London Borough of Hillingdon Responsible Investment Policy 2023

(Updated March 2023)

HILLINGDON
LONDON

www.hillingdon.gov.uk

INTRODUCTION

The London Borough of Hillingdon Pension Fund (the Fund) is committed to being a long-term steward of the assets in which it invests to protect and enhance the value of the Fund over the long term.

The Fund's primary investment objective is to ensure that over the long term the Fund will have sufficient assets to meet all pension liabilities as they fall due. In order to meet this overriding objective the Fund will act in the best financial interests of its members. Instead of solely pursuing the highest possible investment return, it will take into account all financial risks within its investment strategy, including Environmental, Social and Corporate Governance (ESG) and responsible investment risks and considerations.

The Fund's secondary investment objective is to ensure as far as possible that levels of employer contributions will be stabilised and maintained at reasonable levels and not impacted as a consequence of poor investment performance.

As part of the Committee's fiduciary duty, which includes a comprehensive approach to risk management, it has been recognised that ESG factors, including, but not limited to, climate change, can be financially material. As such, the Committee recognises that there is a need for the Fund to be a long-term, responsible investor in order to achieve sustainable returns.

The Fund believes that ESG considerations should be integrated into all investment decision making as it helps reduce risk and improve performance to the pension fund and aligns with the fiduciary responsibility of the Fund. The Pensions Board has an oversight role to assist the London Borough of Hillingdon Council (the Council), in its capacity as administering authority for the Fund, in ensuring compliance with regulations and policies that apply to the Fund. The Fund is a separate entity to the Council, and the Committee has delegated authority over the Fund.

The Committee defines Responsible Investment ("RI") in line with the UN-backed Principle for Responsible Investing ("PRI"), which states that RI is an approach to investing that aims to incorporate ESG factors into investment decisions, to better manage risk and generate sustainable, long term returns.

Development of policy

This Responsible Investment (RI) policy was initially developed through a working group consisting of three members of the Pensions Committee with support from officers who met a number of times to outline and develop the policy. Training on Responsible Investment and ESG has been provided for all Pensions Committee and Pension Board members. The policy has subsequently been reviewed and updated in order to ensure alignment to the UK Stewardship Code 2020.

The Fund has considered guidance and information from the Ministry of Housing, Communities and Local Government (MHCLG), the Local Government Association (LGA), Scheme Advisory Board (SAB), Pensions and Lifetime Savings Association

(PLSA), the Law Commission in establishing this policy and the UK Stewardship Code.

An initial draft of this policy was reviewed by the Pensions Board prior to its approval by the Pensions Committee on 29 January 2019. The policy was subsequently reviewed and updated in May 2021 and March 2023.

Compatibility with other policies

This Responsible Investment policy is aligned with the Fund's Investment Strategy Statement where a brief overview on ESG and voting is included. In addition the policy is aligned with the Fund's Funding Strategy Statement with consistency of objectives and return expectations to support the funding level.

The Fund fully supports the principles of the UK Stewardship Code and is a signatory to the 2020 UK Stewardship Code and aims to maintain its signatory status and remain in line with future recommendations and principles of the Code.

A copy of the Fund's compliance with the Stewardship Code and copies of the Fund policies can be found on the website:
Pension fund documents - Hillingdon Council

Policy Scope

This policy is applicable to all investment activities of the Hillingdon Pension Fund.

Risks

There are a number of risks associated with this RI policy, including implementation of this strategy by external fund managers on segregated mandates, integration of the policy into pooled funds where other investors may have conflicting policies and integration with RI policies of Pooled assets through the London Collective Investment Vehicle (LCIV). The Fund is reliant on third parties to comply with its policies and for the LCIV to provide sub funds consistent with this policy. Risks will be mitigated through monitoring of managers and the LCIV, and reporting of ESG activity.

Compliance

Compliance of the Fund's activity to this policy will be reported annually in the Pension Fund Annual report and through UK Stewardship activities.

Responsibilities and Governance

The London Borough of Hillingdon Pensions Committee has a fiduciary responsibility for the determination and oversight of investment policies and the conduct of those policies. The Committee works closely with officers, external advisers and the Pensions Board in meeting its obligations in this respect.

The Committee meets quarterly and regularly reviews asset allocations and investment policies with officers and external advisers. Periodically, investment goals and strategy are considered and revised as appropriate.

The Local Pensions Board has an oversight role to assist the administering authority in securing compliance with regulations and policies that apply to the Fund. The

Pensions Board meets quarterly to review the Pensions Committee reports that will include reports relating to compliance with this Responsible Investment Policy.

Officers and external advisers maintain a rolling programme of review and due diligence on all appointed fund managers and report the results of their work to the Committee.

In considering the performance of investments and possible changes/improvements which could be made, the Committee always takes account of initial and recurring fund costs and fees. ESG considerations and financial risk are taken into account in all investment decisions.

The Fund pursues a policy of transparency and accountability to its stakeholders for the effective management of the Fund and its investment portfolio.

DEFINITIONS

Responsible Investment (RI)

The term Responsible Investment means the integration of Environmental, Social and corporate Governance (ESG) considerations into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance.

Environmental

Environmental considerations could include among other factors, energy usage, waste disposal, raw materials sourcing, carbon emissions, water usage and recycling processes.

Social

Social considerations could include among other factors, diversity, treatment of minorities, opportunities for women, employee rights, charitable activities, community work, use of agency workers and social infrastructure.

Governance

Governance considerations could include among other factors, composition of boards, external trustees, available share classes, interaction with shareholders, remuneration and voters’ rights.

INVESTMENT OBJECTIVES, ESG BELIEFS & APPROACH

Investment Objectives

The Fund's primary objective is to ensure that, over the long term, the Fund will have sufficient assets to meet all pension liabilities as they fall due. To achieve this, the Fund will look to maximise the return on its investments while managing risk within acceptable levels.

Investment risks should be considered in the context of reasonable expectations of investment reward. Every effort must be made to ensure that risk and reward are considered jointly and risks are sufficiently rewarded.

The Fund will ensure adequate liquidity is available within the portfolio in order to meet its obligations as and when they fall due.

The Fund will ensure as far as possible that levels of employer contributions will be stabilised and maintained at reasonable levels and not impacted as a consequence of poor investment performance.

Investments will contribute as part of the Funding Strategy for the Fund to be fully funded over the long term.

The Fund will take proper advice in all investment decisions.

ESG Beliefs

The Committee has formulated a set of ESG beliefs to help underpin overall investment decision making. These are revised on a regular basis to ensure remain appropriate. The Committee's ESG beliefs have been summarised below.

Risk Management

1. ESG factors (including Climate Change) are important for risk management (including reputational risk) and can be financially material. Managing these risks forms part of the fiduciary duty of the Committee.
2. The Committee believes that ESG integration, and managing ESG factors such as climate change risks, leads to better risk-adjusted outcomes and that ESG factors should be considered in the investment strategy, where there is clear financial rationale for doing so.
3. The Committee is responsible for the Fund's ESG beliefs and Responsible Investment Policy but will be cognisant of the Council's wider policies and values.

Approach/Framework

4. The Committee expects investment managers to integrate ESG considerations into their investment process and in their stewardship activities and seeks to understand how they do so. When considering new investment allocations, the Committee will look favourably on investment managers who are able to demonstrate a plan to transition to net zero.
5. The Committee believes that certain investment opportunities that provide a positive ESG impact, such as funds that support the climate transition, will perform strongly as countries transition onto more sustainable development paths. Where possible the Committee will consider allocating to these opportunities where there is clear financial rationale for doing so.

Voting & Engagement

6. ESG factors are relevant to all asset classes, whether liquid or illiquid investments, and managers have the responsibility to engage with companies on ESG factors.
7. The Committee wants to understand the impact and effectiveness of voting & engagement activity within their investment mandates. The

Committee will agree a set of stewardship priorities with the Fund's investment managers, and review these on an annual basis.

8. The Committee believes that engaging with managers is more effective to initiate change than divesting and so will seek to communicate key ESG actions to the managers in the first instance. Divestment will be considered on a pragmatic basis in the event that the engagement with the investment manager has not produced positive results.

Reporting & Monitoring

9. ESG factors are dynamic and continually evolving, therefore the Committee will receive training as required to develop their knowledge.
10. The Committee will seek to monitor key ESG metrics, such as greenhouse gas emissions, within the investment portfolio to understand the impact of their investments. The Committee will take a pragmatic view and look to evolve their approach over time.
11. The Committee will set pragmatic ESG targets based on their views, data availability, and how key ESG metrics evolve over time.

Collaboration

12. The Fund's investment managers should be actively engaging and collaborating with other market participants to raise broader ESG investment standards and facilitate best practices as well as sign up and comply with common frameworks.
13. The Fund should look to maintain current standards and seek to sign up to further recognised ESG framework/s or initiatives to collaborate with other investors on key issues as appropriate.

ESG Approach

The Fund believes in a policy of long-term investment in order to achieve sustainable returns from well governed and sustainable assets. Investment in companies that are managed better and that work within strong Environmental, Social and Governance aware frameworks and can provide investors with risk-aware, long term sustainable returns.

The Fund believes that the companies that manage assets on behalf of the pension fund should at the least be signatories to the UK Stewardship Code and Principles for Responsible Investment (PRI). Existing managers outside of these frameworks should have a valid reason not to sign up, for example are signed up to other relevant bodies for their industry or specific asset class, but will encourage them to do so. New investment will not be made into managers who are not signatories to the UK Stewardship Code and PRI, or other similar regional initiatives, with clear rationale for doing so if not, which the Committee (with advice from its advisors) will assess as part of new manager selections.

The Fund favours a policy of engagement with companies as opposed to widespread policies of exclusion of companies from specific sectors. However, divestment is a tool available to the Fund and its investment managers to divest from companies for any reason including ESG reasons.

The Fund will give consideration to UK foreign policy or UK defence policy when making investment decisions.

The Fund believes that Climate Change is a financial risk to the Pension Fund and manages this risk through the Fund's Risk Register. Climate risk is evident in all sectors and should be considered in all investments.

The Fund expects investment managers to consider the usage of resources of companies and the implications of targets for reduced carbon emissions to support the achievement of the Paris agreement principles.

The Fund believes ESG risks should be approached holistically rather than on specific issues as factors are continually evolving, this enables the Fund to be reactive to the underlying company ESG issues and work with companies to make improvements.

The Fund believes sustainable investments can be achieved with robust and effective dialogue and engagement with fund managers and corporate management teams.

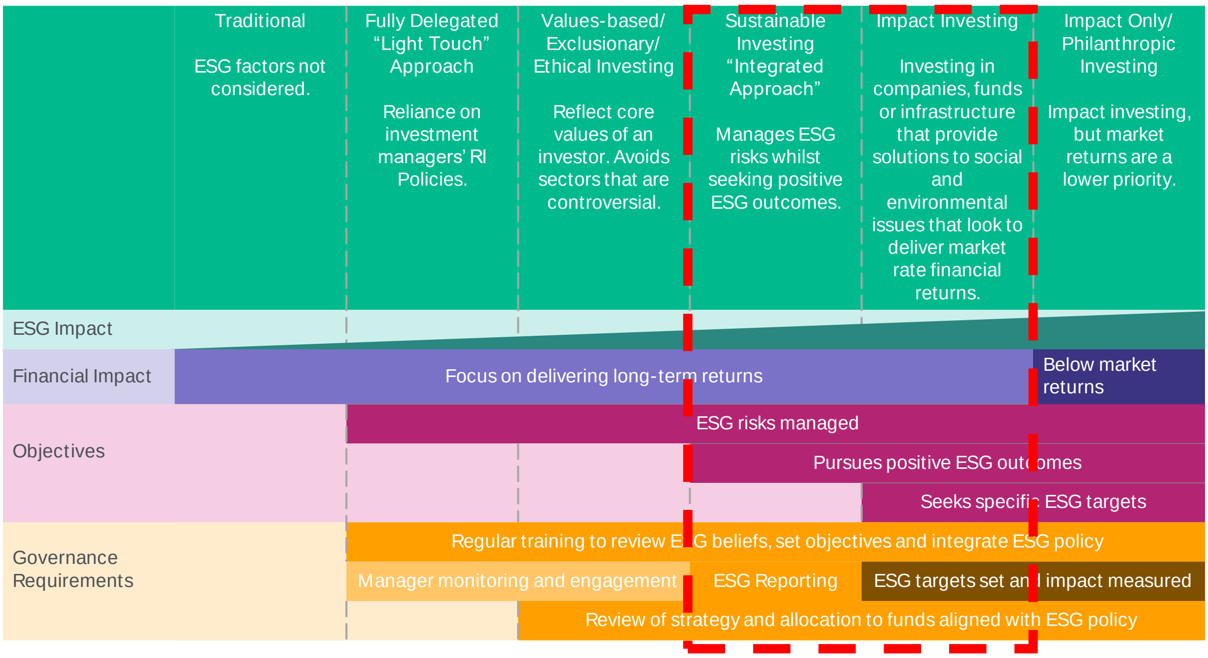
Sustainable investment policies should provide:

- Maintainable, competitive and risk adjusted returns
- Avoidance of harm and mitigation of ESG risks
- Demonstrable benefits to all stakeholders

Effective ESG integration combined with proactive engagement should maximise the adoption of these policies and structures within our portfolio to ensure companies in which the Fund ultimately invests have robust board structures, remuneration and sustainability policies, risk management and debtholder rights.

The Fund will consider the fullest range possible of asset classes when determining its asset allocation. No asset classes are excluded.

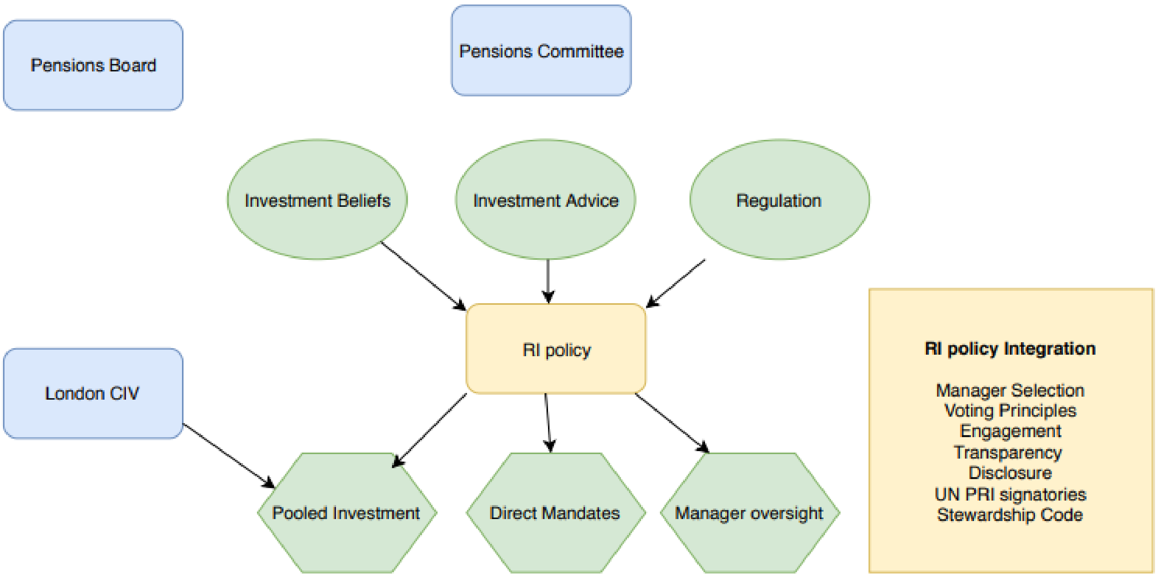
As per the spectrum of ESG approaches presented in the chart below, the Committee wish to pursue a "sustainable" investment approach for the Fund that integrates ESG risk analysis into investment decision-making, whilst pursuing certain "impact" opportunities that generate competitive financial returns whilst also providing positive and measurable environmental or societal impact. The Committee will seek clear financial rationale in any investment decision, and also consider in balance all financial and non-financial considerations. The Committee's position is indicated on the spectrum chart below.



RESPONSIBLE INVESTMENT FRAMEWORK

This RI framework provides the investment beliefs and objectives as the starting point to deliver RI and stewardship for the Fund. Compliance to the Stewardship Code is reported as a separate document on the website.

In making investment decisions, the Fund seeks and receives proper advice from specialist investment advisers. The Fund requires its external investment managers, including the London CIV to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long term performance of the Fund such as, but not limited to, corporate governance, social and environmental factors.



The Fund regularly appraises the ESG credentials and performance of LCIV and fund managers in order to ensure that its ESG principles are properly reflected within the investment portfolio.

The Fund expects its Fund managers to integrate material ESG factors within its investment analysis and decision making.

RESPONSIBLE INVESTMENT IMPLIMENTATION

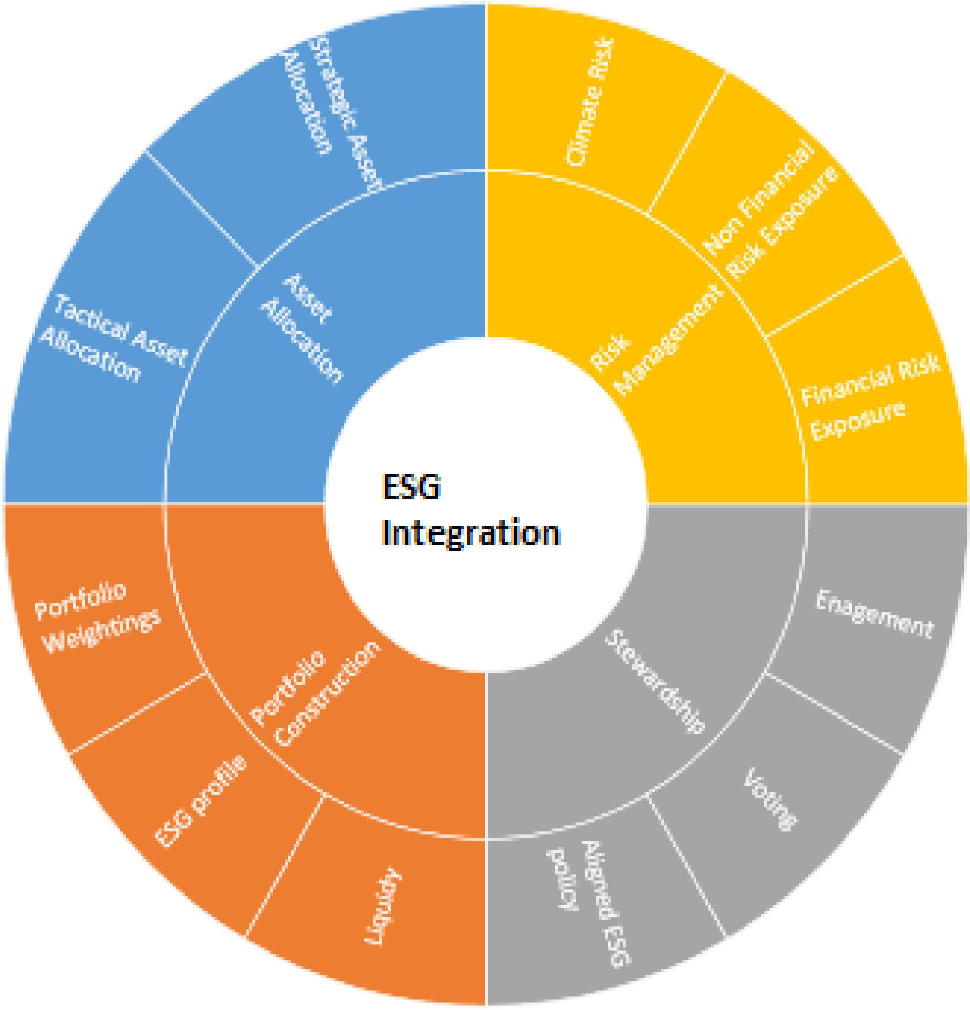
Pension Committee and Pension Board members have received and will continue to receive training and education in ESG matters including climate, governance and other risks, in order to keep up to date on the latest sustainable investment regulations and opportunities. Training will be recorded in a training log and reviewed under regular training needs analysis assessments. Key ESG issues will be considered and included on the Fund risk register, where material.

ESG will be considered in all investment decisions, whether investing through direct segregated mandates or into pooled funds and will incorporate ESG criteria as part of new mandate selection exercises.

The Fund will ensure manager ESG integration policies are in line with fund expectations and beliefs and managers will report ESG factor management to the Fund regularly. Delegation of day-to-day ESG integration of investments to asset managers who are expected to have closer knowledge of companies under investment and board activity. However, the Committee, with the support from its investment advisors, will undertake annual reviews of the investment managers' approach to integrating ESG factors and engage with them where there is misalignment with the Committee's ESG beliefs and look to remedy any issues where possible. The Fund will also seek to understand each manager's approach to voting and engagement and monitor this on an ongoing basis to seek the effectiveness of these activities. The Fund will challenge and require assurance on decisions and investments made by managers where fund stakeholders may have ESG concerns, to fully understand the risk profile of investment.

The Fund RI policy and the Fund's compliance with the Stewardship code will be formally reviewed and updated annually. The Committee's ESG beliefs will be formerly reviewed biennially or more frequently if required, in order to ensure alignment with the policy.

The Committee will monitor the Fund's assets against this Policy on an ongoing basis, with the assistance of its investment advisor. The Committee views the development of the Policy as an ongoing process as approaches to integrating ESG factors continue to evolve over time. When reviewing the Policy, the Committee will take account of any significant developments in these areas to ensure they are taking a best practice approach.



Pooling

The Fund is committed to complying with the prevailing regulatory framework and government guidance in adherence of pooling requirements. The Fund has committed to pool its assets through the LCIV.

The Fund will continue to monitor the arrangements put in place by the pool in ensuring thorough due diligence has been carried out by the LCIV including manager RI and ESG policies in manager selection.

The Fund will ensure there is a value for money case and pooled funds meet the investment strategy risk and reward objectives.

The Fund will consider making further allocations of investments within the LCIV pool as and when realisations of the existing portfolio occur either by virtue of investment decisions made or by the maturity or return of existing investments.

The Fund is maintaining a regular dialogue with senior management of LCIV in order to ensure that its Investment beliefs and policies are taken into account and as much as possible accommodated by LCIV and its fund managers.

Investment into pooled funds does not remove or reduce the fiduciary responsibilities of the Fund and the Committee and officers will engage closely with LCIV and will seek its full co-operation in order to properly acquit these responsibilities including implementation of ESG policies and stewardship of assets.

ENAGEMENT AND ACTIVE OWNERSHIP

The Fund through its participation in the LCIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which it invests.

The Fund's investments through the LCIV are covered by the voting policy advising managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum (LAPFF) as far as practically possible. The London CIV will hold managers to account where they have not voted in accordance with these directions.

The Fund's approach to engagement recognises the importance of working in partnership to magnify the voice and maximise the influence of investors as owners. The Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders more broadly. The Fund appreciates that to gain the attention of companies in addressing governance concerns; it needs to join with other investors sharing similar concerns.

To ensure effective and consistent use of the voting rights, investment managers are tasked with exercising the voting rights accruing to the Fund. If important issues impacting local residents do emanate from actions of invested companies, the Pensions Committee will contact investment managers in charge of assets of such a company to make their opinion known and ask for such to be presented at meetings with the company or reflected in their voting pattern.