund's other investment managers and service providers. We see our main role in terms of engagement as overseeing these service providers (including close involvement directly with London CIV, and the



London CIV's own oversight of Hermes EOS) and holding them to account for the effective delivery of stewardship over time.

Given the collaborative nature of our engagement approach, working alongside our partners, we identify priorities and objectives in an iterative way as part of ongoing dialogue with key partners and other stakeholders. Priorities and objectives are set through parallel discussions within: the Responsible Investment Working Group (RIWG, a sub-group of the Pensions Committee), having received input from Committee members and broader stakeholders including beneficiaries (including a scheme member survey to gain views on the Fund's approach to responsible investing); guidance from industry experts and service providers; meetings with the London CIV and other more informal dialogue with the pool and the Fund's partners within it; and active participation in the Local Authority Pension Fund Forum (LAPFF).

## **Our key areas of focus**

To best channel our stewardship efforts, we believe that we should focus on a selection of key themes. These themes are selected by assessing the financially material risks that they pose, as well as the maturity and development of industry approaches to the issues as this enables us to integrate them properly into our approach.

We recognise the breadth and depth of sustainability-related challenges facing society and the natural environment. Our key themes are diverse in nature, and we will work with our stakeholders on a regular basis in order to review and update the Fund's engagement priorities as necessary. Key areas of focus for engagement include Climate Change, Human Rights (including conflict regions and modern slavery, labour and workplace rights, child labour and supply chain issues), biodiversity and animal welfare and Corporate Governance. These areas of focus have been informed by scheme member engagement through a survey (which identified climate change and human rights as the two topics at the forefront of scheme member views), and also the long-standing focuses of the Pensions Committee. The Committee recognise the importance of having some consistency in its themes for engagement to help form long-term approaches and to help drive change.

## **Factors Influencing Engagement**

In order to ensure the Fund is able to meet its fiduciary obligations, i.e. to pay pensions as they fall due and help ensure the Fund remains affordable and sustainable for employers, the Fund diversifies its investments across a range of asset classes and geographies. The Fund therefore takes a number of factors into account when considering how to focus investment engagement, namely:

- **Materiality** – where issues are of financial materiality to the Fund, i.e. where an investment or group of investments could have a substantial financial impact on the fund;

- Scope for Influence – issues where the Fund can have a substantive influence, recognising that being fully influential may require acting collaboratively with others; and
- Sensitivity and level of interest – issues which have particular meaning or significance for the Fund, its scheme members and its broader stakeholders.

The decision to focus on an issue will usually be based on a combined assessment of each of these factors, with no one of them outweighing the others in terms of importance.

## **Acknowledging global standards**

The Fund aims to maintain its status as signatory to the UK's Stewardship Code and expects our investment managers also to adhere to Code standards – or to equivalent standards elsewhere in the world, this might also include a broader set of standards such as the UN PRI (Principles for Responsible Investment).

The engagement approach outlined in this document sits within the context of other global and local guidance, particularly in relation to the Fund's core themes. We are aiming to report in line with the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD") and encourage our investment managers to do so, as appropriate.

The Fund will continue to monitor the changing environment and assess future potential global standards on a case-by-case basis and in particular those areas where the Fund assesses these to be in the best interests of beneficiaries and in accordance with scheme member and wider stakeholder views.

## **Managing conflicts of interest**

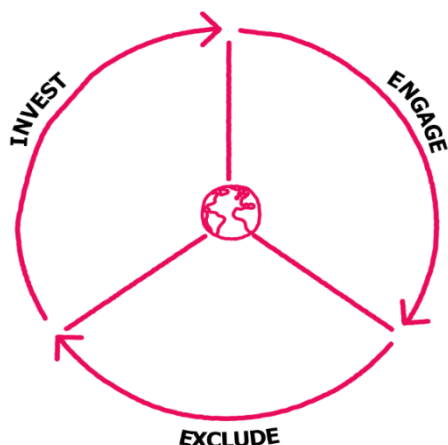
As an arm of a public body, the Fund is bound by standards for proper conduct in public office. This includes expectations to adhere to the Local Authority's Code of Conduct. The Fund also has a separate Conflicts of Interest policy which covers not just investments but wider potential conflicts as it pertains to the Pension Fund.

Conflicts of interest in relation to responsible investment and stewardship could arise when the ability to represent the interests of the Fund as an asset owner is hindered by other interests. These can occur within the Fund or within external service providers. Third party advisers and investment managers may perform other roles from which conflicts may arise. The Fund sets out its approach in its own conflicts of interest policy and expects those involved with the Fund to declare conflicts or potential conflicts of interest as they arise. We also note the significance of the issue of conflicts within the UK Stewardship Code and pay particular attention to the relevant disclosures from our service providers.

The Fund further recognises that on occasions, a proportion of scheme members would like it to take more concerted action on a key issue, including consideration of divestment from individual companies or from particular activities more broadly. However, the Fund has to continue to take decisions which reflect its fiduciary duty to

take a wide range of factors into consideration, in particular to ensure that there is no financial detriment to the Fund as a result of its actions.

## Engagement framework



We believe that there are three main levers to reflect responsible investment aims: Invest, Engage and Exclude.

The Committee agree that the Fund should focus on engagement (also recognised as the most important lever by over 60% of the Fund's scheme membership), as well as working with other investors to influence investments. Exclusion may be considered, but likely only after a considerable period of active engagement, with careful consideration given to whether scheme members would support any such decision, but also with care regarding any relevant financial considerations.

The Fund believes it is important to not simply focus on equity assets for stewardship and engagement but that it should cover all asset classes but recognises it may require different mechanisms for doing so.

## Engagement mechanisms

### Engagement Through Fund Managers

The Fund will work with the London CIV (see below) and investment managers to ensure that they are engaging with investee companies on our behalf. Regular monitoring and assessment of the London CIV and investment manager engagement delivery will be conducted to ensure alignment with the Fund's goals, which have been informed by scheme members and reflect the outcome of the 2025 scheme member survey. The Fund's Responsible Investment Working Group will have a programme of holding managers to account for their stewardship and engagement activities and will report to the Pensions Committee on progress as well as through the Fund's Stewardship Code reporting.

### Engagement Through Specialist Services

The Fund will support specialist engagement services to leverage a collective voice and enhance access to decision-makers. These services will be chosen based on their ability to deliver clear, effective engagement aligned with our objectives.

From the Pool perspective, the London CIV has hired Hermes EOS which is in effect a stewardship collaboration vehicle for its global asset owner client base. Whilst the Fund does not have a direct relationship with Hermes EOS, it will access this information and

### Engagement Through LAPFF

The Fund is a member of LAPFF, through which it joins with other LGPS Funds to magnify its voice and maximise their influence as asset owners. LAPFF focuses on promoting the highest standards of corporate governance, and on the Fund's behalf, LAPFF directly engages with company chairs and boards to support change and development that delivers reforms that advance corporate responsibilities and responsible investment. The Fund reviews and monitors LAPFF's engagement in the following ways:

- The Fund reviews and analyses LAPFF's quarterly engagement reports at the quarterly Pension Committee.
- The Fund monitors LAPFF's engagement workplan and feeds into discussions to support future engagements.
- The Fund will incorporate the views of scheme members in the areas that it encourages LAPFF to engage on.

### **Collaborative Engagement**

As well as the collaboration that in effect arises as part of the use of these specialist services, the Fund will collaborate with other members of London CIV and industry bodies such as Climate Action 100+, Institutional Investors Group on Climate Change (IIGCC), and Pensions and Lifetime Savings Association (PLSA) to engage on specific issues. This collaborative approach can leverage a larger voice and deliver impactful engagement outcomes. The Fund will consider a range of collaborative engagements where these specifically reflect the views of scheme members and wider stakeholders.

### **Direct Engagement**

The Fund can directly engage with investments, choosing the timing, tone, and nature of the engagement to ensure it aligns with our objectives. This approach allows the Fund to maintain control over the engagement process and tailor it to specific needs. Given that it is relatively more resource intensive than all the options discussed above, it is likely to be held in reserve as an alternative rather than deployed as an early option.

### **Public Policy and Best Practice Engagement**

For certain issues, the Fund will engage in public policy advocacy to drive regulatory or policy changes that support responsible investment practices, or work with industry to develop best practices. It may do this individually or as part of its work with industry bodies. This approach can lead to sector-wide or geographic-wide improvements.

### **Our role in stewardship**

We monitor the engagement activities of investment managers and other service providers, and London CIV, through regular reports, including discussions in both the RIWG and Committee meetings. We make clear our expectation that investment managers and the London CIV engage in stewardship activities on our behalf and undertake escalation as appropriate.

## Pooling partnership

The nature of LGPS pooling builds in a significant element of collective action between funds – both through the pool itself and through wider collaborations with partner funds in the pool.

Underpinning this range of partnerships and structural approach is our recognition that investor collective action is often the most effective vehicle for generating real world change. An investor expressing a view to a company or other investment can have influence, but that influence is always likely to be greater where the views are shared by others and amplified through collective vehicles.

Thus we, through our participation in the London CIV, work closely with the underlying LGPS partner funds in London to enhance the level of engagement both with external managers and the underlying companies in which it invests.

We expect our investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

The Fund will engage with both London CIV and its pooling partners to highlight key areas of interest and issues which reflect the Fund's scheme membership feedback from the survey conducted in 2025. As LGPS pooling progresses with all assets likely to transfer to the pool over a period of time, engagement with the Fund's pool and underlying partner funds to drive stewardship and engagement will become ever more important.

## Escalation

Where initial efforts at engagement are ineffective (over an appropriate time period), or where the urgency of a situation requires greater effort from the start, service providers need to be ready to escalate their actions to deliver change. Our role is largely to oversee, assess and challenge the effectiveness of service provider actions in this regard.

We recognise there may be instances where engagement must be escalated. This is likely to follow a period of active dialogue that has not been successful. We expect investment managers and the London CIV to be ready to apply a range of engagement tools to escalate dialogue, including voting against company management, proposing shareholder resolutions, attendance at AGMs, public statements, and litigation. Different such tools will be appropriate in different circumstances. With the Fund's assets likely to fully transition to London CIV over time, the focus for any escalation will centre on London CIV. Points of escalation will include where we have clarity over scheme member views on key issues and these do not conflict with fiduciary duty, although recognising we remain a single voice within the pool, we will also seek to work with other funds in the pool to escalate issues with the pool.

Divestment from unresponsive issuers is the final point of escalation and investment managers which have scope to do so within their mandates are expected by us to use discretion as to whether this is an appropriate action.

## Exclusions and Divestment

The Fund defines exclusion as being an active decision to not include in the Fund's investment opportunity set a specific company, country, fund or individual assets. Divestment would mean the Fund takes an active decision to remove an investment from the portfolio at a point in time, however this may not always be feasible in the case of private markets. This may or may not lead to this being a permanent exclusion as it will depend on individual circumstances. However, the Fund will always need to keep in mind its overarching fiduciary responsibility.

The Committee are also aware that once a decision has been taken to divest from a company or investment the Fund loses its voice in terms of being able to have effective dialogue and engagement to drive change.

Exclusions will be considered as part of the engagement framework, particularly when engagement has failed to make progress. Factors driving exclusions include poor environmental, social, and governance practices. However, the Fund's ability to make specific exclusions is limited by the requirement to pool all of its assets through an LGPS Investment Pool (in the case of Hackney, London CIV) within pooled funds making it almost impossible to take unilateral action.

The Fund will have regard to scheme member views on exclusions and divestment but will follow a process to assess the arguments for such calls to exclude, having sought to engage and escalate issues using the engagement mechanisms noted earlier. The Fund has to focus ultimately on its prime objective to secure the long-term payment of pensions and has to be mindful of a range of different interest groups trying to influence Fund decisions which could be to the long-term financial detriment of the Fund, which could impact its ability to perform its fiduciary duties.

## Voting

We are committed to exercising actively and intelligently the ownership rights tied to our investments. This reflects our belief that responsible asset owners should oversee the companies they invest in and participate actively in their governance. It recognises that these companies' actions impact not only their shareholders but also their employees, customers, other stakeholders, and society as a whole.

The execution of voting rights is delegated to investment managers and, in particular, the London CIV (who have appointed a third-party external voting and engagement provider) where applicable. The Fund recognises that being part of larger pooled fund vehicles means its ability to influence voting and engagement directly with underlying companies is more restricted than it would be under segregated mandates held directly by the Fund. It is acknowledged that current and future regulations are likely to mean the Fund investing further into pooled funds provided by London CIV and therefore its voting aspirations need to be directed to the LGPS pool and also where practical to collaborate closely with other LGPS funds in the pool to help set the voting and engagement agenda.



The Fund expects as a minimum that:

- All votes should be exercised where feasible
- The Fund will convey the views of scheme members to the London CIV and where appropriate expect these to be taken into account within the voting policy of the pool and in particular where these accord with wider scheme membership across the London Boroughs
- 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
- Investment managers provide 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 Fund expects a high level of support for votes requiring greater disclosure or setting a business transition strategy consistent with the Paris Agreement. Managers are expected to monitor this closely and explain any cases where such votes are not supported.

Voting for investments within London CIV will be delegated to Hermes EOS and monitored on a quarterly basis. The London CIV will arrange for Hermes EOS to vote in accordance with voting alerts issued by the LAPFF as far as is practically possible for them to do so and will provide evidence where they have not voted in accordance with the LAPFF directions.

## **Monitoring and Reporting**

The Fund will regularly monitor and assess the effectiveness of its engagement efforts and those of its service providers, adjusting strategies as needed. Reports on engagement activities and outcomes will be provided to the Pensions Committee quarterly or annually as appropriate, ensuring transparency and accountability.

The Fund will report on its stewardship and engagement efforts in detail through its Stewardship Report which will be submitted to the Financial Reporting Council to maintain its signatory status. This will be published on the Fund's website to ensure scheme members are kept informed of the Fund's activities and outcomes from its stewardship and engagement activities. In addition, the Fund will look to conduct a scheme member survey to capture views to feed into the Fund's engagement activity as a minimum on a three-yearly basis.

This engagement policy will be reviewed as a minimum on a three-yearly basis.

**Reviewed and approved by Pensions Committee: 11 June 2025**

## Appendix: Understanding exclusions and divestments, and their costs

### Definitions

Exclusions – usually understood as a policy approach that an investor applies across its investment portfolios meaning that particular companies may not be included in those portfolios. This policy might apply to a business sector – such as tobacco firms or manufacturers of cluster munitions – or to companies based in or active in a particular country, such as Russia.

Divestments – usually understood to mean identifying individual companies within a portfolio that the investor believes need to be avoided and so removed from the investment portfolio. This may be based on violations of particular standards, such as those in the UN Global Compact, which includes elements such as avoiding child labour, and bribery and corruption.

Where these approaches are in line with industry-wide approaches (currently restricted to the avoidance of investments in Russia after sanctions and not investing in companies producing weapons contrary to international treaties, particularly anti-personnel landmines and cluster munitions) exclusions are built into standard investment funds and into the indices tracked by passive investors. But where exclusions and divestment approaches go beyond this there will be a cost, arising in a range of forms. The differing elements of those costs may be broken down as follows:

Form of cost	Exclusions	Divestments
Transaction costs	When exclusions initially established, removing relevant holdings	As and when each divestment decision is taken and implemented
Monitoring costs	Service provider delivering list of issuers in breach of relevant standard(s)	Service provider delivering list of issuers in breach of relevant standard(s)
Additional fund management costs	Approach may require segregated account, or being in a smaller pool, reducing economies of scale in costs	Approach may require segregated account, or being in a smaller pool, reducing economies of scale in costs
Custody costs	If segregated account or smaller pool, costs will be incrementally higher	If segregated account or smaller pool, costs will be incrementally higher
Index provider costs	Additional costs for incremental complexity	Additional costs for incremental complexity

