London Borough of Hillingdon Pension Fund

UK Stewardship Code 2020 (Activity & Outcomes report for 2022/2023)

STEWARDSHIP CODE

HILLINGDON
LONDON

www.hillingdon.gov.uk

Contents

Foreword from the Chairman of the Committee

Our new Pension Committee has continued the direction of the past Committee in our commitment to the standards of the UK Stewardship Code and as such the Hillingdon Pension Fund wishes to maintain its signatory status.

In this last year Hillingdon Pension Fund has strengthened the ESG beliefs within our Responsible Investment policy and incorporated this as part of the creation of our revised Investment Strategy due later this year.

The Fund has begun preparations for our first TCFD reporting, pending final guidance and regulation to be finalised for LGPS Funds, including monitoring and reporting of relevant climate metrics, to gain an understanding of the environmental impact of our investments. This has enabled greater engagement with our investment managers to ensure investments reflect the transition to climate sustainability.

Hillingdon Pension Fund has recently joined the Local Authority Pension Fund Forum (LAPFF) to increase our ongoing understanding of ESG matters and equip the Fund to develop further its meaningful engagement with its investment managers. This is in addition to our continued commitment to meaningfully collaborate with other Local Government Pension Funds through pooling to raise standards and efficiencies to the benefit of our beneficiaries.

The UK Stewardship Code has become intertwined with our operational culture and remains an underlying pillar in our drive to maintain the highest standards of corporate governance and shapes our strategies to develop the Hillingdon Pension Fund further over time.

Cllr S Mathers
Chairman of the London Borough of Hillingdon Pension Fund

BACKGROUND AND INTRODUCTION: THE UK STEWARDSHIP CODE 2020

The Financial Reporting Council

The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting high quality corporate governance and reporting. The FRC promotes high standards of corporate governance and stewardship through the UK Corporate Governance Code and UK Stewardship Code.

The UK Stewardship Code

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 economy, the environment and society (FRC).

The FRC published the first UK Stewardship Code (the Code) in 2010 with an aim to enhance the long-term returns to shareholders via improvements in the quality and quantity of engagement between investors and companies. The Code defined stewardship as the promotion of long-term success of companies in such a way that the ultimate providers of capital also prosper. The Code was revised in 2012 with signatories classified as Tier 1 or Tier 2. The London Borough of Hillingdon Pension Fund was a Tier 2 signatory to the 2012 Code and have continued to support the Principles of the UK Stewardship Code since.

The UK Stewardship Code 2020

In January 2020, the FRC released a revised UK Stewardship Code, updated from the 2012 iteration, which is broader in scope. The London Borough of Hillingdon Pension Fund submitted its first submission report under the revised Code in April 2022 and was successful in meeting the requirements.

The revised 2020 code shifts the emphasis from stewardship policies and procedures to an increased focus on activities and outcomes. It also requires the consideration of systemic issues such as climate change, and the consideration of stewardship activities across broader asset classes, and not only UK listed equities. The Code is based on the belief that asset owners cannot delegate their responsibility and are accountable for effective stewardship. The increased stewardship onus on asset owners is also in line with the spirit of the latest Department of Work & Pensions (DWP) consultation in October 2021 on enhancing stewardship activities. Stewardship activities include investment decision-making, monitoring assets and service providers, engaging with issuers, and holding them to account on material issues, collaborating with others, and exercising rights and responsibilities. Signatories to the updated code are expected to use the resources, rights and influence available to them to exercise stewardship.

A copy of the Code can be seen at: https://www.frc.org.uk/getattachment/5aae591d-d9d3-4cf4-814a-d14e156a1d87/Stewardship-Code_Dec-19-Final-Corrected.pdf.

Principles for Asset Owners and Asset Managers

The Code requires asset owners and asset managers to comply with 12 principles, disclose on their actions and outcomes against these each year, and requires up to date evidence of activity in relation to these. This reflects the FRC's intention that the Code will be a basis for differentiating true stewardship best practice. The Code's 12 principles are stated below:

Category	Principle
Purpose and Governance	1. Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.
	2. Signatories' governance, resources, and incentives support stewardship.
	3. Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.
	4. Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.
	5. Signatories review their policies, assure their processes, and assess the effectiveness of their activities.
Investment Approach	6. Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.
	7. Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.
	8. Signatories monitor and hold to account managers and/or service providers.
Engagement	9. Signatories engage with issuers to maintain or enhance the value of assets.
	10. Signatories, where necessary, participate in collaborative engagement to influence issuers.
	11. Signatories, where necessary, escalate stewardship activities to influence issuers.
Exercising rights & responsibilities	12. Signatories actively exercise their rights and responsibilities.

In this report, we set out The London Borough of Hillingdon Pension Fund's (the Fund's) alignment to the Code and how the Fund has applied the twelve principles applicable to asset owners, covering the period since the Fund's last submission.

PURPOSE AND GOVERNANCE

PRINCIPLE 1 - PURPOSE, STRATEGY, & CULTURE

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Context

Purpose and business model

The London Borough of Hillingdon Council (the Council) is the Administrating Authority for the London Borough of Hillingdon Pension Fund and administers the Local Government Pension Scheme (LGPS) on behalf of participating employers. The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the UK. The authority to administer the Fund on behalf of the Council is delegated to the Council's Local Pensions Board and Pensions Committee (the Committee).

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 and act in the best financial interests of its members. 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. In so doing, the Committee will take into account all financial risks, including Environmental, Social and Governance (ESG) considerations, into account. The 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, the London Collective Investment Vehicle (LCIV), and the Local Pensions Board in meeting its obligations in this respect. 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 Fund is a separate entity to the Council, and the Committee has sole authority over the Fund.

The Fund's primary purpose is to pay its members pensions as they fall due, with the primary objective to have sufficient assets over the long-term to meet all the pension liabilities, with consideration of returns, risk, liquidity, and ESG factors when making all investment and asset allocation decisions. It serves c. 29,500 members and has investment assets of around £1.2 billion. The conditions of the LGPS Regulations set out the benefits payable to members of the Fund. The benefits are guaranteed for those members and are therefore not reliant on investment performance or employer contributions, although investment returns will help pay benefits, there is no guarantee. The regulations that govern the benefits and investments are available at:

[LGPS Regulations and Guidance (lgpsregs.org)]

Culture and values

The Fund puts the interests of its members first and at the heart of everything it does. As a responsible investor the Fund aims to have a positive impact on Environmental, Social and Governance issues. To ensure the Fund's financial stability, it maintains a solid and prudent approach to financial management that has delivered its success to date and which is vital going forward. The Fund will demonstrate good governance by being transparent and at the forefront of good practice within the LGPS.

The Committee believes that:

- ESG considerations should be integrated into all investment decision making and that effective ESG integration combined with proactive engagement should maximise the Fund's ability to achieve the targeted risk-adjusted returns, the mitigation of ESG risks, and demonstrate benefits to all stakeholders, and aligns with the fiduciary responsibility of the Fund. The Committee takes their responsibility in this regard seriously and considers all ESG issues, including climate change in all investment decisions. A policy of long-term investment is essential to achieve sustainable returns from well governed and sustainable assets.
- Investment in companies that are managed better and that work within strong ESG aware frameworks can provide investors with risk-aware, long-term sustainable returns.
- 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.
- Sustainable investments can be achieved with robust and effective dialogue and engagement with investment managers and corporate management teams.

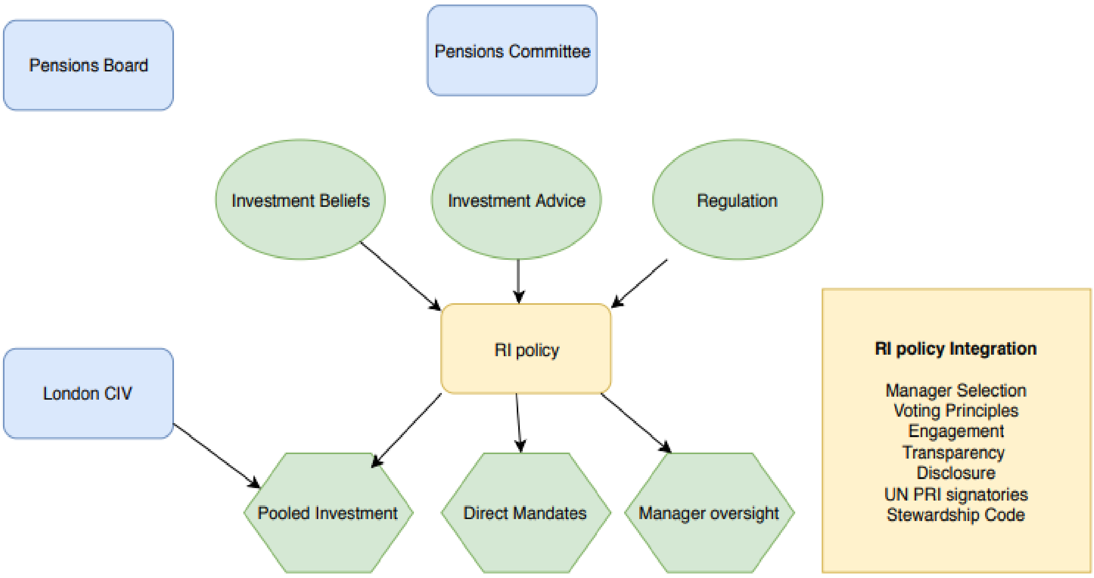
Further, the Committee pursues a policy of transparency and accountability to its stakeholders for the effective management of the Fund and its investment portfolio.

Policies & Approach

- Responsible Investment (RI) Policy, ESG approach & framework

The Fund's approach to responsible investment including stewardship is summarised in the RI Policy. The RI Policy was initially developed through a working group consisting of three members of the Committee with support from officers, who met a number of times to outline and develop the Policy, and the Committee's investment advisor, Isio. As part of this, training on responsible investment and ESG was provided for all Committee and Local Pension Board members.

The Fund considered guidance and information from the Department for Levelling Up, Housing and Communities (DLUHC) (previously 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, and the UK Stewardship Code in establishing this Policy. This thorough approach to developing the Fund's RI Policy was necessary to ensure that it accurately reflects the views of the variety of stakeholders in the Fund, and most importantly its beneficiaries. The Fund pursues a policy of transparency and accountability to its stakeholders for the effective management of the Fund and its investment portfolio.



A draft Policy was initially reviewed by the Local Pensions Board prior to its approval by the Committee on 29 January 2019. The Policy was subsequently reviewed in May 2021, primarily to ensure alignment of the Policy to the UK Stewardship Code 2020 and include a set of bespoke ESG beliefs. This updated again in March 2023, following an exercise with the Committee's external investment advisers, given the change in make-up of the Committee, to ensure the ESG beliefs remain appropriate and is available on the website here:

[Pension fund documents - Hillingdon Council]

The Fund's RI Policy and compliance with the 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 reflect latest thinking and this will in turn be incorporated in the RI 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 RI Policy, the Committee will take account of any significant developments in these areas to ensure they are taking a best practice approach.

- <u>ESG Beliefs</u>

Alongside the Fund's overall investment beliefs, the Committee has formulated a set of bespoke ESG beliefs to help underpin overall investment decision making and form the basis of the RI Policy, which as a result of changes to the Committee over the year were reviewed and refreshed in early 2023.

The Fund's ESG beliefs are categorised under five broad headings: Risk Management; Investment Approach/Framework; Voting & Engagement; Reporting & Monitoring; and Collaboration. The below table outlines the Fund's ESG beliefs, and alongside provides recent activity to date which are aligned to these beliefs.

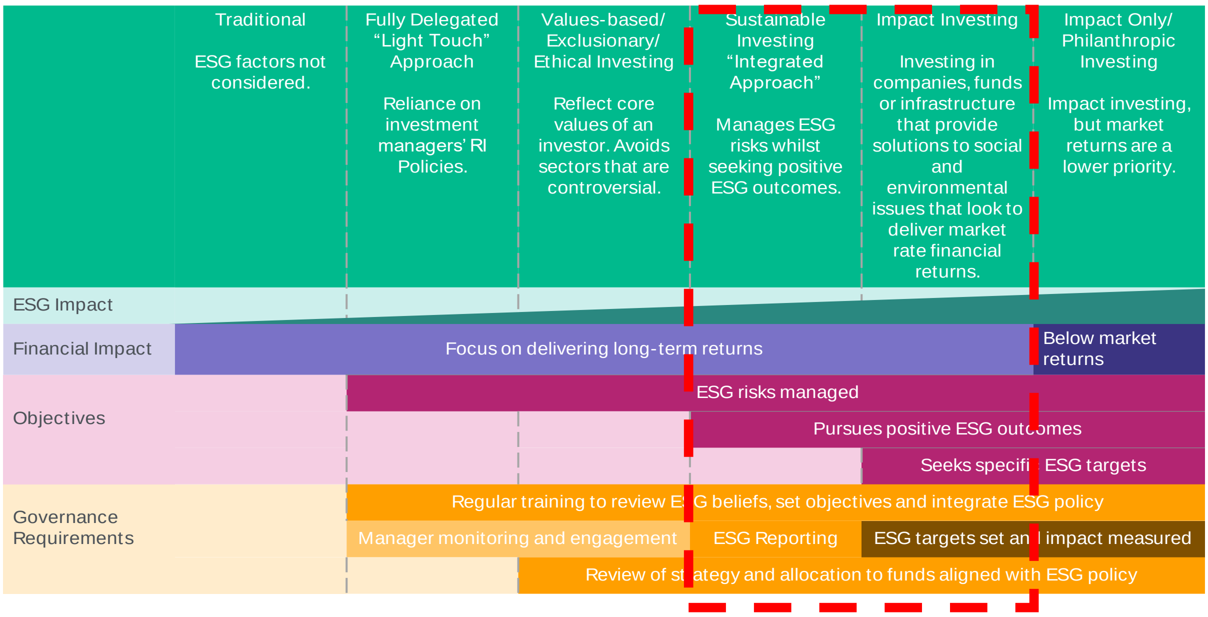
Category	ESG Belief	Activity
Risk Management	1. ESG factors (including Climate Change) are important for risk management (including reputational risk) and can be financially material. Managing these risks forms part of the fiduciary duty of the Committee.	The Committee considers ESG issues in all the Fund's investment decisions through incorporating ESG as a formal criterion as part of new mandate selection exercises. This also maps directly to ESG beliefs 4 and 5 outlined below and the Committee, with the support of its advisors, assess all their investment managers in relation to their ESG credentials. The Fund makes investments with the LCIV, a collective investment vehicle for London Borough LGPS funds. The Fund initially reviewed the LCIV's investment governance and shared the outcomes with LCIV and subsequently worked with LCIV to put improvements in place. This is a continual process and the Fund continues to engage with LCIV and will continue to do so.
	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 RI 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	The Committee ensures the ESG integration of new and existing investment managers is in line with Fund's investment and ESG beliefs and investment managers factor ESG into investment decisions regularly. The Committee looks to identify opportunities to provide a positive impact or support the climate transition, examples include

	Committee will look favourably on investment managers who are able to demonstrate a plan to transition to net zero.	investments in the LGIM Future World Fund and the LCIV Global Alpha – Paris Aligned Fund (Baillie Gifford). No further allocations have been made since the Fund's previous report, however the Fund is in the process of implementing an investment strategy review following the triennial valuation and ESG opportunities will be considered as part of any new allocations. This will also be considered as part of any future strategy reviews and manager selection exercises.
	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 investment managers have the responsibility to engage with companies on ESG factors.	With support from the Fund's investment advisors, the Committee conduct an annual review of the investment managers' approach to integrating ESG factors, then engage and monitor these approaches on an ongoing basis. See Principle 8, together with other areas of this report, for more detail on activity and outcomes in relation to voting and engagement.
	7. The Committee wants to understand the impact and effectiveness of voting and 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 annual basis.	
	8. The Committee believes that engaging with investment managers is more effective to initiate change than divesting and so will seek to communicate key ESG actions to the investment managers in the first	

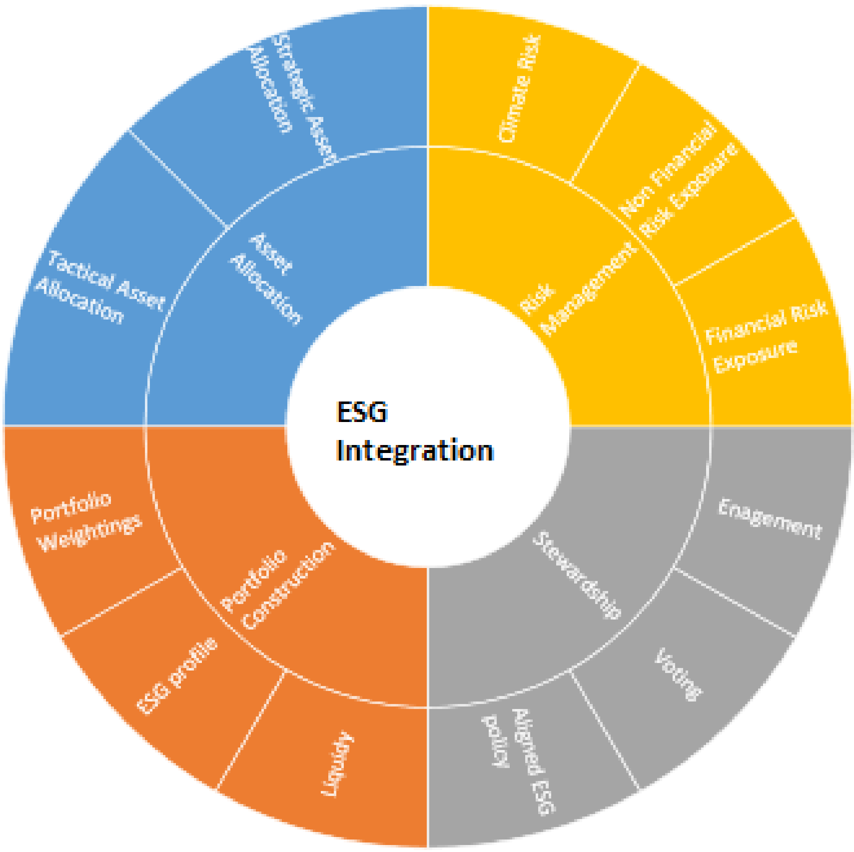
	instance. Divestment will be considered on a pragmatic basis in the event that the engagement with the investment manager has not produced positive results.	
Reporting & Monitoring	9. ESG factors are dynamic and continually evolving, therefore the Committee will receive training as required to develop their knowledge.	In 2021, the Committee agreed and set ESG objectives, metrics and targets to monitor and report against and which will further drive engagement with underlying investment managers to improve both the absolute measures reported and disclosures of the agreed metrics over time. The Committee have begun monitoring and reporting on a number of these climate metrics, with support from LCIV and its investment advisor. Climate analytics and metrics have been received and compared for the Fund as at 31 March 2019 (as a baseline) and 31 March 2022 (as the Fund's last financial year end at time of the report and in line with it's valuation cycle). This shows a significant improvement/decline in scope 1, 2 and 3 carbon intensity (c.40%) and fossil fuel exposure (c.55%). More detail provided in Principle 7. The Fund will continue to develop and build on the current metrics reporting and evolve the targets over time as data coverage and availability evolves.
	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.	The Fund believes that investment managers that manage assets on behalf of the fund should at the least be signatories to the UK Stewardship Code and the UN's Principles for Responsible Investment (PRI) and have recently asked all current managers to do so. Existing managers outside of these

	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.	frameworks should have a valid reason not to sign up. The Committee have asked current managers to do so. 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. New investment will not be made into managers who are not signatories to the UK Stewardship Code and PRI, unless they are intending to work towards being signatories in the short-term or have good reason not to. The Committee will regardless encourage them to do so. The Fund itself also looks to collaborate with wider ESG initiatives and bodies to broaden its scope and potential impact, for example through LCIV and the Task Force on Climate-Related Financial Disclosures (TCFD). In addition, in March 2023 the Fund agreed to join the Local Authority Pension Fund Forum (LAPFF) to have a direct voice in influencing engagement themes. As an output of this collaboration, voting recommendations are received from the LAPFF research team and are now passed onto investment managers for consideration.

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. 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.



This RI framework puts the investment and ESG beliefs and objectives as the starting point to deliver RI and stewardship for the Fund. 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. An illustration of the Fund's framework is shown below:



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 further believes that ESG risks including 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 across 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 also 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 companies' 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 investment managers and corporate management teams.

The Fund will ensure investment managers' ESG policies are in line with the Fund's expectations and beliefs, and managers will report the management of ESG issues to the Fund regularly. Day-to-day ESG integration of investments is delegated to investment 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 to understand the effectiveness of these activities.

The Fund is committed to complying with the prevailing regulatory framework and governance guidance in relation to the pooling of assets through the LCIV. The latest regulatory guidance directs the Fund to achieve a position whereby all listed assets held by the Fund are pooled by March 2025. The Fund has already made significant progress in this respect, with only more illiquid or unlisted investments remaining off pool. 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 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 asset 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.

- <u>Funding Strategy Statement (FSS)</u>

Given that employees' benefits are guaranteed by LGPS Regulations, employers need to pay the balance of the cost of delivering benefits to members and their dependents. The FSS is a summary of the Fund's approach to funding its liabilities, including how these liabilities are measured, the pace of funding, and how these are paid by the employer.

The Fund's overall funding objective is to ensure that sufficient assets are available to pay all benefits as they fall due for payment and the FSS provides a summary of the Fund's approach to funding the liabilities and includes reference to other relevant policies. The Funding Strategy Statement for the Fund, which has been updated and effective from 1 April 2023, is available at:

Pension fund documents - Hillingdon Council

- Investment Strategy Statement (ISS)

The ISS outlines the Fund's investment objectives and investment beliefs, and includes an assessment of the investments the Committee has chosen, the approach taken to managing risk and how ESG factors are taken into account.

As mentioned above, 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. To achieve this, the Fund will look to maximise the return on its investments while managing risk within acceptable levels. The Committee has taken professional advice to set a suitable strategic asset allocation benchmark for the Fund.

Investment Beliefs

To achieve the Fund's primary investment objective, it aims to:

- Maximise the returns on its investments
- Manage risk within acceptable levels
- Maintain liquidity to meet obligations as they fall due
- Contribute cash into the Fund towards 100% funding level
- Stabilise employer contribution rates as far as possible
- Invest in a wide range of investments
- Pool assets with other LGPS funds
- Take proper formal advice on relevant decisions
- Consider ESG factors when making all investment decisions.

Further details can be found in our ISS, available here (currently published as at April 2020, however at time of writing this is being updated following completion of the FSS, and will be uploaded to the public site once finalised):

Pension fund documents - Hillingdon Council

Fund assets

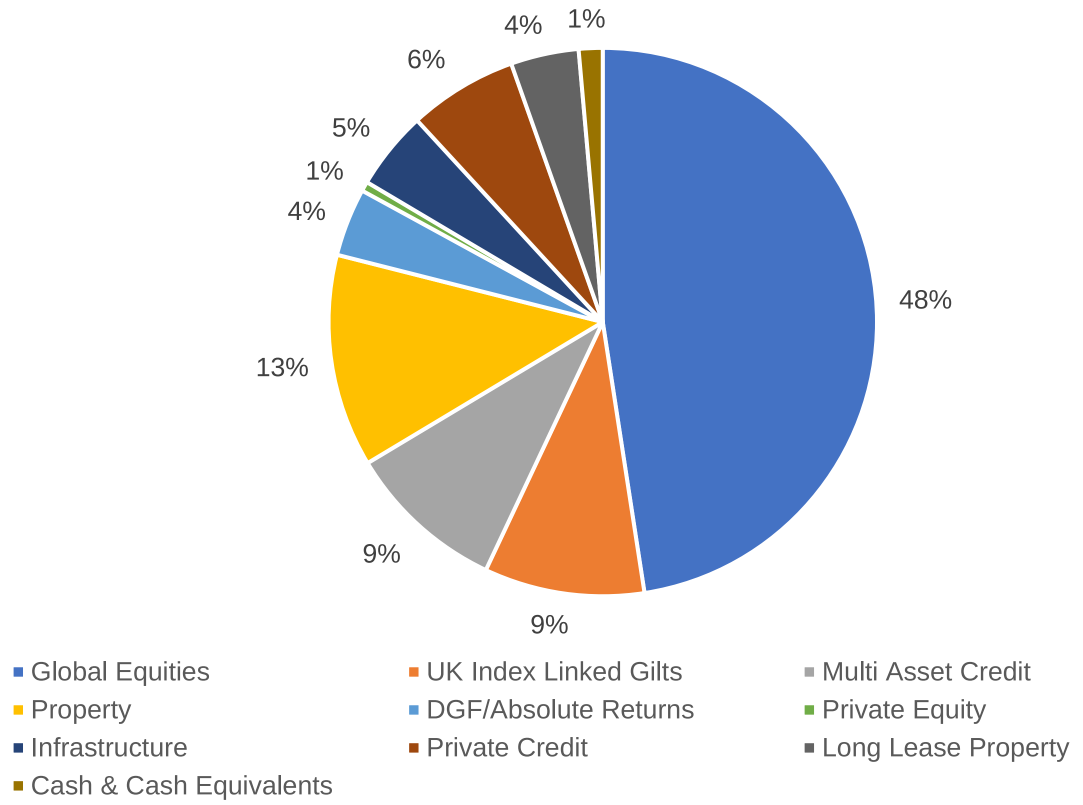
We have included below a summary of the assets under management as at 31 March 2023.

Assets split by asset class and fund:

Asset class	**Fund name**	**Market Value £m**	**Actual Asset Allocation %**	**Strategic Allocation %**
Global Equities	LGIM Global Equity (passive)	295.4	25.0	46.0
	LGIM Future World Equity (passive)	213.3	18.0	
	LCIV Global Alpha – Paris Aligned (Baillie Gifford)	53.4	4.5	
Private Equity	Adam Street Private Equity	4.5	0.4	0.0
	LGT Private Equity	2.2	0.2	
UK Index Linked Gilts	LGIM Index-Linked Gilts (passive)	111.6	9.4	12.0
Multi Asset Credit	LCIV Multi Asset Credit (MAC) (CQS & PIMCO 50/50)	111.0	9.4	12.0
Private Credit	M&G Private Debt	0.7	0.1	5.0
	LCIV Private Debt (Churchill & Pemberton)	48.8	4.1	
	Permira Private Debt	26.5	2.2	
DGF/Absolute Return	LCIV (Ruffer) Diversified Growth Fund	47.4	4.0	0.0
Property	UBS Balanced Property	77.8	6.6	12.0
	AEW UK Core and UREF Property	73.1	6.2	
	LGIM Long Lease Property	47.4	4.0	5.0
Infrastructure	LCIV Infrastructure Fund (Stepstone)	41.0	3.5	8.0
	Macquarie Infrastructure	13.8	1.2	
Cash & Cash Equivalents	Cash	14.1	1.2	0.0
		1,181.8	**100.0**	**100.0**

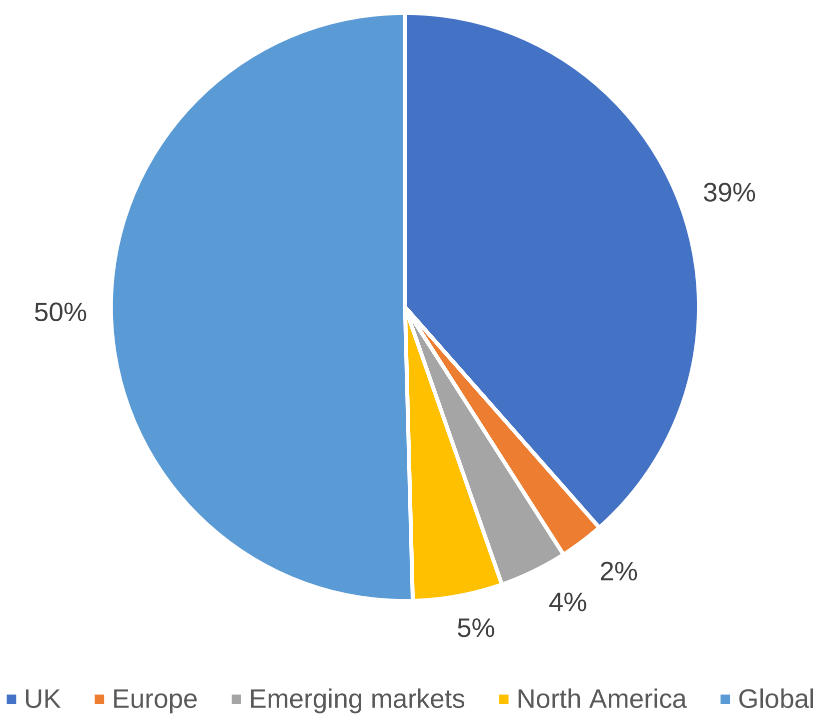
**Totals may not sum due to rounding.*

Assets split by asset class



As at end March 2023, c.26% of Fund assets are directly invested on pool through the London CIV (LCIV), with a further c.52% managed passively by LGIM, with whom LCIV have a passive arrangement. All liquid/listed assets are invested on pool or through LGIM in passive investments. The remaining c.22% is currently in wind down or invested in illiquid assets, largely property investments. The Committee will look to invest this on pool as these are liquidated if appropriate and in line with the strategic allocation.

Assets split by geography



Outcomes

Manager selection

While the overall strategic asset allocation has remained relatively constant over recent years, the Committee's ESG beliefs and amended RI Policy played a part in recent investment strategic decisions. The previous investment strategy review resulted in replacing both the UBS UK Active Equity Fund and the LCIV Equity Income Fund (which were accounting for the highest proportion of carbon emissions in the portfolio and resulting in a clear UK bias to the equity portfolio) with the LGIM Global Future World Index Fund and the LCIV Global Alpha - Paris Aligned Fund (Baillie Gifford) (c.13% strategic allocation of overall portfolio in each) respectively. This significantly reduced the carbon emissions and footprint of the portfolio, while also reducing the UK bias. No further allocations have been made since, however at the time of writing, the Fund is in the process of undertaking another investment strategy review following the triennial valuation and ESG opportunities will be considered as part of any new allocations. See more details under Principles 4 and 7.

Action-based outcomes

The Committee has been actively engaging with the LCIV as well as the other Fund's investment managers to drive improvements of ESG integration and overall governance within the underlying portfolios. Engagement continues to ensure momentum is maintained and further improvements can be discussed. In 2021, the London CIV became the first Local Authority pension pool to target net zero emissions by 2040, which was a result of collective engagement by investors on the pool, including the Fund. The Committee and advisors plan to continue to engage with the LCIV on interim targets and their plans to achieve these targets. The Committee regularly requests and reviews engagement and voting activity of all investment managers and compile this information into an annual report (see Appendix for the Fund's implementation statement). The Committee expects investment managers to provide detailed quarterly reporting on stewardship activity.

In 2021, the Committee agreed a set of ESG objectives in line with the ESG beliefs, as well as related ESG metrics and targets which will form the basis of further engagement with managers to firstly encourage them to report on these (if not able to already) as well as to improve these metrics year on year. The agreed metrics also align with the TCFD reporting requirements, with some additional metrics which the Committee see as a priority for the Fund. The chosen ESG metrics and targets will be reviewed on an ongoing basis to be in line with future developments and TCFD guidance once finalised. As mentioned above, the Committee have begun monitoring and reporting on a number of these climate metrics, with support from LCIV and its investment advisor. Climate analytics and metrics were received and compared as at 31 March 2022, against 31 March 2019 (baseline), which showed a significant improvement/decline in scope 1, 2 and 3 carbon intensity (c.40%) and fossil fuel exposure (c.55%). See more details in Principle 7.

PRINCIPLE 2 - GOVERNANCE, RESOURCES, & INCENTIVES

Signatories' governance, resources and incentives support stewardship.

Activities

Governance overview

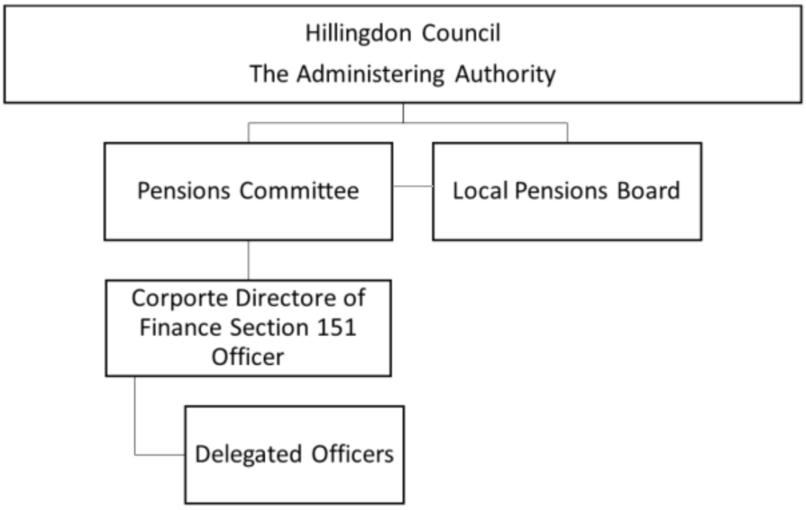
The Committee has a fiduciary responsibility for the determination and oversight of investment policies and the conduct of those policies. The Committee works closely with officers, external advisers and the Local Pensions Board in meeting its obligations in this respect. The Committee meets quarterly and regularly reviews the Fund's asset allocation and investment policies with officers and external advisers. Periodically, investment objectives and investment 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 Local Pensions Board is not a decision-making body, but rather holds a compliance and scrutiny role to ensure the Committee effectively and efficiently complies with the code of practice on the governance and administration of public service pensions schemes issued by the Pension Regulator. The membership of the Local Pensions Board must be equally split between employer and Fund member representatives all with the relevant experience and capacity. No elected member may sit on both the Pensions Committee and the Local Pensions Board. The Local Pensions Board meets quarterly to review the reports of the Committee that will include reports relating to compliance with ESG and the RI Policy.

The Constitution of the Council sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and that those who made the decisions are accountable to the local people the represent. The Constitution of the Council also sets out the framework under which the Fund is administered. See below diagram outlining the governance structure.

Governance structures are reviewed and revised when further recommendations are released in relation to the Good Governance Framework and the Combined Code of Practice. The Fund will aim to follow all recommendations and apply best practice.

Diversity is an important topic for the Fund and is reflected through the ethnic and cultural diversity of the London Borough as the councillors are elected to represent the Borough and the membership reflects the diversity of the Borough. Although the Fund is itself somewhat limited to influence diversity as only have access to elected members. Diversity is also an important topic in terms of the Fund's and advisors' engagements with investment managers.



Following the local elections in 2022, the Pension Committee membership was re-established with a number of new members. All new members agreed to undertake relevant training to cover the Chartered Institute of Public Finance and Accountancy (CIPFA) Knowledge and Skills framework. Progress against this commitment is reported quarterly at Pension Committee meetings. At the time of writing all members (except one) had completed the training with the remaining member making progress.

The members and experience of the Committee and Board members are outlined below:

Committee Member	Qualifications	Experience
Cllr. Mathers (Chairman) – Newly appointed in 2022	• BA(Hons) in Youth and Community Work with Applied Theology	• 20+ years experience developing and coordinating community provisions in the public and third sector • 8 years experience as a Senior Manager/Director level of national and local charities • 4 years experience as Director of a Credit Union in the East of England • 1 year experience as Secretary of a Community Benefit Society regulated by the FCA • Member of the Association of Chief Executives of Voluntary Organisations
Cllr. Goddard	• Chartered Accountant - Fellow of the Institute of Chartered Accountants in England & Wales.	• 24 Years' experience in auditing (22 years as a partner in a large accounting firm) • 3 years' experience as Vice Chair of the Audit Committee

		at the London Borough of Hillingdon • 5 years' experience as a member of the Pensions Committee (2 years as Chairman) • Undertaken all training required under the CIPFA Knowledge and Skills Framework and additional investment and ESG training.
Cllr. Burles	• None	• 20 years experience with the Inland Revenue working with tax in various roles • 20 years experience working in various finance roles within private sector • Completed all modules of the LGA Pensions Foundation course as well as completed ESG and investment training
Cllr. Banerjee	• CIMA accountant	• 19 years experience working in the finance sector • Attended investment and ESG training
Cllr. M Islaam	• Degree in Digress Education in Bangladesh	• Foundation training in finance • Recently completed the CIPFA Knowledge and Skills framework as well as other specific Committee training sessions
Board Member	**Qualifications**	**Experience**
Roger Hackett - Chairman	• Member of the Chartered Institute of Personnel and Development (MCIPD) • BA Hons Degree in History	• 35+ years experience as Head of HR and related functions for a number of organisations in the private and public sector including responsibilities for DB schemes and LGPS funds • Since 2015, a member of the Pensions Board of LB Hillingdon
Shane Woodhatch	• CIMA accountant; HND in Internal Auditing	• 2+ years experience as a Member of the Pensions Board
Tony Noakes	• None	• 4+ years experience on the Hillingdon Pensions Board • 5 years experience in payroll and pensions within LGPS,

		and managing both DC and DB personal pensions
Marie Stokes Pension Board	• CIPFA accountant • Prince 2 qualified • MBA and BSc (Hons) in Health	• 16+ years experience as an accountant within local government settings. • Head of Service within LBH • 5 months experience as an employer representative on Pension Board

A copy of the Governance Policy and latest Compliance Statement is also available on the website here:

Pension fund documents - Hillingdon Council

In relation to the governance of the Fund, the objectives are to ensure that:

- all staff and Committee members charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them;
- ultimate oversight for the integration of ESG (including climate change) and stewardship issues within the Fund's investments. This is delegated to service providers and investment managers in terms of advice and implementation;
- the Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties;
- all relevant legislation is understood and complied with;
- the Fund aims to be at the forefront of best practice for LGPS funds; and
- the Fund manages conflicts of interest appropriately.

Training

A Training Policy has been put in place to assist the Fund in achieving its governance and stewardship objectives and all Committee members, Local Pension Board members and officers are expected to continually demonstrate their own personal commitment to training and to ensuring that the governance objectives are met.

To assist in achieving these objectives the Fund aims to comply with:

- the CIPFA Knowledge and Skills Frameworks and;
- the knowledge and skills elements of the Public Service Pensions Act 2013 and The Pensions Regulator's (TPR) Code of Practice for Public Service Schemes.

In addition, the Fund must comply with LGPS-specific guidance relating to the knowledge and skills of Committee members, Local Pension Board members or officers which may be issued from time to time. Members of the Committee, Local Pension Board and officers involved in the management of the Fund will receive training on all relevant issues, including ESG and climate-related issues, to ensure that they meet the aims of the Training Policy with training schedules drawn up and reviewed on at least an annual basis. This includes training in preparation for the TCFD reporting regulations, which the Committee have committed to supporting and which is likely to be captured under the next wave of TCFD regulations making it mandatory (in 2023 or shortly thereafter).

The Committee and Board members also undertake required and ongoing training in investment and pensions and maintain their knowledge by attending regular training events (see below training section). All Committee members have attended specific training events relating to the triennial valuation, ESG, TCFD, Investments & Strategy Setting along with fund manager engagement meetings with LCIV, LGIM, Ruffer and AEW. This reflects an increase in the level of Committee engagement and reflects their commitment and increased involvement in engagement and stewardship of the Fund. Officers and external advisers maintain a rolling programme of review and due diligence on all appointed asset managers and report the results of their work to the Committee. This ensures that officers maintain oversight of the Fund's holdings on an ongoing basis, allowing sufficiently timely and informed decisions surrounding stewardship activities.

Governance monitoring processes and systems

In order to maintain oversight of the Fund's governance and stewardship activities and objectives, the following monitoring arrangements are in place:

Objective	**Monitoring Arrangements**
Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies	• The Committee and the section 151 officer make decisions on behalf of the Fund. • The Committee and Officers are also supported by various third party experts and advisors. • The Local Pensions Board has oversight of the decisions made to ensure compliance with relevant legislation and regulations • Policy and strategy documents are regularly reviewed and published to ensure they are up to date.
Ensure the Fund is well managed and its services delivered by people who have the appropriate knowledge and expertise	• A Training Policy is in place together with monitoring of all training by Committee members and key officers.
Act with integrity and be accountable to stakeholders for decisions, ensuring they are robust and well based	• Committee meetings are open to all stakeholders to attend and papers and minutes are published. • The Local Pensions Board includes representatives from Fund members and employers in the Fund. • The Local Pension Board prepares and publishes an annual report which may include comment on decision making.

Understand and monitor risk	• A Risk Policy and Risk Register is in place. • Ongoing consideration of key risks at Committee meetings.
Strive to ensure compliance with the appropriate legislation and statutory guidance and to act in the spirit of other relevant guidelines and best practice guidance	• The governance of the Fund is considered by both the External and Internal Auditors. All External and Internal Audit Reports are reported to Committee. • The Fund maintains a log of all breaches of the law in accordance with the Fund's breaches procedure.

The Committee understand that the ESG landscape continues to evolve and therefore seek to ensure that our governance approach is fit for purpose. The Board undertakes an annual review of governance procedures and policies, of which ESG, climate change and stewardship are included.

As mentioned, the Fund is committed to complying with the regulatory obligation to pool its assets through the LCIV. The latest regulatory guidance directs the Fund to achieve a position whereby all listed assets held by the Fund are pooled by March 2025. The Fund has already made significant progress in this respect. 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 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 investment 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.

<u>Service Providers</u>

The Fund employs multiple service providers and advisors who assist with its stewardship activities, including investment consultants, actuary, benefits consultants, global custodian, investment managers, lawyers, pension fund administrator and an independent professional investment advisor. The contract for the independent investment advisor was recently expanded to include a wider governance remit. This was retendered and awarded in March 2023 and the new role allows for an increased hands-on approach and more intimate knowledge of the Fund. This is also designed to expand communication, collaboration, and scrutiny including external stakeholders such as investment managers, Fund members and employers.

The Committee are responsible for the selection, appointment, ongoing monitoring and dismissal of these providers. The Fund requests, reviews and comments on the Statement on Standards for Attestation Engagements (SSAE) 16 and/or the

International Standard on Assurance Engagements (ISAE) 3402 internal control reports of managers and service providers ensuring weaknesses have been rectified. The Fund also reviews its investment advisor (Isio) in line with CMA requirements. Responsible Investment and the consideration of ESG issues are a criteria in the selection process of service providers and advisors.

Day-to-day responsibility for managing investments is delegated to the Fund's appointed investment managers. The Fund expects them to monitor companies, intervene where necessary, and report regularly on activities undertaken, while making appropriate or relevant investment in research and analysis in relation to stewardship. As part of the appointment and ongoing assessment of investment managers, ESG considerations (including climate change) are taken into account.

The Fund engages with the LCIV to ensure effective stewardship and governance activities in relation to its assets, as well as the appropriate consideration of ESG and climate issues. Incentive programmes are not explicitly incorporated into investment manager contracts, however as part of the ESG impact assessment, the Fund with the support of its investment advisor, considers how the Fund's investment managers use relevant incentive programmes to encourage best practice in relation to stewardship and ESG integration in the funds they manage for the Fund.

Outcomes

Case Study:

Following the investment governance review and collaboration with the LCIV, they now have in place Investment Governance Documentation which outlines their processes including the integration of RI in the selection and oversight of asset managers. Continues enhancements have been made to the LCIV's reporting which provides greater insight on LCIV's products, including significant improvement in reporting on RI activity and metrics (including climate analytics). There is now also greater transparency on LCIV's development of new investment products, including manager selection and the integration of RI. As mentioned previously, the LCIV also became the first pool to target net zero emissions by 2040, which was a result of ongoing engagement by the Fund alongside other investors, and the Fund continues to engage with them on how this will be achieved.

As a result, and given additional focus on responsible investment, LCIV have added dedicated responsible investment resource and included reporting enhancements as well as begun providing climate analytic reporting. LCIV are signatories to the UK Stewardship Code themselves and look to maintain governance standards as appropriate. In addition and as mentioned above, the independent investment advisor has been given a wider remit, which provides an additional governance overlay and scrutiny and works closely with the LCIV as part of regular governance reviews. The Committee have also themselves focussed more time on responsible investment considerations for the Fund as illustrated throughout this report.

PRINCIPLE 3 - CONFLICTS OF INTEREST

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Context

Overview

The Fund has a Conflicts of Interest Policy (see below) that defines conflicts of interest and outlines how to identify, monitor and manage conflicts of interest that may occur, including in relation to stewardship as well as ESG issues. A register of interest is also maintained for the Local Pensions Board and declaration of interest in relation to members of the Committee are available on the Council's website. Fund managers and advisors are also required to submit their organisation's conflict of interest policy. The Fund encourages the investment managers it employs to have effective policies addressing potential conflicts of interest. Declaration of interests is a standing item on both the Local Pension Board and Committee agendas.

In respect of conflicts of interest within the Fund, Committee members are required to make declarations of interest prior to Committee meetings. These declarations are reported in agenda items readily available to the general public in the minutes of the quarterly meetings.

Further to the declarations of interest at Committee meetings, members are duty bound to make written related party declarations annually, which form part of the disclosure notes to the Fund accounts and notes. These declarations are in addition to member declarations for the main Council's accounts. As such, any actual or perceived conflict of interest is transparent to members of the public.

Where conflict of interests arises during the decision-making process, involving member(s) of the Committee or officers of the Fund, such individuals may be recused from the particular decision-making process to protect the integrity of the outcome.

In addition, conflicts of interest training is included as part of Committee induction and within the knowledge and skills framework which is followed.

Conflicts Policy

The Fund's Conflicts of Interest Policy is publicly available, and can be found at the following link:

Pension fund documents - Hillingdon Council

London Borough of Hillingdon Pension Fund

Conflicts of Interest Policy

HILLINGDON
LONDON

Public Standards

As a Local Government Pension Scheme, the Hillingdon Pension Fund adheres to the Nolan Principles on Public Life, which are integral to the application, and success, of this policy.

Selflessness	Holders of public office should act solely in terms of the public interest.
Integrity	Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, theirfamily, or their friends. They must declare and resolve any interests and relationships.
Objectivity	Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.
Accountability	Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.
Openness	Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.
Honesty	Holders of public office should be truthful.
Leadership	Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

Through the appropriate management of this Policy and in relation to stewardship, the Fund will:

- Meet the highest standards of good governance through demonstration of the key principles of transparency and accountability in the management of the Fund through clear responsibilities and reporting.
- Ensure that robust governance arrangements are in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies.
- Act with integrity and be accountable to stakeholders for all decisions, ensuring they are robust, soundly based and do not unreasonably favour one group of stakeholders over another.
- Ensure the Fund complies with the appropriate legislation and the Pension Regulator's Code of Practice.
- Deliver an efficient and effective pensions and financial administration service, which provides excellent value for money.

Activity

In summary, the Fund takes a 3-stage approach to managing conflicts of interests (including in the context of stewardship):

- Identifying
- Monitoring
- Managing

Identifying
To assist the Committee, Local Pension Board members and Officers in identifying when a conflict may arise, attached to the Policy are some examples of conflicts. Ultimately, it will be the responsibility of the individual, given the adequate training, to identify if a conflict exists and to seek advice from the Fund's Head of Finance-Statutory Accounts & Pension Fund.

Monitoring
The Fund keeps a register of interests for all its Local Pension Board member declarations of interest. Elected Councillors, under their own code of conduct are required to declare interests at the point of their election. These are published publicly on the Council's website.

Declaration of interest will be included as an opening agenda item at each Committee and Local Pension Board meeting. This will provide an opportunity for those present to declare any interests, including other responsibilities, which have the potential to become conflicts of interest, and to minute discussions about how they will be managed to prevent an actual conflict arising. This conflict could be with a general subject area or a specific item on the agenda.

The register also protects the individual members who are responsible for deciding whether they should declare an interest in a meeting. It is also important that the public know about any interest that might have to be declared, so that decision making is seen by the public as open and honest. This helps to ensure that public confidence in the integrity of local governance is maintained.

Managing
Committee and Local Pension Board members are required to have a clear understanding of their role and the circumstances in which they may find themselves in a position of conflict of interest, and should know how potential conflicts should be managed.

The Pension Committee and Local Pension Board are required to evaluate the nature of any dual interests and responsibilities, assess the impact on operations and governance were a conflict of interest to materialise, and seek to prevent a potential conflict of interest becoming detrimental to their conduct. The 'Conflicts Register' can be provided to assist members.

The Committee and Local Pension Board may consider seeking independent legal advice from a nominated officer (for example, the monitoring officer) or external advisers where necessary on how to deal with these issues, if appropriate.

Individual members of the Committee and Local Pension Board must know how to identify where they have a conflict of interest which needs to be declared and which may also restrict their ability to participate in meetings or decision making. They must also appreciate their legal duty under the Regulations to provide information to the Administering Authority in respect of such conflicts of interest.

Any individual who considers they have a potential or actual conflict of interest which relates to an item of business at a meeting, must advise the Chair of the Committee or Local Pensions Board and the Head of Finance – Statutory Accounts & Pension Fund prior to the meeting where possible, or state this clearly at the earliest possible opportunity in the meeting. A decision should then be reached on whether further action needs to be taken.

Options for managing an actual conflict of interest, should one arise, include:

- A member withdrawing from the discussion and any decision-making process;
- The Committee or Local Pensions Board establishing a sub-board to review the issue (where the terms of reference give the power to do so); or
- A member resigning from the Committee or Local Pensions Board if the conflict is so fundamental that it cannot be managed in any other way.

Potential Conflicts

Potential conflicts may arise relating to the Fund's investment decisions. For example, stewardship related conflicts may arise as a result of business relationships between asset owners and asset managers, ownership structure of invested companies, differences between the stewardship policies of asset managers and their clients, cross-directorships, and client and other beneficiary interests which differ from each other.

Outcomes

The Conflicts of Interest Policy is maintained and reviewed on a regular basis to ensure it remains fit for purpose and as emerging issues and new guidance become evident, but at least every three years. The Policy was most recently reviewed and updated in 22 March 2023, which expanded on relevant legislative laws or guidance, specific parties' responsibilities under the policy, and included additional examples of what could constitute a conflict of interest.

The Committee maintain an up-to-date conflicts of interest registry with a record of all potential or actual conflicts, including annual declarations. A Member's General Declaration of Interest is completed within 28 days of taking office, recorded on their individual web pages, and updated as and when there are changes. In addition, members are asked annually to check their entry and update any changes.

In addition, members are obliged to advise of any Gifts or Hospitality that they receive, and this is updated as and when such a notice is received. Before each Committee meeting members are asked to advise of any declarations of interest and this is noted in the minutes and made transparent to the members of the public.

Annually members are required to complete a Related Parties disclosure for assessment and inclusion where relevant in the Statement of Accounts and Pension Fund Annual Report. Members are also provided with Conflicts of Interest training.

Individuals on the Board and Committee are made aware of, and are reminded of, key responsibilities, and all decisions are made in the interests of members and employers.

As mentioned, within the Conflict of Interest Policy which is routinely followed, there are various routes in which an actual or potential conflict of interest is identified or raised. We illustrate a case study of a conflict in relation to the Fund valuation and setting of contribution rates, which as a result of close management the conflict was avoided. Further, as conflicts of interest do not occur frequently and given clear processes followed in line with the policy to avoid such instances, there have not been recent cases of a potential or actual conflict in relation to investment advice or stewardship considerations, so we have also included last year’s example further below as an example of how this is and was managed.

Case Study: Conflict relating to the S151 office as Corporate Director of Finance

A perceived and potentially actual conflict of interest which occurred relates to that of the S151 officer as Corporate Director of Finance and Designated Responsible Person for the pension fund. This was evident in the recent triennial valuation and consultation on employer contribution rates. As Director of Finance, it could be argued that a reduction in employer contributions would be beneficial for the Council budget and finances. Conversely an increased contribution is favourable for the Fund. As there was an improvement in the Funding level this could have been an opportunity to reduce contribution rates.

To resolve this the S151 Officer was briefed by officers and the Fund actuary to ensure they had unbiased and objective information on which to make a decision. Key items showed there was capacity within the funding to reduce rates and there was also the requirement to ensure contributions were affordable. In the current local authority environment where budgets are stretched this was a potential opportunity to assist in improving the budget position. Conversely it was explained that to be prudent it was desirable from a Fund’s and Council’s perspective to maintain rates at their current level. This would allow greater capacity to absorb any potential downward movements in the next three years and avoid potential rate increases in 2025, which could be difficult for the Council to accommodate.

This was especially notable taking into account the current economic environment and pressure on company returns and asset valuations. In addition, SAB published a report with a number of elements stating why funds should not use an improved funding position to reduce rates. This was all taken on board and the S151 officer agreed to maintain rates to provide a buffer against potential future headwinds.

Case Study: Potential conflict in investment advice

The Committee challenged their investment advisor, Isio, on an area where they thought there may be a potential conflict of interest. In a presentation to the Committee on their Diversified Private Credit proposition, BlackRock referenced that Isio had been involved in discussions around the development of the fund. The Committee asked Isio to draft a letter describing their role in these arrangements and whether this created a conflict of interest.

In the letter, Isio clarified that they had not been engaged to provide any paid work on the development or design of the fund presented to the Committee, nor had they received renumeration from BlackRock in relation to any investment product it offers. Isio explained that BlackRock's reference to Isio being involved in the discussions was correct, as they had provided some input to explain what Isio believed would reflect a "best-in-class" investment proposition for their clients might look like, based on their views on markets and other managers. Isio were not paid for this input and provided this information to the manager in the best interests of their clients. Following further development of propositions from managers, Isio undertook further investment due diligence and ultimately shortlisted two investment managers that they believe offer best in class propositions (BlackRock was one of these managers).

Isio also had a role in providing advice to the LCIV on the selection of a Direct Lending manager. In this case, an Isio research team, separate from the core client team that advises the Committee on an ongoing basis, was engaged to provide manager research input to support the LCIV team in selecting direct lending managers for the fund they are offering to London Boroughs for investment. The LCIV was responsible for all decisions on the mandate structure and manager selection, drawing on Isio's manager research input where appropriate. The team that advises the Hillingdon Fund was purposefully kept separate from the research team working with LCIV in order for them to be able to provide the Fund with an independent and objective view on the LCIV mandate, to offer challenge and to advise on how the LCIV mandate compares to best in class alternatives if that is desired. Isio discussed this with the Fund ahead of completing any work with the LCIV.

The Committee were satisfied that this involvement did not present an actual conflict of interest for Isio and both matters were resolved.

PRINCIPLE 4 - PROMOTING WELL-FUNCTIONING MARKETS

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Activity

The Administering Authority recognises that effective risk management is an essential element of good governance in the LGPS. The Administering Authority adopts best practice risk management, which supports a structured and focused approach to managing risks, and ensures risk management is an integral part in the governance of the Fund at a strategic and operational level. The Risk Management Policy has a 5-step process which includes: risk identification; risk analysis and evaluation; risk response; risk monitoring and review; and risk reporting.

<u>Identification and response</u>

The Fund monitors and manages a wide range of market and systemic risks, including market price risk, interest rates and inflation, liquidity, ESG risks (including climate change), credit risk, longevity and currency, amongst others, and looks to mitigate these risks where possible.

These risks are constantly monitored through various sources including news feeds, manager communications, advisor support, market and governance updates, government news and peer groups. These all feed into regular review and action. This can be evidenced in thematic reviews undertaken by the Fund's investment advisor (Isio) and considered by the Fund – previous examples included that of Covid-19 and inflation, with more recent examples being the Russia/Ukraine conflict and US bank crisis (see case studies below). The Pension Fund Senior Officer and Pension Committee Chair discuss all risks, with input from the Pension Board Chair, and these are presented to the Committee on a quarterly basis for review and consideration.

The Committee logs and maintains a Risk Register detailing all relevant risks to the Fund, including a rating with consideration of likelihood and expected impact, as well as actions taken to mitigate or manage each risk, as well as progress made against each.

The Committee also reviews the most pertinent risks to the Fund, including inflation risk, which given the uncapped nature of the Fund's liabilities to movements in inflation is considered a significant risk to the Fund. The Fund regularly reviews exposure to inflation risk as a key risk to the Fund, including as part of any investment strategy reviews., The Committee considers high-level inflation scenarios and their impact on the current investment strategy and potential actions that could be taken to mitigate further against higher inflation. Given the strategy already has allocation to inflation hedging assets, it was decided to monitor forward-looking inflation indicators on a regular basis and consider further options if deemed necessary.

The Committee ensures a sufficiently well-diversified investment strategy to mitigate market risks as far as possible.

ESG as a Financially Material Risk

The Fund's RI Policy and Investment Strategy Statement describes ESG risks as being financially material. The Fund's Implementation Statement (see Appendix) details how the Fund's RI Policy is implemented, and outlines the Committee's ESG beliefs used in evaluating the Fund's managers' ESG policies and procedures.

Climate change is a systemic risk for markets and investors and as such requires explicit attention by the Fund. This includes both risks arising from the transition to a low carbon economy (the transition from high to low carbon energy and transport) and physical risks arising from climate change (including natural disasters and shifts in weather patterns).

The below table outlines the areas which the Committee assessed the Fund's investment managers on when evaluating their ESG policies and engagements.

Areas for engagement	**Method for monitoring and engagement**	**Circumstances for additional monitoring and engagement**
Environmental, Social, Corporate Governance factors (including climate change) and the exercising of rights and engagement activity	- Through the manager selection process, ESG considerations will form part of the evaluation process; - The Fund's investment advisor, Isio, will monitor managers' ESG policies on an ongoing basis as part of ongoing due diligence; - When attending Committee meetings, investment managers will be asked to present on actions they have taken in respect of ESG factors and their exercise of rights and engagement activity; - The Committee is provided with a report detailing the managers' ESG policies as well as a summary of actions Isio has engaged with	- The investment manager has not acted in accordance with their policies and frameworks. - The investment managers' ability to abide by the Committee's Responsible Investment Policy ceases due to a change in the manager's own ESG policies.

	managers on in relation to ESG. - The Committee will engage, via their investment adviser, with investment managers, the London Collective Investment Vehicle (LCIV) pool and/or other relevant persons about relevant matters, including stewardship priorities, at least annually.	

Industry initiatives and working with other investors/investment managers

The Fund seeks to work collaboratively with a range of other institutional shareholders and third parties in order to maximise the influence that it can have on individual companies in relation to ESG issues. Examples include collaboration with the LCIV pool, the Local Authority Pension Fund Forum (LAPFF), and TCFD, to which the Fund has signed up as a supporter and committed to report in line with their requirements and have begun preparations to do so pending confirmation of final guidance and regulations. The Committee also set expectations for their investment managers against which they engage and collaborate on a regular basis to drive improvements in relation to ESG issues. More information is included under Principle 10 in relation to collaborative engagement.

Outcomes

Effectiveness in identifying and responding to systemic risks

The Fund maintains a Risk Register to assist in monitoring and identifying market-wide risks that are relevant to the Fund, including ESG risks as well as cyber security, market, governance and other risks. The Risk Register also details persons with responsibility for maintaining oversight of these risks, or the ‘Lead Officer/Committee Member’.

The Risk Register is reviewed and amended on a regular basis by the Committee, in order to reflect ongoing risks and developments. To illustrate this, following the global Covid-19 pandemic, a new risk factor ‘Threat of Covid-19 to Business Continuity’ was added to the Risk Register. A further risk has recently been added to the Risk Register in relation to Governance. This is to cover the introduction of the new Code of Practice and Good Governance framework to ensure the Fund is preparing and subsequently compliant when introduced. This risk also addresses the expected need for Committee members, along with the current requirement for Board members to be trained in order for them to fulfil their duties. The addition of this risk has had the desired effect of increasing the level of engagement and training by Committee members. At a recent Committee meeting advisors noted that there may be merit in exploring a risk with regard to the loss of key personnel and resources as this had been considered by other local authorities in their risk registers. It was noted that the officer team was fairly concentrated and that there was an element of succession planning built into the team, however it was acknowledged that the loss of key personnel could pose a risk to the day-to-day operation. The Chairman was minded to build this in as a future risk for consideration. The Committee also discussed portfolio liquidity and although it was noted that, in the past, members had been reasonably confident that core operating cash flows could be covered by investment returns; however, due to the future calls for committed investments and the fact that returns have been below the benchmark, the Committee agreed to increase the risk from green to amber in light of the current climate. Officers also noted that investment liquidity certainly needed to be considered as part of the upcoming investment strategy review.

In addition, the Fund believes Climate Change is a financial risk and also manages this risk through the Fund's Risk Register. Commitment to managing climate risk is further evidenced through support of and early preparations for TCFD requirements, ahead of formal guidance and regulation for LGPS Funds.

The approach taken by the Fund will be continually reviewed in partnership with investment managers and service providers, to ensure this remains fit for purpose.

<u>Case Study: Engagement in relation to the Russia/ Ukraine Conflict</u>

When the Russia / Ukraine conflict broke out in 2022, the Committee's attention was drawn to the Fund's holdings in Russia and directly reached out to all relevant investment managers (including the LCIV) to confirm their Russian exposure and what action was being undertaken for these holdings. At the time the conflict started the Fund had an allocation of 0.06%.

LCIV had since advised that they had sold portions of their two Russian holdings pre the closing of markets and had marked the balance of those holdings to zero in their funds. Additionally, it was noted that a letter sent from the Secretary of State to all relevant investment managers had asked them to consider divestment in Russia albeit the final decision would remain with the managers themselves. Officers highlighted that they had also contacted the Fund's investment managers to encourage divestment in a similar manner. The Committee responded positively to this, noting that, should residents question the pension funds Russian allocations, they could confidently respond saying that any holdings were not held directly by the Council, that the allocations held indirectly were minimal and moves were being made to reduce them to zero. The Fund also specifically requested that no new investments be made in Russian entities or financial instruments.

The Fund's investment managers agreed to manage the funds accordingly and orderly exit where possible and avoid any new investments in this area going forward.

Case Study: 2023 Banking crisis actions

In March 2023 following the collapse of several banking entities including SVB, Signature and Credit Suisse, the Fund requested information from its adviser and wider contacts to understand the position and assess wider ramifications for the Fund. Specifically, the Fund asked its adviser and LCIV to investigate further into the due diligence of an underlying manager in terms of their process, and risk management approach following a recent allocation just prior to the failure of Signature Bank.

Both wider systemic and specific examples were further discussed and analysed at the Pension Committee meeting held on 22 March 2023.

PRINCIPLE 5 - REVIEW & ASSURANCE

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Activity

Policies

The Fund has a number of policies in place which it adheres to in order to support effective stewardship. A number of these have been referenced elsewhere in this report. Please refer to the table below for further details on a selection of these:

Policy	Document	Comments
Responsible Investment	Click here	This Policy details the Fund's approach to ESG issues, including the objectives and beliefs of the Fund. The Policy details the Fund's approach to engagement and stewardship and ensures consistency of approach. The Policy has been through a thorough development process with input from a working group consisting of a number of Committee members, with support from officers, and the Fund's investment advisor, Isio. As part of this, training on responsible investment and ESG was provided for all Committee and Local Pension Board members. The Fund also considered guidance and information from the Department for Levelling Up, Housing and Communities (DLUHC), the Local Government Association (LGA), Scheme Advisory Board (SAB), Pensions and Lifetime Savings Association (PLSA), the Law Commission, and the UK Stewardship Code in establishing this Policy. The Policy was initially drafted in 2019 and subsequently reviewed and updated in May 2021 to incorporate bespoke ESG beliefs and with consideration of the 2020 UK Stewardship Code Principles. The Policy was again recently reviewed and updated in March 2023, to reflect an update in the Committee's bespoke ESG beliefs.
Governance	Click here	This Policy details the Fund's governance structure and objectives.

		The Policy was most recently reviewed and updated in September 2020. This update included more robust wording around the governance structures and policies. This will be reviewed as required to ensure remains relevant and to be in line with best practices, including the Code of Practice and Good Governance Framework when introduced.
Conflicts of Interest	Click here	This Policy sets out the process for managing conflicts (including actual and potential conflicts as well as bias) in the operation and management of the Fund. The Policy was most recently reviewed and updated in March 2023 to explicitly include how conflicts specifically relating to stewardship are identified, monitored, reported and managed, examples of what constitutes a conflict relating to stewardship, and consideration of legislative laws or guidance, and responsibilities of relevant parties.

There are a number of other policies available on the Fund website, including a Risk Management Policy and Training Policy, but we believe the above selection to be the most relevant.

In order to ensure the above policies remain fit for purpose and are supporting the Fund in exercising effective stewardship, they are reviewed on a regular basis (at least annually in most cases or where appropriate to remain fit for purpose) and effort is made to maintain consistency in wording and approach across all policies.

The policies are initially developed internally by members of the Committee with the support from officers and the advice of external advisors. Each policy is formally reviewed and approved by the full Committee.

Although no external verification is undertaken in relation to stewardship, the Committee continues to engage with investment managers to ensure their voting and engagement efforts are in line with Fund beliefs as well as fund-level stewardship reporting is included in annual ESG or other reporting, to members and other stakeholders. We also ensure the presence of case study examples to bring these efforts to life for our members. The Fund's ESG impact assessment also provides a degree of external review and verification by providing a stewardship (voting and engagement) score for all of the Fund's investment managers.

Outcomes

The Fund holds a policy register with prescribed review intervals to ensure they remain fit for purpose and up-to-date, with immediate reviews taking place if and when required.

As mentioned above recent reviews and updates have been made to a number of polices, including the Fund’s approach to responsible investment as well as stewardship, ensuring improvements and incorporating ESG considerations into investment decision-making, evidenced under multiple of other Principles in this report.

As also mentioned, the Fund’s investment advisor provides stewardship reporting as part of the impact assessment and implementation statement which provides an external and independent view of the Fund’s and more specifically the investment managers’ stewardship approaches. The Committee then reviews its advisor’s competency via the CMA objectives.

<u>Case study example – Cyber Compliance Benchmarking</u>

The Fund was recently involved in a Cyber Compliance Benchmarking exercise to understand how it compared to peers on a number of elements.

The results showed the Fund had an acceptable score and in excess of peers. This also highlighted areas where further action could be introduced to improve the score.

Following this exercise, a Cyber Data Mapping exercise was undertaken to understand the data flows, their frequency, sensitivity level, value level and associated security level. This was to ensure where the level of security was commensurate with the level of risk. An independent audit of the results was commissioned, and the results published to the pension Board. The level of assurance was acceptable to the Board and all audit recommendations were implemented immediately following the audit results.

INVESTMENT APPROACH

PRINCIPLE 6 - CLIENT & BENEFICIARY NEEDS

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Context

The Fund is an LGPS, located in the London borough of Hillingdon with over £1bn of assets under management. See Principle 1 for a detailed breakdown of the Fund's assets by fund, asset class, and geographical region, as well as proportion invested on and off pool.

The Fund's members currently comprise the following as at March 2023:

Type	Number of Members	Average Age
Active	12,512	46 years
Deferred	8,975	49 years
Pensioner	7,908	72 years

Notes: [1] Average age as at the 2023 valuation.

As custom for LGPS, the Fund remains open to new members and the future accrual of benefits and thus has a very long-term investment horizon. For the purposes of investment modelling and strategy, and based upon the liability profile of the Fund provided by the Funds actuarial adviser, the estimated duration of the ongoing liabilities is c.15 years. This is considered as part of the investment strategy decisions and in setting the objectives of the Fund.

As set out in the RI Policy, 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 (ie, members' benefits), on an ongoing basis. 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 ESG risks and considerations.

Pension Committee and Board meetings are open to members to attend and these are publicised ahead of each meeting. Members are able to communicate with the Fund and any enquiries are considered and responded to in a timely manner. Information relating to the Fund's activities are published in the Pension Fund annual report and in communications to members. Responsible investment topics and manager stewardship activity are presented to Committee on a quarterly basis. Any instances where further information, engagement or scrutiny is required is directed to investment managers.

Activity

The Fund has a fiduciary duty to ensure the needs of members are met, which includes ensuring we have the required funds to pay benefits and have the required funding level to maintain fund stability and solvency.

The Fund communicates with its members through a variety of routes. The Pension Fund annual report details the activities of the Fund and disclosure requires as set on the CIPFA Code if Practice. The Pension Board also produce an annual report which describes their governance activities for the year. Newsletters and bulletins are provided to members throughout the year which provide relevant and useful information on the Fund and at a personal level. Employers also receive pension updates on several topics along with numerous workshop and training sessions. Aligned to this is establishing an investment strategy to support a sustainable environment. Information on the Fund's ESG journey and progress is provided to members through the Pension Fund Annual Report and Board Annual Report.

The intention is to promote the Fund's ESG activities by raising awareness through direct member communications and giving greater prominence on the Fund's website. Members and employers are also able to attend Pension Committee and Board meetings to observe ESG agenda items.

Transparency in approach is key for the Fund, and as such the Committee look to provide an array of communication to keep our members updated on the activities of the Fund via the website. In addition, Fund members and the wider general public are free to attend all meetings. These include, but are not limited to:

- Quarterly Pension Committee meetings (including agenda and minutes)
- Website updates and articles
- Annual reports
- Annual general meetings
- Updates to policies

The Committee and/or Board may consider members views as appropriate when it comes to managing the assets and there are two employee/scheme member representatives on the Local Pensions Board.

Outcomes

As mentioned in Principle 5, the Fund's policies have been reviewed recently and are reviewed on a regular basis to ensure fit for purpose and up to date. The Pension Board (including members and employer representation) contribute to discussions at Committee and review draft policies, and employers and members are engaged with in relation to governance. See case study under Principle 5.

PRINCIPLE 7 - STEWARDSHIP, INVESTMENT & ESG INTEGRATION

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Context

Issues prioritised within investments

The Committee, with support of their investment advisor, assess investments (or asset classes) and respective managers against a wide range of criteria including business and operations, investment approach or philosophy, risk management, investment team, as well as ESG issues and considerations (including climate change). The Committee must firstly have a thorough understanding of the asset class before investing and assess the suitability of the investment within the wider portfolio in terms of investment process or philosophy and risk management.

The RI Policy sets out what the Committee expects from all investment managers and covers all elements and risks which are to be considered in investment decision-making and risk management, including ESG factors. We expect the highest standards across all managers and do not dilute for certain geographies or asset classes. Compliance with a variety of ESG factors are included and assessed in every mandate award. We do not set specific time limits but expect these to be ongoing and continually improving over the investment period.

ESG issues as a priority within investments

As previously mentioned, the Fund is committed to being a long-term steward of the assets in which it invests, and in so doing will take into account all financial risks, including ESG considerations. The Committee believes this approach will protect and enhance the value of the Fund over the long-term and act in the best financial interests of its members. The Committee has a fiduciary responsibility for the Fund and its members for the determination and oversight of investment policies and the conduct of those policies. The Fund regularly appraises, with the assistance of its investment advisor, the ESG credentials and performance of LCIV and its other investment managers in order to ensure that its ESG policy are properly reflected within the investment portfolio. The Fund expects its investment managers to integrate material ESG factors within its investment analysis and decision making.

Responsible investment considerations, including climate risks and opportunities, are addressed in investment manager and other service provider appointments and included in the Investment Management Agreements (where relevant) in place between the Fund and its respective investment managers. The Committee believes that the companies that manage assets on behalf of the Fund should at the least be signatories to the UK Stewardship Code and UNPRI. As previously noted, existing investment managers who operate 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 or region, but the Committee will encourage them to do so in any case. New investments will not be made into managers who are not signatories to the UK Stewardship Code and UNPRI, or equivalent regional or asset class bodies, and without valid reason.

The Committee and Local Pension Board members have received and will continue to receive training and education on ESG matters including climate change, 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 in the Fund's Risk Register, where they are material.

Activity

Responsible investment approach

Responsible investment activity is carried out by:

- the Fund's investment managers who are required to exercise the Fund's voting rights, in line with the Fund's RI Policy, are also required to incorporate analysis of ESG issues into their investment analysis and are expected to engage on an ongoing basis on these issues with the companies in which they invest;
- the assessment of each investment manager in relation to their capabilities and consideration of their overall ESG approach and management of ESG related risks, including climate change, has been completed with the support from the Fund's investment advisor. Each fund is rated on its ESG integration credentials across five criteria; investment approach, risk management, voting and engagement, reporting, and collaboration, as well as an ESG overall rating and a climate specific rating. This assessment includes proposed actions for each investment manager that are then communicated to each investment manager to drive improvements within the Fund;
- likewise for new manager selection exercises a thorough due diligence process is followed, against agreed evaluation criteria, across investment and stewardship, including the integration of material ESG issues; and
- lastly, collaboration with other investors through collaborative organisations and bodies, including the LCIV, together with LAPFF (of which both the Fund and LCIV are members), and TCFD. The Fund has signed up as a supporter of the TCFD framework and are committed to reporting in line the recommendations over the coming years irrespective of regulatory requirements.

Manager selection, retention, and engagement

The Committee continues to undertake direct engagement activities with its two key investment managers; namely, London CIV and Legal and General Investment Management (LGIM), alongside further engagement with the Fund's investment managers through their investment advisor.

As mentioned previously, the Committee have been actively engaging with London CIV in order to improve their overall governance arrangements and manager reporting. A number of meetings have taken place with the London CIV CEO and London Borough of Hillingdon Pension Committee Chair, along with respective officers, setting out a manifest of improvements. The majority of requests have been implemented by LCIV. Engagement continues to ensure momentum is maintained and further improvements can be discussed.

With almost 60% of our assets managed by LGIM, LGIM are a key manager for the Fund. The Committee, with the support of its investment advisor, continues to engage specifically with LGIM on a regular basis to understand their approach to ESG integration, and how the approach can be developed further. These conversations also specifically consider how ESG issues are reflected in the Future World Fund and Long Lease Property mandates held by the Fund. As a result, the Fund receives regular reporting and in-depth analysis from LGIM. Other engagements are conducted with the Fund's other investment managers through the Fund's investment advisor, Isio, and the Committee is provided with regular progress updates. The Committee's stewardship activity covers the whole spectrum of ESG issues and risks. The Committee have also set bespoke ESG beliefs which have been included in the latest review of the RI Policy.

ESG metrics and targets

In 2021, the Committee identified the relevant key priorities for the Fund using the UN Sustainable Development Goals (UN SDGs) framework. This framework was used to set specific priorities for the Fund including metrics chosen to be aligned with the Committee's ESG beliefs. The Committee agreed to prioritise SDGs #7 (Affordable & Clean Energy) and #13 (Climate Action) as key objectives for the Fund and agreed relevant metrics and targets in line with these objectives, with an initial focus on climate action given anticipated TCFD reporting requirements. These are intended to be used to meaningfully engage with the Fund's investment managers. The chosen metrics the Committee are looking to monitor and engage with investment managers on in relation to the above key priorities are as follows:

SDG 13 (Climate Action)	Scope 1,2 carbon emissions (tonnes of CO_2e) and footprint/WACI* (tonnes of CO_2e / £m investment / revenue)
	Scope 3 carbon emissions (tonnes of CO_2e) and footprint/WACI* (tonnes of CO_2e / £m investment / revenue)
	% companies with climate transition plan
	No. of engagements on climate change in year
SDG 7 (Affordable & Clean Energy)	% of energy usage from renewable sources
	Energy consumption (kWh) per £m revenue

*Weighted Average Carbon Intensity - An intensity measure of emissions that assesses the level of greenhouse gas emissions arising from £1 million of sales/revenue generated by the company.

Noting this is a developing area and data continues to evolve, the Committee intends to reassess and refresh the framework as data improves over time. Some metrics data remains inconsistent across the Fund's investment managers, however we expect to see improvements, with such frameworks as TCFD driving change, which the

Committee are supportive of. For example, Scope 4 emissions data (i.e. total avoided carbon emissions) is currently not widely available and so the approach of the Fund is to not monitor Scope 4 data yet until such time as data has improved. Some data is also difficult to compare across multiple managers as a result of different methodologies used and ways of reporting not currently standardised, although we also expect this to improve over time.

The Committee believes the framework implemented will enable the Fund to identify whether its investment managers are improving over time in line with the Committee's objectives. This can also help in identifying any actions required, where that's improving disclosure, driving year on year metric improvements, increasing stewardship effectiveness, or managing exposures (for example, to reduce the carbon footprint/emissions of the Fund). The Committee will look to review and implement more specific, relevant, and quantifiable targets for these metrics once data becomes more readily available.

Outcomes

As mentioned, in 2021, the Fund set specific ESG beliefs and objectives which underpin the Fund's RI Policy, which has also been reviewed and updated to reflect the amended beliefs. In addition, the Fund maintains and has reviewed separate governance, risk management (including a regularly updated Risk Register with consideration of ESG risks) and conflict of interest policies (see principles 2, 3 and 4 for additional detail).

Given the ESG beliefs and objectives (aligned with prioritised SDGs), the Fund has started integrating ESG considerations and opportunities into the investment strategy and have in the last couple years made a number of strategic changes to drive improvement in the above metrics, starting with the equity portfolio, and has already made some progress against the proposed objectives and metrics over the last year. For example, the Fund has made two strategic changes; replacing the UBS UK Active Equity Fund and the LCIV (EPOCH) Equity Income Fund with the LGIM Global Future World Index Fund and the LCIV Global Alpha - Paris Aligned Fund (Baillie Gifford) (c.13% strategic allocation of overall portfolio in each) respectively. Key drivers for these strategic changes include:

- The UBS UK Active Equity Fund and the LCIV (EPOCH) Equity Income Fund were accounting for the highest proportion of carbon emissions.
- The Committee felt it would be possible to increase the level of ESG integration within the Fund's public equity allocation.
- The switch to the LGIM Global Future World Index Fund and the LCIV Global Alpha - Paris Aligned Fund (Baillie Gifford) has significantly reduced the carbon emissions and carbon footprint of the portfolio (the new funds in aggregate have more than 50% reduction in emissions compared to the previous respective funds).

No further allocations have been made since, however at the time of writing, the Fund is in the process of undertaking an investment strategy review following the triennial valuation and ESG considerations and opportunities will be considered as part of any new allocations. See more details under Principles 4 and 7.

It is worth noting that not all managers/funds are currently able to provide all SDG-related and TCFD metrics requested, however this is expected to improve over time given the anticipated incoming TCFD regulations, and through regular engagement with investment managers.

The metrics are also aligned with TCFD reporting requirements and the Fund has started to engage with the investment managers on reporting these metrics and plan to continue to do so as further guidance and developments materialise.
With the above strategic changes made and following an assessment based on the triennial valuation cycle, it was shown that significant improvements in carbon intensity metrics were made between 2019 and 2022, as evidenced below:

Metric	**2019**	**2022**
Carbon Intensity Direct & 1st Tier Indirect*	190.9 tCO2e/mGBP	98.7 tCO2e/mGBP
Carbon Intensity Scope 1,2 & 3	859.6 tCO2e/mGBP	527.7 tCO2e/mGBP
Fossil Fuel Exposure	16%	7%

*Direct refers to Scope 1, while 1st Tier Indirect refers to Scope 2 plus the first tier of the company's supply chain's emissions

With climate action identified as the initial focus given anticipated TCFD requirements, the above metrics align with the climate action (SDG 13) objective and identified metrics, providing a start with further engagement with managers required to provide the additional metrics identified.

Individual investment manager metrics were also provided together with the whole portfolio results, this enables the Committee to consider any weak points in the strategy. This intelligence fed into the Investment Strategy Statement refresh following the latest valuation, and are (and will continue to be) considered as part of any strategy reviews.

PRINCIPLE 8 - MONITORING MANAGERS & SERVICE PROVIDERS

Signatories monitor and hold to account managers and/or service providers.

Activity

The Fund employs multiple service providers and advisors who assist with its stewardship activities, including investment consultants, actuary, benefits consultants, global custodian, investment managers, lawyers, pension fund administrator and an independent professional investment advisor. The Fund conducts retenders on a regular basis for all services to ensure high quality advice and a fair selection process.

As mentioned under Principle 2, the contract for the independent investment advisor was recently expanded to include a wider governance remit, which was retendered and awarded in March 2023 and the new role allows for an increased hands-on approach, expanded communication, collaboration, and scrutiny with external stakeholders such as investment managers, Fund members and employers.

The Fund is also re-tendering for investing consulting services which is ongoing at the time of writing.

Investment managers are assessed on their investment capabilities relevant to the mandate and asset class, including an assessment of how ESG considerations and risks, including climate change, are accounted for within the portfolio. This is done through the support of the Fund's investment advisor, Isio, by doing an annual ESG impact assessment of all the Fund's investment managers, including a progress update. LCIV and the other investment managers also provide quarterly reports which include information on ESG issues, and this is reviewed and scrutinised by the Committee on a quarterly basis.

In 2022, the Committee, with the support of its investment advisor, undertook it's second ESG impact assessment. This was an assessment of the ESG capabilities of each investment manager which the Fund invests in, with each manager rated as follows: 0-1 (significantly fails to meet criteria), 1-2 (practically meets criteria), 2-3 (meets traditional criteria), 3-4 (meets additional sustainability criteria) and 4-5 (meets additional impact criteria) across five ESG criteria (namely Investment Approach; Risk Management; Voting & Engagement; Reporting; Collaboration). The assessment also results in an overall ESG score and a climate score for each investment manager. The investment adviser assesses the investment managers against a number of questions against each ESG criteria within quantitative scorecards. As part of this assessment, proposed actions are also outlined for each manager, with the intention that the managers' progress against these actions are monitored to drive improvement in the respective manager's ESG approach and to align with best practice indicators. These actions are not an exhaustive list but the areas which are considered priority areas and will make the most significant improvements from an ESG perspective. An example of an executive summary, manager ESG assessment including proposed actions for engagement and against which progress is monitored is shown below.

Executive Summary and Manager Overview:

Executive Summary

Meets Additional Impact Criteria 4 < Score <= 5 | Meets Additional Sustainable Criteria 3 < Score <= 4 | Meets Traditional Criteria 2 < Score <= 3 | Partially Meets Criteria 1 < Score <= 2 | Significantly Fails to Meet Criteria 0 <= Score <= 1

We have assessed each of the Fund's investment managers against the criteria set out in the appendices. The next section summarised our ratings and proposed actions for each manager.

Mandate	Overall View	Mandate	Overall View
Fund A	1.2	Fund J	1.6
Fund B	2.3	Fund K	2.4
Fund C	2.5	Fund L	2.3
Fund D	2.6	Fund M	2.4
Fund E	2.3	Fund N	2.0
Fund F	1.1	Fund O	1.1
Fund G	1.3	Fund P	2.1
Fund H	1.8	Fund Q	2.0
Fund I	1.4	Overall Score:	2.2

Manager Overview

Meets Additional Impact Criteria 4 < Score <= 5 | Meets Additional Sustainable Criteria 3 < Score <= 4 | Meets Traditional Criteria 2 < Score <= 3 | Partially Meets Criteria 1 < Score <= 2 | Significantly Fails to Meet Criteria 0 <= Score <= 1

	Assessment Criteria						
Mandate	Overall View	Investment Approach/ Framework	Risk Management	Voting & Engagement	Reporting & Monitoring	Collaboration	Climate
Fund A	1.2	1.1	1.8	0.3	1.1	1.3	0.7
Fund B	2.3	2.9	2.3	2.0	2.0	2.5	3.3
Fund C	2.5	2.4	2.5	2.5	2.1	3.0	2.6
Fund D	2.6	3.2	2.8	2.5	2.1	3.0	2.9
Fund E	2.3	2.6	2.5	2.2	1.9	2.3	2.3
Fund F	1.1	0.8	1.3	0.7	0.9	2.8	1.0

ESG Assessment and Views:

Manager X – ESG Assessment Summary

Overview

ESG Score: 2.5 Climate Score: 2.6

The manager employs a dedicated and experienced ESG team to assess and engage with companies on key ESG issues. Within the manager's passive equity index range, there is limited scope to adapt the investment approach to ESG matters.

We view the manager as being leaders in promoting ESG through industry-wide collaboration focused on climate-related topics.

We note that manager's ESG reporting capabilities have scope to improve, to ensure that sufficient data is being provided in regular client reporting.

Proposed Actions

Reporting – The manager should consider reporting on fund level coverage of greenhouse gas emissions.

Reporting – The manager should consider including social and governance metrics in future ESG quarterly reports.

Assessment Criteria	Score	Overview
Investment Approach	2.4	– Manager X have a firmwide ESG policy implemented through identifying, engaging and escalating key ESG issues. – Given the nature of the passive fund range, there is little scope for the manager to make investment decisions based on ESG factors.
Risk Management	2.5	– The manager has a team of 51 employees with roles dedicated to ESG who have a focus on embedding ESG practices across The manager's investment strategies. Isio believe the manager's dedicated team implement risk management to a high standard through the use of ESG metrics and proprietary tools.
Voting & Engagement	2.5	– The manager has a set of investment stewardship priorities with a current focus on areas such as board accountability; climate change; low-carbon solutions. The manager's stewardship team of 24 individuals are responsible for focusing on these priorities with expertise across different sectors.
Reporting	2.1	– Manager X produce quarterly ESG reports which detail ESG metrics such as carbon footprint and climate related engagements; fund reporting also includes Scope 1 and 2 emissions, and monthly coverage of voting and stewardship activities. – The manager has an ESG scoring system which scores portfolio companies against ESG metrics which are published online.
Collaboration	3.0	– The manager has been a signatory of the UNPRI since 2010 and has a UNPRI score of A+. Additionally, the manager is a signatory of the Net Zero Asset Manager initiative.
Climate	2.6	– Manager X are able to report on Scope 1 & 2 emissions and are seeking to report on Scope 3 during 2023.

Proposed Actions and Progress Update:

Proposed Actions

✓ Action completed
◷ Action in progress
✗ Action not yet started

Mandate	Proposed Action Category	Progress	Manager Progress Against Action
Fund X	Reporting	✓	• *LGIM now provide reporting on voting and stewardship to meet client regulatory requirements.*
	Reporting	✓	• *LGIM have agreed to include Social and Governance metrics in future versions of the ESG quarterly reporting.*
	Reporting	✗	LGIM should consider reporting on fund level coverage of greenhouse gas emissions.

The Fund complies with the requirements set under the Competition and Market Authorities' (CMA's) Investment Consultancy and Fiduciary Management Market Investigation Order 2019. With effect from 10 December 2019, the Fund has set strategic objectives for Isio as their investment consultant/advisor, with the aim for the Committee to better assess and evaluate the quality of their investment consultant, and were prepared with reference to TPR's guidance, combining a mixture of quantitative and qualitative measures. Approach to ESG forms part of this assessment. These objectives are reviewed periodically, at least every three years and after any significant changes to the Fund's investment strategy.

The Committee has confirmed the Fund's compliance with the CMA Order for both 2020, 2021 and 2022, and will continue to do so on an annual basis, while we expect TPR to issue further information about how regularly the Committee need to review their investment consultants against the agreed objectives. In the meantime, the Committee assess Isio and their other advisors on a regular basis and in relation to the services received and consider a re-tender process on a rolling basis. For a number of service providers, services are provided on a contract basis and KPIs are reported and monitored.

Whilst climate considerations feed into our assessment process of both advisers and investment managers, we anticipate formalising these further as part of anticipated impending TCFD regulations.

Outcomes

Under the ESG assessments, we have in parallel assessed alignment with the Fund's ESG and stewardship-related beliefs and policies and expectations, to ensure the approach continues to meet our needs.

The Committee, with the support from their investment advisor, both off the back of the ESG impact assessment and independently, have engaged with investment managers and LCIV to understand and critique their ESG approach and have noted progress across the board. Specific examples include the following:

- The Committee held a session with LGIM, specifically in relation to the LGIM Future World Equity Fund and their ESG approach. LGIM also communicated that they were adding four new ESG metrics to their comprehensive ESG scoring framework, including Deforestation, Water Management, Value Chain Emissions, and Climate Lobbying.;
- A meeting was held with AEW (a large property investment manager, with significant assets invested) following the ESG annual impact assessment. As part of the discussion, the Committee requested a number of changes including agreement on a fund level ESG objectives; development of a net zero target and pathway; introduction of climate risk scenario analysis; development of Diversity and Inclusion Policy; adoption of fund level stewardship priorities; and inclusion of ESG metrics in quarterly reporting. The outcome of this meeting was that AEW were receptive to the requests and agreed to work on implementing these changes (where possible). The Committee and their advisors will continue to monitor and engage with AEW in relation to progress on these issues.
- The Committee engages with the LCIV on a regular basis and during April 2023, LCIV held a due diligence meeting to discuss its Multi Asset Credit Fund and the performance of the two underlying credit managers (CQS and PIMCO). LCIV noted improvements on their ESG credentials but agreed further work needed to be undertaken and committed to do so.

In addition, the Committee has directly requested all managers sign up to the UK Stewardship Code (or local equivalent) and/or UN PRI and have had take up on this request.

As also mentioned under principle 2, the Fund has engaged with LCIV and oversee progress on a number of proposed items in relation to responsible investment, governance and stewardship, including engagement on achieving their net zero target and improvements to reporting of ESG metrics and climate analytics, which has been developed recently. The Committee intend to continue engaging with all investment managers and service providers, including LCIV, in 2023 and beyond.

ENGAGEMENT

PRINCIPLE 9 - ENGAGEMENT

Signatories engage with issuers to maintain or enhance the value of assets.

Activity

Processes

The Fund's ESG approach is set out in its RI Policy and distributed to investment managers for consideration when voting and engaging with portfolio companies. Further, the Committee expect managers to vote in the best interest of the Fund, while maintaining our fiduciary duty. Day-to-day responsibility for managing investments and stewardship activities (including engagements) are delegated to the Fund's appointed investment managers, and the Fund expects them to monitor companies, intervene where necessary, and report regularly on activities undertaken. Reports from the investment managers on voting and engagement activities are provided to the Committee quarterly. The effectiveness of the Fund's managers' engagement activities is appraised through responses gleamed from their detailed quarterly reports and the engagement volumes monitored with a view to ascertain their commitment to stewardship of investments under their management. The Fund's, investment advisor, Isio, also provide a voting and engagement score for each investment manager, providing an independent view. Voting patterns and volume of attended meetings are also good indications of their commitment and effectiveness.

When contentious issues of national interests relating to any of the Fund's investments is prominent in the press or widely debated. The Fund will generally contact the relevant manager(s) to ensure they are aware of the Committee's interest and opinions on the issue and provide the Fund and Committee with their views and steps being taken to ensure the invested company take on board such views. On occasions, the Fund may participate in escalation of poignant issues, principally through investment managers' engagements with parties of concern.

The Fund has in the past directed investment managers to divest from companies in a particular sector. For example, from tobacco based on our concern of the effect of their product on general population's health at a time when the Council was entrusted with public health responsibilities locally. The Fund will consider similar actions in other sectors looking forward should engagement not result in the desired outcome (for example in relation to climate change or fossil fuels).

Annual reviews

As part of the annual ESG impact assessment, the Committee, with the help of its investment advisor, report on manager progress since the last assessment and against the proposed action points, which are used for continual engagement and monitoring of the Fund's investment managers. This is something the Fund intends to continue to do on a regular and ongoing basis.

Lastly, the Committee has produced an Implementation Statement (see Appendix) to provide evidence that the Fund continues to follow and act on the principles outlined in the ISS. This report details:

- actions the Committee has taken to manage financially material risks and ESG risks, including climate change, and implement the Fund's key policies;
- the current policies and approach with regards to ESG and the actions taken with managers on managing ESG risks;
- the extent to which the Committee have followed policies on engagement, covering engagement actions with its investment managers and in turn the engagement activity of the investment managers with the companies they invest; and
- the voting behaviour of the Fund's investment managers covering the reporting year up to 31 March 2022 (noting the Committee's delegation of Fund voting rights to the investment managers through its investment in pooled fund arrangements).

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 LAPFF as far as practically possible. The LCIV will hold managers to account where they have not voted in accordance with these directions. As mentioned in Principle 1, the Fund itself has also recently joined LAPFF to further its collaboration efforts and to have a direct voice in influencing engagement and voting themes.

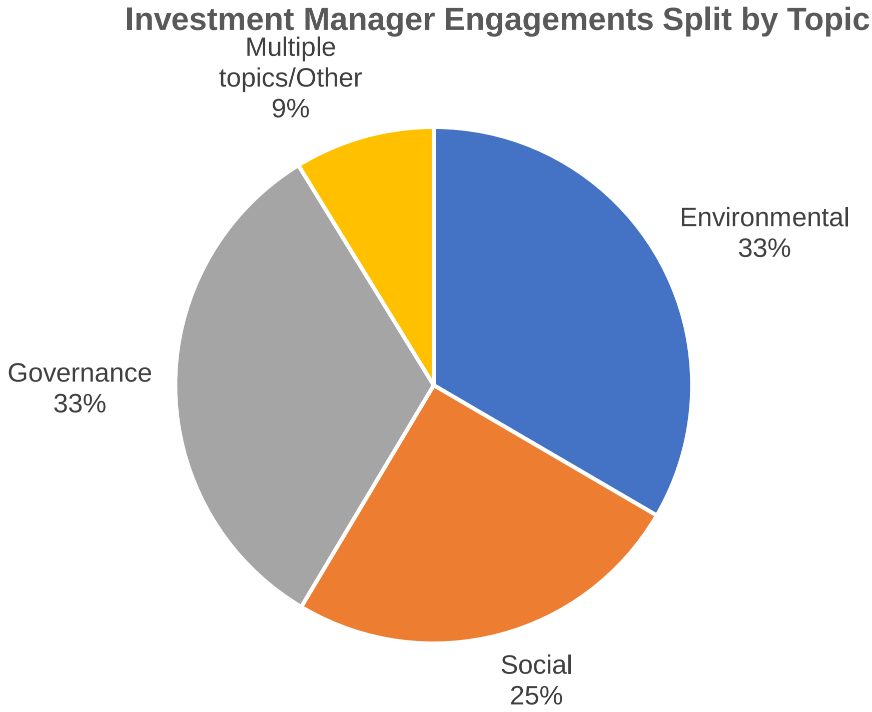
To ensure effective and consistent use of the voting rights, investment managers are tasked with exercising the voting rights accruing to the Fund. If important issues impacting local residents do emanate from actions of invested companies, the Pensions Committee will contact investment managers in charge 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 decisions.

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. This is again assessed independently by the Fund's investment advisor, Isio, providing a collaboration score for each manager, in order for the Committee to understand if more could be done. The Fund appreciates that to gain the attention of companies in addressing governance concerns; it needs to join with other investors sharing similar concerns.

Outcomes

Our investment adviser's ESG assessment framework of investment manager capabilities was refreshed last year to include a numerical score (allowing for easier comparison across mandates and over time going forward) and the use of a new scorecard reflecting new developments and best practice. Given how quickly the ESG landscape is evolving, the scorecards are updated annually in order to raise the bar for what is expected of managers. So while it is difficult to directly compare the recent assessment against the previous, following the recent ESG assessments and engagements, we have noted some improvements in a number of funds in the portfolio, either at the overall level or for a number sub-criteria ratings. Most notably, the LCIV Infrastructure Fund (Stepstone) and the LCIV Absolute Return Fund (Ruffer) have made some improvements across a number of criteria, although reporting and monitoring remain a key are for improvement for both.

In addition, the below chart and table shows a summary of investment manager engagements by topic (across both equity and fixed income funds) over the 12 month period to 31 March 2022 (the Fund's accounting year end and latest period which data was available at time of writing):



Engagement Topic	
Environmental	659
Social	496
Governance	644
Multiple topics/Other	173
Total	**1,972**

Notes: Some managers were unable to provide engagement data due to available systems and/or nature of the fund structure, however the Committee, with the support of their investment advisor, are working with these managers to report on this going forward. Environmental engagement topic includes individual instances of the manager requesting utility consumption data from underlying property companies and tenants. Total above shows the total engagements by individual topics for those managers who were able to provide this data (this will be underestimated as the other managers have engaged with underlying holdings but were unable to granular data and so have been excluded), this related to 1,517 separate engagements across 829 entities.

A few examples of relevant engagement including outcomes, which are aligned to the Fund's key priorities and objectives are shown below with more detail shown in the Appendix.

Engagement

Permira Direct Lending	Total engagements: 30 (across 6 entities) Environmental: 8 Social: 10 Governance: 6 Strategy, Financial and Reporting: 6	**Cruise.co** – Permira has engaged with the CEO of the Company on ESG/Sustainability strategy. As part of the engagement, the manager has presented a benchmarking exercise against peers and competitors in the sector and other cruise operator approaches to ESG/Sustainability. The exercise included examples of KPIs that could be collected and reported as well as highlighted opportunities to strengthen company level approach to ESG strategy. Permira continues to engage with the Company and has recently introduced consultants to support carbon footprint on their cruise holidays.
LCIV Absolute Return Fund (Ruffer)	Total engagements: 53 (across 23 entities) Environmental: 17 Social: 12 Governance: 23 Strategy, Financial and Reporting: 1	**ArcelorMittal** – Ruffer has engaged with ArcelorMittal in relation to its progress on the Climate Action 100+ Net-Zero Benchmark, focusing on climate-related lobbying, governance, and medium-term greenhouse gas emissions reduction targets. **Barclays** – Ruffer met with Barclays to discuss refining and setting targets for the climate change policies. As a result, Barclays have agreed to undertake interim targets to help benchmarking against their net zero 2050 commitment. Ruffer also discussed board structure and succession planning for the CEO.

From 1 November 2021 onwards, LCIV have appointed Hermes EOS (a UK Stewardship Code 2020 signatory) to consolidate all voting activities for the LCIV segregated listed equities funds. Furthermore, Hermes EOS also provides engagement services to all segregated public market funds (public equities and corporate fixed income). They believe that by consolidating voting, rather than outsourcing the voting activity to the investment managers, can drive positive outcomes that is more tailored to priority themes. The development of the LCIV Voting Guidelines further encapsulates best industry standards, their priorities, and Client Funds' priorities. Those strategies held via pooled vehicles in LCIV Funds are voted

by the appointed investment managers. LCIV also vote in the small number of votes issued in private market funds.

Case study – LCIV

As mentioned, the Fund has been actively engaging with the LCIV in order to improve their overall governance arrangements, manager reporting and wider ESG considerations. A number of meetings have taken place with the London CIV Chief Executive Officer and London Borough of Hillingdon Pension Committee Chair, along with respective officers, setting out a manifest of improvements. During 2022 the majority of requests have been implemented by the LCIV and:

- they have become the first Local Authority pension pool to target net zero emissions by 2040. They aim to become a net zero company across operational and supply chain emission by 2025.
- They have been one of the first pension fund group members of the deforestation-free pensions guidance working group set up by Global Canopy, Systemiq and Make My Money Matter.
- They signed up for Financial Sector Commitment Letter on Eliminating Commodity-Driven Deforestation
- Engagement continues to ensure momentum is maintained and further improvements can be discussed.

Case study – LCIV engagement with private debt managers

LCIV actively engage with underlying managers on the Fund’s behalf, the below is an example of such activity.

LCIV has been collaborating with the private debt managers to bolster their ESG practices, recognising that private debt presents unique challenges, such as limited data availability and smaller borrower enterprises. As a result, managers will need to adopt an innovative ESG approach distinct from more established ESG asset classes, such as listed equities and corporate fixed income.

As a result of ongoing collaboration with a private debt manager, Pemberton, they have introduced an innovative ESG Margin Rachet which grants a margin reduction to the borrower if they successfully incorporate their 6 ESG criteria and receives a third-part confirmation. Pemberton offers a margin reduction of 0.05% per annum for 12 months after the borrower certifies for the 6 ESG criteria.

LCIV believes creating incentives for borrowers to report on key ESG metrics, Pemberton is leading the way to address the lack of ESG data (especially Greenhouse Gas Emissions data) in private markets.

PRINCIPLE 10 - COLLABORATION

Signatories, where necessary, participate in collaborative engagement to influence issuers.

Activity

The Fund seeks to engage collaboratively with the broader market including other investors and recognised bodies on key issues and in relation to the Fund's ESG priorities and key objectives. 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 also 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 and other ESG issues; it needs to join with other investors sharing similar concerns.

Industry initiatives

The Fund seeks to work collaboratively with other institutional shareholders and asset owners in order to maximise the influence that it can have on individual companies. These are listed and described in the table below:

Initiative / Body	Description
London CIV	The London CIV, which takes direction from LAPFF in respect to ESG issues on behalf of its members, through voting alerts on such issues as recommended by LAPFF. These alerts are then referred to engaged fund managers in pursuance of important ESG engagement issues for implementation or opinion.
TCFD	The TCFD recommendations advocate for better disclosure in relation to climate risks and metrics. The Fund considers climate issues of paramount importance and a primary risk to the investments it holds and as a result the Fund signed up to being a supporter of TCFD in 2021 and committed to reporting in line with TCFD requirements over the coming years and as part of this look to collaborate with other TCFD supporters. The Fund has started preparation for reporting in line with the TCFD requirements, expecting similar guidance to the private sector, despite LGPS regulations not yet confirmed. The Committee, with the assistance of their advisors, are monitoring the latest updates in relation to the regulations and will adjust their governance and reporting accordingly if needed.
LAPFF	In March 2023, the Fund itself agreed to join the Local Authority Pension Fund Forum (LAPFF) to have a direct voice in influencing engagement themes. LAPFF is a voluntary association of public sector pension funds based in the UK and a leading voice for local authority pension

	funds and looks to promote the highest standards of corporate governance and corporate responsibility to protect the long-term value of local authority pension funds. As an output of this collaboration, voting recommendations are received from the LAPFF research team and are now passed onto investment managers for consideration.

Expectations of investment managers

The Committee believes that the companies that manage assets on behalf of the Fund should at the least be signatories to the UK Stewardship Code and UN PRI and are encouraged to collaboratively engage with a wide set of other relevant bodies, organisations and initiatives, including in relation to climate change which is considered a current priority. 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 or region (for example the Global ESG Benchmark for Real Assets (GRESB)), but the Committee will regardless encourage them to do so. New investments will not be made into managers who are not signatories to the UK Stewardship Code and UN PRI at a minimum but an expectation to sign up to others in addition (for example Net Zero Asset Manager Initiative, TNFD, Climate 100+, etc).

As part of the ESG impact assessment, one of the five criteria in which investment managers are assessed is collaboration and as a result, the Committee, through its investment advisor, engage with the Fund's investment managers in relation to their collaboration with the wider industry to drive broad improvements across the board. Engaging with investment managers in this way not only asserts the Fund's views but also uses the weight of the Fund's investment advisors across other clients to drive change. The Fund also 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 as well as the Fund's key objectives and targets discussed in Principle 7.

Outcomes

Engagement and collaboration has to date been focused directly on investment managers of the underlying portfolio to drive improvement in the assets the Fund holds (as shown in Principle 9 and further detail in the Appendix). As mentioned, the Committee encourage all investment managers who manage assets on behalf of the Fund to at the least be signatories to the UK Stewardship Code and UN PRI (or equivalent for region and asset class) as well as any other relevant bodies, and have had take up on this request with the majority of the Fund's managers at least signatories to the above as well as a number of other relevant ESG bodies depending on asset class.

Following last year's decision to support and collaborate with TCFD the Fund has employed the services of LCIV to undertake climate analytics and reporting for the Fund, based on current TCFD guidance and as mentioned this has resulted in strong improvements in carbon emissions/intensity metrics since 2019.

In addition, an outcome of joining LAPFF is that voting recommendations are received directly from the LAPFF research team which are now passed onto fund managers for consideration resulting in more directed and focussed engagement activity at the underlying holdings level. While, as mentioned, there is the expectation investment managers themselves to also collaborate with the wider market to broaden their scope and impact to drive company improvements (examples of collaborative engagement included from the investment managers are shown in the Appendix).

The Committee is also committed to pooling and improving the pooling structure and approach by working closely with LCIV, and have been a leading force in LCIV's governance improvements and financial reporting. The fund will also 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.

PRINCIPLE 11 - ESCALATION

Signatories, where necessary, escalate stewardship activities to influence issuers.

Activity

The Committee, and their advisors, have set minimum expectations of managers including through collaborative initiatives they should be party to (see Principle 10), as well as in relation to ESG integration and investment approach.

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.

As highlighted previously, responsibility for day-to-day interaction with companies is delegated to the Fund's investment managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the UK Stewardship Code and the Committee expect this to be in line with the Fund's objectives and beliefs stated within the RI Policy. On occasions, the Fund may participate in escalation of poignant issues, principally through the Fund's investment managers' engagements with parties of concern and in relation to investments in certain sectors (for example, tobacco and fossil fuels).

The Committee also believes that the companies that manage assets on behalf of the Fund should at the least be signatories to the UK Stewardship Code and UN PRI and are encouraged to collaboratively engage with a wide set of other relevant bodies, organisations and initiatives. Given the Committee's focus on climate, we further expect investment managers to have net zero pledges and interim targets and look to escalate this where investment managers currently have no such pledges and/or engage with them on how they will meet their pledges.

The LAPFF issues voting alerts to members (including LCIV) where deemed necessary or helpful, and where serious ESG concerns have been identified, as well as if attempts to engage with the company have been unsuccessful. LAPFF outlines the rationale behind the vote via several platforms, such as by means of a press release or in the public LAPFF quarterly engagement report. LAPFF believes in engaging constructively with members' investee companies and explaining the escalation in activity is deemed another form of engagement with the company, therefore extending the opportunity for dialogue and debate on material responsible investment concerns. LAPFF engagements and voting alerts are disclosed in their quarterly engagement reports are publicly available at:
Quarterly Engagement Reports | Publications Categories | LAPFF (lapfforum.org)
and in their annual report which is also publicly available at:
Annual Reports | Publications Categories | LAPFF (lapfforum.org)

Outcomes

The Fund has had no direct escalations to its service providers in relation to stewardship or governance matters. However as mentioned in other areas of this report there is constant engagement and collaboration with investment managers and other service providers in order to drive improvements on an ongoing basis. The Fund has seen positive outcomes as a result, with limited need for further escalation as investment managers and other service providers have been receptive to these engagements. As the Committee believes that engaging with managers is more effective to initiate change than divesting, the Committee will continue to review and monitor ESG scores annually, engage with managers and only use divestment pragmatically should improvements not be forthcoming over a sustained period. The Committee will seek to formalise this process as future ESG scores can be monitored.

As mentioned in Principle 9, the Fund has in the past directed fund managers to divest from tobacco based on our concern of the effect of their product on general population's health at a time when the Council was entrusted with public health responsibilities locally. The Fund will consider similar actions in other sectors looking forward should engagement not result in the desired outcome (for example in relation to climate change or fossil fuels).

As mentioned, responsibility for day-to-day interaction with companies is delegated to the Fund’s investment managers, including the escalation of engagement when necessary which is done through proxy voting on behalf of investors (including the Fund). Please see appendix for details of investment manager’s engagement and voting, including outcomes of where matters have been escalated with underlying companies’ boards and executives to drive improvement in policies and processes.

<u>Case study – LCIV and Ruffer LLP</u>

Following a number of concerns raised and a lack of sufficient improvement following other forms of engagement, a meeting was held in December 2022 with the LCIV pool and Ruffer LLP investment manager to understand their approach to ESG and request that better engagement and voting be implemented.

LCIV confirmed they would work with Ruffer to improve these aspects. Ruffer also confirmed their willingness to work with the Fund and LCIV to address any concerns and implement better behaviour going forward and the Committee, with support from their advisor, will continue to monitor progress in relation to the points of concern.

EXERCISING RIGHTS AND RESPONSIBILITIES

PRINCIPLE 12: EXERCISING RIGHTS & RESPONSIBILITIES

Signatories actively exercise their rights and responsibilities.

Context

The Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the UK Stewardship Code and expects appointed investment managers to be signatories to the Code and have publicly disclosed their policy on how they will implement their stewardship responsibilities. Stewardship is part of the responsibilities of share ownership, and therefore an integral part of the investment strategy.

In practice, the Fund’s policy is to apply the Code through its arrangements with its investment managers. To this end, a quarterly summary of fund managers' ESG activities detailing the engagement meetings undertaken and issues raised at AGMs and EGMs, as well as voting and engagement statistics are provided to members as part of the Committee meeting reports. Investment managers play a pivotal role in driving forward the global ESG agenda, as they have vast resources at their disposal to raise issues of concern with portfolio companies. Most investment managers combine these meetings with their investment due diligence as part of a holistic approach to management of funds entrusted into their care. Whilst all voting decisions were outsourced to managers, managers are expected to adhere to their ESG and climate policies, as well as any expectations set by the Fund in relation to ESG or climate.

The process described above ensures invested companies are aware of the opinion of shareholders such as the Fund regarding their stewardship approach and consider such opinion in their decision-making processes. Failure to heed such opinion has often been followed by the fund manager raising the issues at company AGMs and subsequently employing their vote at such meetings to reinforce their position or sometimes in extreme cases, divest from such companies.

Activity

Details of the rights and responsibilities in relation to the Fund’s voting and engagement activities is detailed in the RI Policy and specific details of voting and engagement activity over the Fund’s accounting year is detailed in the implementation statement (see Appendix).

Responsibility for the exercising of voting rights and day-to-day ESG integration of investments is delegated to the Fund’s appointed investment managers who are expected to have closer knowledge of companies under investment and board activity. This includes consideration of company explanations of compliance with the Corporate Governance Code. Regular reports are received from the investment managers on how votes have been cast, and controversial issues can be discussed at panel meetings. The Fund publishes available summary voting data by manager as part of the quarterly report to the Pension Committee. The Fund also reports annually on stewardship activity through a specific section on “Responsible Investing” in its annual report. Via these quarterly and annual stewardship reporting, the Committee expect managers to provide an indication on shares invested on the Fund’s behalf and exercise any voting rights they have, wherever feasible.

Equity and multi-asset

The below table shows a summary of voting activity from the Fund’s investment managers (covering equity and multi-asset funds) over the period (see Appendix for more detail):

Meetings eligible to vote at	7,001
Resolutions eligible to vote	79,588
Voted with management	64,702 (81%)
Voted against management / Abstained	14,886 (19%)

Further information in relation to voting on equity and multi-asset funds can be found in the Appendix, including a summary on how resolutions were voted over the period, significant examples and information on voting policies.

Fixed Income

For fixed income assets, the Committee, with the support of their advisors, review the fund prospectus and conduct appropriate due diligence before appointing an investment manager. The Committee delegates the stewardship responsibility to the investment managers and expects prudent measures to be taken in relation to terms and conditions within contracts, deeds, and impairment rights. Having said that, there is consideration of the terms and conditions in fund indentures and contracts as part of the investment criteriaof fixed income manager selections.

The Committee recognise it is an evolving market, particularly in relation to fixed income, and we expect investment managers to progress with this and seek to pull in ESG ratchets where possible, an example of this was referenced in a previous case study relating to Pemberton. Further, the Committee expect managers to engage with credit issuers to drive improvements in relation to ESG risks. The Committee reviews information on engagements from the investment managers on a regular basis and uses this to engage with them on key ESG issues.

Given the Fund is an LGPS fund and has a commitment to pooling, the Fund works closely with the LCIV to improve the stewardship and governance of all assets across the platform (including both private and public markets as well as equity and fixed income). Private asset investments by their nature allow fund managers to directly influence decisions and provide the fund managers a degree of control over operations and governance issues.

Outcomes

The majority of fixed income assets (both public and private) are currently held on the pool with LCIV or passively managed by LGIM (index-linked gilts), with the remaining private fixed income assets winding down. In consideration of underlying fixed income managers, as part of the due diligence and onboarding process of new fixed income mandates, LCIV consider and in some cases look to amend the terms and conditions in managers indentures or contracts (for example, in IMAs) in line with their criteria and beliefs, which they also look to align with investors on the pool. An example includes the recently developed LCIV Multi-Asset Credit (MAC) Fund, managed equally by CQS and PIMCO, in which the Hillingdon Fund invests, where LCIV worked closely with both managers and Funds in the London Borough to develop the mandate in line with key objectives. The Committee recognise ESG considerations in fixed income is an area of the market that is evolving and would expect investment managers to pick up opportunities where possible including allocations to green, social, or sustainable bonds. This will be assessed via the ESG impact assessment.

Voting activity, including outcomes, from the Fund’s passive equity manager (LGIM) and multi-asset manager (Ruffer), and which are aligned to the Fund’s key priorities and objectives are shown below with more detail shown in the Appendix. Key engagement examples were included in Principle 9, with further detail also in the Appendix. Note: Baillie Gifford Global Alpha – Paris Aligned Fund was invested in post 31 March 2022 and so data is not provided and will be included in the next report. Voting activity is not relevant for fixed income and real assets, but relevant engagement examples and information is provided under Principle 9 and in the Appendix.

<u>Voting:</u>

Fund Name	Voting summary	Examples of significant votes
LGIM Global Passive Equity	Meetings eligible to vote for: 2,440 Resolutions eligible to vote for: 30,430 Resolutions voted for: 99.9% Resolutions voted with management: 80.2% Resolutions voted against management: 19.6%	Amazon.com INC – LGIM voted against electing Jeffrey P.Bezos as a director. LGIM has a longstanding policy to advocate for separation of the roles of CEO and board chair as the manager believes that the roles are substantially different and require distinct skills/experiences. LGIM have voted against all combined board chair/CEO roles since 2020 and have published a guide for boards on separation of the roles. Apple INC – LGIM voted for reporting on Civil Rights Audit. LGIM support proposals related to diversity and inclusion policies as these issues are considered as material risks to the company by the manager. LGIM believe that gender diversity has a financially material affect on the clients with implications affecting assets LGIM manage on their behalf.

	Resolutions abstained from: 0.3%	Intel Corporation – LGIM voted for reporting on Global Median Gender/Racial Pay Gap with the aim of influencing investee companies on having greater gender balance, LGIM expect each company they invest in to have at least one female on their board.
LGIM Future World	Meetings eligible to vote for: 4,465 Resolutions eligible to vote for: 47,851 Resolutions voted for: 99.9% Resolutions voted with management: 81.7% Resolutions voted against management: 17.4% Resolutions abstained from: 0.8%	The above examples are also applicable to the LGIM Future World Fund.
LCIV Absolute Return Fund (Ruffer)	Meetings eligible to vote for: 96 Resolutions eligible to vote for: 1,307 Resolutions voted for: 100% Resolutions voted with management: 92% Resolutions voted against management: 6% Resolutions abstained from: 2%	Royal Dutch Shell (Shell) – Ruffer voted for implementing company's climate transition plan (with management). Shell are looking to continue engaging on remaining areas of Climate Action 100+. Hence, the transition plan that ensures absolute emission equivalent targets sit alongside short to medium-term intensity milestones have been put in place. The vote has passed with c.89% in favour. Shell will continue to monitor how the company progresses and improves over time as well as will continue support for credible energy transition strategies and initiatives. NEC – Ruffer voted against election of an independent director. This was due to the director's affiliation to a company linked by cross-shareholdings with NEC and so Ruffer deemed him to not be independent. As the proposal passed with c.65% in favour, Ruffer will continue to engage with the company on governance issues and feedback concerns such as lack of independence across the board.

APPENDIX

Appendix A: 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.

Appendix B: Implementation statement
(Covering period 12 months to 31 March 2022)

BACKGROUND

This document has been drafted for the London Borough of Hillingdon Council (the Council) as the Administering Authority of the London Borough of Hillingdon Pension Fund (the Fund). This document is to be reviewed and approved by the Fund's Pensions Committee (the Committee).

The Department for Work and Pensions (DWP) has been increasing regulation to improve disclosure of financially material risks. This regulatory change recognises Environmental, Social and Governance (ESG) factors as financially material and Funds need to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require that funds detail their policies in relation to these factors and demonstrate adherence to these policies in an implementation report, which includes a summary of the Fund's Responsible Investment Policy and its engagement with investment managers, including underlying voting and engagement activities.

While this is not yet a regulatory requirement for Local Government Pension Schemes (LGPS), the Department of Levelling Up, Communities, and Housing (DLUCH) are considering following a similar path in terms of guidance. DLUCH changed requirements for LGPS Investment Strategy Statements in 2017, requiring Schemes to document how ESG considerations are taken into account in investment strategy decisions. The LGPS Scheme Advisory Board (SAB) have similarly advised Schemes to take into account ESG considerations, with a similar emphasis to the regulatory requirements noted above.

This document also represents a necessary step in maintaining signatory status with the 2020 UK Stewardship Code, which is a stated objective of the Fund.

Investment Strategy Statement

The Investment Strategy Statement (ISS) is required by Regulation 7 of the Local Government Pension Scheme Regulations 2016 (the Regulations) and must include:

- The Committee's assessment of the suitability of particular investments and types of investments;
- The Committee's approach to risk, including the ways in which risks are to be measured and managed;
- The Fund's policy on how environmental, social or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- The Fund's policy on the exercise of rights (including voting rights) attaching to investments.

The Fund updated its ISS in April 2020 in response to the requirements. The ISS can be found online at the following web address:

Pension fund documents - Hillingdon Council

Implementation Report

The intention of this Implementation Report is to provide evidence that the Scheme continues to follow and act on the principles outlined in the ISS. This report details:

- Actions the Committee has taken to manage financially material risks and implement the Fund's key policies;
- the current policies and approach with regards to ESG and the actions taken with managers on managing ESG risks;
- the extent to which the Committee has followed policies on engagement, covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the underlying companies they invest; and
- the voting behaviour of the Fund's investment managers covering the reporting year up to 31 March 2022. This is in context of the Committee's delegation of Fund voting rights to the investment managers through its investment in pooled fund arrangements.

Implementation Statement

This report demonstrates that the London Borough of Hillingdon Pension Fund has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

IMPLEMENTING THE CURRENT ESG POLICY AND APPROACH

ESG as a Financially Material Risk

The Fund's Responsible Investment Policy and Investment Strategy Statement describes the ESG as a financially material risk. This page details how the Fund's Responsible Investment policy is implemented, while the following page outlines the Committee's ESG beliefs used in evaluating the Fund's investment managers' ESG policies and procedures. The rest of this statement details a summary of the Committee's views of the managers, actions for engagement and an evaluation of the stewardship activity.

The below table outlines the areas which the Fund's investment managers are assessed on when evaluating their ESG policies and engagements. The Committee intends to review the Fund's ESG policies and engagements periodically to ensure they remain fit for purpose.

Implementing the Current ESG Policy

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Environmental, Social, Corporate Governance factors and the exercising of rights and engagement activity	- Through the manager selection process, ESG considerations will form part of the evaluation process; - The Fund's investment advisor, Isio, will monitor managers' ESG policies on an ongoing basis as part of ongoing due diligence; - When attending Committee meetings, investment managers will be asked to present on actions they have taken in respect of ESG factors and their exercise of rights and engagement activity; - The Committee is provided with a report detailing the managers' ESG policies as well as a summary of actions Isio has engaged with managers on in relation to ESG. - The Committee will engage, via their investment adviser, with investment managers, the London Collective Investment Vehicle (LCIV) pool and/or other relevant persons about relevant matters, including stewardship priorities, at least annually.	- The investment manager has not acted in accordance with their policies and frameworks. - The investment managers' ability to abide by the Committee's Responsible Investment Policy ceases due to a change in the manager's own ESG policies.

ESG MANAGER SUMMARY

The table below details ESG views, actions identified and engagement details for the Fund's current investment mandates (following the end of the financial year end). These managers and funds will evolve as the investment strategy changes through time.

Manager and Fund	ESG Summary View	Actions Identified	Engagement details
Adam Street Private Equity	Adams Street Partners (ASP) consider ESG factors into their investment process and philosophy. However, given the fund-of-fund nature of the strategy, its ability to embed ESG throughout their investment process is limited.	ASP should: • Set fund specific ESG objectives. • Consider formalising a plan for net-zero targets. • Look to consider conducting climate-scenario analysis and introduce a formal ESG training programme. • Consider setting quantifiable diversity targets. • Provide reports on ESG scoring of underlying managers.	In 2021, ASP's Head of Reporting joined the ESG Committee to improve their ESG reporting capabilities and over 2021 and 2022 have implemented data systems such as RepRisk, and developed a scoring framework, but were yet to incorporate this into client reporting. Isio intend to engage again with ASP in Q2 2023, on the Committee's behalf, against newly proposed actions and to get a further update on prior engagements.
AEW UK Core and UREF Property Funds	AEW have a clear ESG policy focused on social impact and awareness of key climate issues. However, AEW need to demonstrate the implementation of these policies at a fund level. Over time, Isio expect clearly defined ESG objectives for the funds and regular reporting on how the	AEW should: • Make a fund level commitment on ESG objectives and develop a net zero target and pathway. • Finalise its Diversity and Inclusion Policy and introduce climate risk scenario modelling. • Have fund level stewardship priorities in place. • Detail ESG metrics in quarterly reporting.	Isio initially engaged with AEW in April 2021 on the Committee's behalf to review their ESG policies, and feedback and review, proposed actions and priorities. As of the last engagement there has been fairly limited progress, but Isio intend to engage with them following completion of the new ESG assessment and updated proposed actions in Q2 2023, and

	funds are performing versus its ESG objectives.		will report back to the Committee.
LCIV Growth Fund (Baillie Gifford Paris Aligned)	The Fund is an adaptation of the Baillie Gifford (‘BG’) Global Alpha strategy, with the process amended by screening out carbon intensive companies; the manager has committed to having greenhouse gas intensity lower than that of the MSCI ACWI EU Paris Aligned Requirements Index. The Fund uses proprietary research to highlight material ESG issues, which are integrated into the investment process in a largely qualitative manner. BG has a firmwide net zero commitment, and a track record of collaborating with various external parties on ESG initiatives.	The Fund should: • Consider the use of social objectives and an ESG scorecard. • Consider the use of ESG scoring of assets held within the portfolio. • Consider the introduction of climate scenario analysis. • Consider running engagement through a centralised team. • Consider the inclusion of wider ESG metrics in client quarterly reporting.	Isio are yet to engage with the manager, on the Committee’s behalf, following investment in April 2022 and recent ESG assessment. Isio intend to engage with Baillie Gifford in Q2 2023 based on the proposed actions and will report back to the Committee.
LCIV Infrastructure Fund (Stepstone)	Stepstone are able to demonstrate a good level of commitment towards ESG, and ESG factors are well-embedded into their investment process, with examples of	The Fund should: • Attempt to develop quantifiable metrics in order to set objectives at an overall fund level or for specific underlying holdings. • Push for more involvement in	Following initial engagement in 2021, Stepstone further developed modelling capabilities to monitor metrics for the Fund to report in line with the TCFD framework.

	making and declining investments due to ESG considerations. LCIV's veto power based on ESG grounds adds another layer of ESG scrutiny. However, due to the fund of funds nature, the ability to standardise metric reporting and engagements at an asset level is limited.	General Partner's underlying assets from ESG and climate angle • Work with General Partners further to improve data collection, transparency and reporting for end investors.	In addition, in early 2023 Stepstone noted that are in discussions with their invested General Partners to gather more carbon/climate-related date and a number of them are in progress on delivering more data in the near future. Isio intend to engage again with Stepstone in Q2 2023 and will report back on further progress against proposed actions thereafter.
LCIV Multi Asset Credit Fund (CQS)	CQS have a clear firm-wide ESG framework and the Fund has several ESG objectives, such as attaining better ESG ratings and lower 'WACI' than a high yield index benchmark, and achieving Net Zero by 2050. Proprietary analysis feeds into the investment and risk management processes. Portfolio analysts and managers are responsible for carrying out ESG due diligence on issuers and provide an ESG score that feeds into the overall internal credit rating.	CQS should: • Finalise interim decarbonisation targets for the Fund on the journey to Net Zero by 2050. • Continue to build out scenario analysis capabilities, with a particular focus on temperature modelling. • Consider a more appropriate benchmark for climate analytics. • Include social factors as a priority area for engagement activities. • Provide social metrics as a part of regular fund reporting.	Following recent assessment, Isio intend to engage with CQS in Q2 2023 and will report back on further progress against proposed actions. However, in recent engagement with CQS, they noted they are in the final stages of formalising their interim decarbonisation target that is a requirement of being a signatory to the Net Zero Asset Manager's initiative. The CQS Credit Multi Asset Fund will be covered by this decarbonisation target, and the target will be confirmed in the coming months. CQS have also been analysing the Climate VaR and implied temperature rise tools by MSCI to understand how

			best these can be used in relation to the CQS Credit Multi Asset Fund, given the prevailing data challenges the Manager faces. CQS are working to build analysis into their internal reporting systems. They want to be comfortable the metrics are reflective before they are disclosed.
LCIV Multi Asset Credit Fund (PIMCO)	While PIMCO have firm level ESG policies, the Fund does not have any specific ESG-related objectives or stewardship priorities. PIMCO do assess potential issuers and fund holdings for ESG considerations, but these have limited impact on credit selection decisions. ESG reporting within quarterly reports is also limited, with further details only available on request.	PIMCO should: • Set fund specific ESG objectives or ESG policy with KPIs to monitor. • Set a net zero or decarbonisation pathway and utilise a scorecard in its investment decision making process. • Incorporate metrics into regular ESG reporting at a fund level.	Following recent assessment, Isio intend to engage with PIMCO in Q2 2023 and will report back on progress against proposed actions.
LCIV Private Debt Fund (Churchill)	Churchill has demonstrated that ESG integration is an important aspect of their investment and risk management process, using an ESG rating tool which covers key E, S and G risk factors. The Fund's ESG score is limited by its lack of a formal engagement process and approach, and limited reporting.	Churchill should: • Develop fund-level ESG objectives and policies. • Develop climate scenario analysis and/or temperature pathway analysis. • Introduce clear engagement priorities and objectives. • Produce quarterly reporting of ESG metrics. • Consider joining more industry initiatives and organizations.	Following recent assessment, Isio intend to engage with Churchill in Q2 2023 and will report back on progress against proposed actions. It was noted by Churchill that they will begin providing fund level ESG or sustainability reports on at least an annual basis in Q2 2023 and are in the process of becoming a signatory to the 2020 UK

			Stewardship Code. Isio will report back on progress in relation to this and the other proposed actions following the next engagement.
LCIV Private Debt Fund (Pemberton)	Pemberton have an ESG policy that is clearly aligned with their investment process. They have demonstrated an integrated approach and are able to identify and manage ESG risks reasonably well. However, we note a lack of clear Stewardship & Engagement priorities which limits their ability to create and report on positive improvements. A standardised ESG report and climate risk dashboard are notable recent improvements in Pemberton's approach.	The Fund should: • Continue to develop the framework for assessing portfolio companies' exposure to climate risk including their plans to decarbonize. • Obtain meaningful and tangible ESG data for consistent reporting. • Develop a Stewardship & Engagement policy and demonstrate how this is linked to engagements with underlying portfolio companies.	Following recent assessment, Isio intend to engage with Pemberton in Q2 2023 and will report back on progress against proposed actions.
LGIM Passive Equity	LGIM employs a dedicated and experienced ESG team to assess and engage with companies on key ESG issues. Within LGIM's passive equity index range, there is limited scope to adapt the investment approach to ESG matters. We view LGIM as being leaders in promoting ESG	LGIM Fund should: • Consider reporting on fund level coverage of greenhouse gas emissions. • Consider including social and governance metrics in future ESG quarterly reports.	Isio engaged with LGIM, on the Committee's behalf to review their ESG approach and saw some progress. LGIM now provide reporting on voting and stewardship which meet client regulatory requirements as well as include ESG scores and carbon metrics (Scope 1 and 2 GHG emissions) in fund fact sheets. As a result reporting was upgraded.

	through industry-wide collaboration focused on climate-related topics. We note that LGIM's ESG reporting capabilities have scope to improve, to ensure that sufficient data is being provided in regular client reporting.		LGIM have also agreed to include social and governance metrics in future versions of the ESG quarterly report. Isio intend to engage again with LGIM in Q2 2023 and will report back on progress against these actions.
LGIM Future World Passive Equity	LGIM employs a dedicated and experienced ESG team to assess and engage with companies on key ESG issues. Within LGIM's Future World Index, there is an exclusion criterion in place, combined with tilting according to the consideration of all the E, S and G factors. We view LGIM as being leaders in promoting ESG through industry-wide collaboration focused on climate-related topics. We note that LGIM's ESG reporting capabilities for this Fund are accelerating and await the publication of Scope 3 and GHG emissions data in 2023.	LGIM Fund should: • Consider mandating ESG training across its investment division. • Consider incorporating additional social metrics in addition to those listed by ICSWG.	LGIM is working on publishing the fund-level coverage of GHG emissions data for H1 2023 and to produce Scope 3 emissions data for the fund by end 2023/early 2024. As above, Isio intend to engage again with LGIM in Q2 2023 and will report back on progress against these actions.
LGIM LPI Income Property	LGIM have a clear process in place whereby ESG considerations form an integral part of their asset selection and composition of	LGIM Fund should: • Implement a clear social policy and social objectives for the fund. • Adopt an ESG scorecard into the	During engagement with LGIM Real Assets in April 2022, it was noted LGIM has employed EcoAct, an external consultancy to help in the development of their

	the portfolio. Despite not utilising an ESG scorecard, they implement a stringent initial and ongoing ESG due diligence process for each asset. The Firm and Fund's collaboration with the wider market is a key strength where active engagement in working groups allows the Fund to further its position in relation to it's ESG objectives	investment approach and risk management framework. • Incorporate an engagement summary into LGIM's Fund Model.	science based targets. These targets are in line with LGIM's net zero carbon aims out to 2030. LGIM aim to reduce their operational carbon and energy intensity of landlord controlled areas (score 1 and 2) by 60%. It was also noted that gender is addressed in multiple of the 29 ESG metrics, however due to data availability LGIM are not able to put ethnicity and social mobility metrics in place currently. ESG targets are set and monitored on all assets held in their funds during the reporting year. Lastly, LGIM Real Assets mentioned they were working on producing a fund level report which will include ESG metrics and engagement progress across their portfolios. Isio intend to engage again with LGIM Real Assets in Q2 2023 and will report back on progress against these actions.
LGIM Index-Linked Gilts	LGIM have evidenced their ability to integrate ESG factors in their ILG fund range through counterparty review and engagement. LGIM's ESG approach brings together granular quantitative and	LGIM Fund should: • LGIM should include the ESG scoring of counterparties in regular client reporting of ILG Funds.	LGIM are having internal discussions around how best to present this information in a meaningful way. LGIM noted a timeline for reporting ESG metrics and scoring, aiming for the release of quarterly ESG engagement

	qualitative inputs in order to reflect a full picture of the ESG risks and opportunities embedded within each company. LGIM are working to improve their reporting processes and are looking to provide more granularity on ESG metrics in their standard reporting across all their funds. LGIM have strong commitments to net zero and the decarbonisation framework.		reports for clients in Q3 2023. As noted above, Isio intend to engage again with LGIM in Q2 2023 and will report back on progress against these actions.
LCIV Absolute Return Fund (Ruffer)	Ruffer have a robust process in place where ESG considerations are clearly factored in as an important part of the investment process. Their Responsible Investing Team and ESG specialists ensure oversight, accountability and implementation of ‘up and coming’ issues. The funds engagement with firmwide ESG policies is a key strength where climate and social policies are concerned.	The Fund should: • Develop a ESG scorecard as part of the managers due diligence process • Consider developing fund specific targets or temperature pathway for the fund. • Develop fund-level stewardship priorities. • Develop ESG ratings or scores for assets held within the mandate.	Following engagement in 2022, it was noted improved levels of reporting on TCFD ESG metrics and bespoke ESG reporting available. However, GHG emissions data is limited to equities (25% of the fund) and ESG rating or scores for each asset is not provided. Ruffer were able to demonstrate improved diversity data through regular surveys with employees which extends from ethnic and gender inclusion to social background and neuro diversity. However, they do not use targets to improve this policy nor have yet developed a ESG scorecard as part of their due diligence.

			Isio intends to engage again with Ruffer in Q2 2023 and will report back to the Committee on progress against these actions.
Macquarie Infrastructure MEIF & MIP	Macquarie have demonstrated awareness of ESG issues and have a robust internal governance process to escalate ESG risks. Macquarie could benefit from setting fund specific ESG policies, detailing the journey to Net Zero in greater granularity and improving data quality & collection.	Macquarie should: • Consider implementing a fund specific ESG policy. • Model how specific temperature/climate scenarios could affect fund return. Identify fund level stewardship priorities, including but not limited to climate. . • Provide E, S and G scores for underlying assets in the portfolio and include summary of engagements in quarterly reports.	In a recent engagement (end of 2022) with Macquarie it was noted that they have made some internal progress in relation risk management and reporting processes with this to be communicated externally soon. They have also made progress in assessing portfolio holdings pathways' towards achieving Net Zero by 2040 target. Isio intends to engage with Macquarie again in Q2 2023 and will report back to the Committee on progress against these actions.
M&G Debt Opportunities Fund II	While M&G have a firm-wide ESG policy, their ability to integrate this within the private debt space is restricted. As M&G are not the owners of each asset, ESG mitigation is limited to the terms agreed with the sponsor at origination. Ongoing engagement and relevant reporting is a challenge, with relevant ESG data more difficult to collect as a provider of private debt capital.	M&G should: • Implement formal ESG objectives and targets for the fund which go beyond the firm-wide policies of negative ESG screening. • Introduce climate scenario analysis for the fund and consider whether a temperature alignment pathway could be implemented. • Implement stewardship policies for the Fund,	Following Isio's engagement in 2022, M&G is in the process of considering their approach to ESG across a number of areas including investment approach, risk management, reporting, and voting & engagement priorities. Isio intends to engage with M&G again in Q2 2023 and will report back to the Committee on progress against these actions.

	As the Fund is outside of its investment period and is harvesting, M&G's scope to incorporate improved ESG considerations into their processes is limited. This is because ESG is considered primarily during initial due diligence for private assets.	considering climate and social priorities as part of these. • Provide regular updates on engagement activity of the underlying assets in the portfolio and improve data coverage and reporting metrics. • Introduce climate objectives for the Fund.	
Permira Direct Lending	Permira have a well-resourced central ESG team which supports investment decisions and training across the credit business. In order to improve their scores, Permira should set specific ESG objectives for the PCS fund range. Permira have evidenced that they are focusing ESG integration efforts on their most recent direct lending funds, PCS IV and PCS V, as they are still investing and thus better placed to integrate ESG changes into investment decisions.	Permira should: • Set ESG objectives at Fund level • Develop the ESG scorecard further and ensure it is updated annually. • Improve tracking and storing of engagements and clearly evidence engagements in line with implementation statement requirements. • Consider temperature pathway objectives and modelling to help manage climate risks.	Progress to date has been limited to date against the proposed actions. Isio intends to engage with Permira again in Q2 2023 and will report back to the Committee on progress against these actions.
UBS Balanced Property	UBS have a robust firm-level ESG policy as well as a Sustainable and Impact Investing team who are responsible for the strategy and	UBS should: • Consider establishing fund-level ESG, climate and social objectives with quantifiable targets or KPIs.	Progress to date has been limited to date against the proposed actions. Isio intends to engage with UBS again in Q2 2023 and will report back to the

	implementation of sustainable investing. UBS also demonstrate great industry collaborative efforts and are involved in several initiatives with a focus on social and environmental objectives. There is scope for improvement regarding the Fund's investment approach, although this is inherently limited by the nature of the fund of funds approach followed.	• Consider aligning strategy with a temperature pathway and introduce climate scenario analysis and its potential effects on fund value. • Add explicit Climate and/or Social stewardship priorities and engagement metrics. • Track and report carbon emissions / metrics and engagement activities and on a quarterly basis (noting the limited scope for this given fund of funds nature - may not provide comparable information).	Committee on progress against these actions.

ESG Engagement

Investment Managers' Engagement Activity

As the Fund invests via pooled funds managed by various investment managers, each manager provided details on their engagement activities including a summary of the engagements by category for the 12 months to 31 March 2022 (in line with the Fund's financial reporting year). New investments were made following financial year end and as a result there was no engagement data for the period and therefore these are not included in this section.

Fund Name	Engagement summary	Commentary
Adam Street Private Equity	Adams Street have considerable influence and a "seat at the table" at meetings of the Fund's underlying portfolio managers and are continuously engaging with underlying managers and management teams on ESG issues. They have provided a long list of instances where ESG engagement occurred at various meetings.	The fund primarily takes majority ownership positions in privately listed companies so they have a seat at Committee and Board meetings and will attempt to attain this where they do not automatically have it. This drives engagement with management and the board of investee companies. Given the nature of the fund, Adams Street engage on several matters with underlying managers. These engagements include ad-hoc interactions with underlying managers

		in the Fund's portfolio; engagements via annual meetings, which managers typically organize to provide a broad review of their funds and processes; Advisory Committee meetings, where Adams Street sits on the Advisory Committees of the underlying manager's and has an opportunity to discuss particular topics (including ESG) in further depth; and finally, ASP send managers an annual survey, which covers operational topics as well as ESG considerations, with the aim to collect quantifiable and usable information on underlying managers and is incorporated into the manager's ESG rating.
AEW UK Core and UREF Property Funds	AEW were unable to provide engagement data.	The funds invests directly in UK commercial and residential real estate and the majority of properties are occupied by a single tenant who has discretion over day-to-day management of the property. Therefore, AEW looks to actively engage with tenants on ESG issues where they can and are typically in relation to requests for utility data across the portfolio for analysis and to assist with property management and improvements. AEW aim to introduce ESG driven initiatives in areas they control as landlords but have a limited say in privately occupied properties.
JP Morgan Global Bond Opportunities Fund	Total engagements: 314 (across 116 entities) Environmental: 113 Governance: 87 Social: 114	JPM's Sustainable Investment Leadership Team (SILT) lead engagements with issuers on ESG concerns. This enables JPM to use its fixed income and equity platforms to influence change. Fixed income analysts within the portfolio management team who come across ESG related issues in the fund work with the SILT to engage with the issuer. Two examples of significant engagements include: Accor – The stewardship representatives met with the company to follow up on their cybersecurity and data privacy related risks management policies. As part of that, JP Morgan raised questions regarding frequency of cybersecurity platform audits (where Accor confirmed it to be on annual

		basis) as well as measures used to assess how the company compares to its peer group (by tracking number of data breaches). Following the engagement, JP Morgan are looking to further investigate external cybersecurity framework of Accor and interact with the CIO of the firm to monitor changes to company disclosure and transparency around data and cybersecurity. They also discussed environmental issues, specifically food waste and biodiversity. Lastly, JPM advised the company to make TCFD disclosures publicly available on their website, and to consider publishing a sustainability report. Eni Spa – JP Morgan have provided a letter highlighting how the industry can improve in relation to climate risk that was issued to the Chairman of the Board, following company's updated decarbonisation targets. The manager proposed improvements such as reporting GHG emissions from non-operated assets, measuring methane emissions directly and setting targets for reduction as well as further guidance on environmental aspect reporting.
LCIV Infrastructure Fund (Stepstone)	The manager was unable to provide fund level engagement data	Engagements are managed by the individual at Stepstone allocated to monitor each specific investment, with their responsible investment team providing direction on engagement. When required, the responsible investment team head engagements directly with underlying General Partners. StepStone focuses on engagement around specific thematic issues (such as climate change, diversity, equity and inclusion (DEI), and human rights) and we generally emphasize issues that we believe represent systemic risks. For the reporting period ending 31-March-2022, the Infrastructure and Real Assets team at StepStone made a total of 141 engagements classified as having a primary purpose relating to ESG, across 77 entities. At the firm-level, two examples of significant engagements include:

		Asland Capital Partners – Stepstone engaged with Asland on in relation to human capital management, helping to create a solution that addressed affordable housing. Stepstone met with the company regularly to support putting together a plan that meets residents and city needs. Port Operator – Stepstone engaged with the management team on the biodiversity enhancement project, including support of the launch of the ecological program.
LGIM Passive Equity	Total engagements: 491 (across 327 entities) Environment: 254 Social: 173 Governance: 235 Other: 82	LGIM's Investment Stewardship team are responsible for engagement activities across all funds. LGIM share their finalised ESG scorecards with portfolio companies and the metrics on which they are based. LGIM leverage the wider capabilities of the global firm to engage with companies meaningfully. LGIM have not provided examples of Fund-specific significant engagements.
LGIM Future World	Total engagements: 528 (across 343 entities) Environment: 241 Social: 179 Governance: 278 Other: 83	Same as above
LGIM LPI Income Property	LGIM currently do not provide details of their engagement activities at Fund level for Property Funds. Isio remains in contact with LGIM surrounding the firm's engagement reporting.	Same as above LGIM can only engage with the tenants of the assets which are held in the Fund, and their overall influence as a landlord is limited. They maintain dialogue with all occupiers, and as part of this interaction ESG-related behaviours are encouraged.
LGIM Index-Linked Gilts	Total engagements: 31 (across 14 entities) Environment: 26 Social: 8	LGIM leverage the wider capabilities of the global firm to engage with companies. The team also regularly engage with regulators, governments and other industry participants to address long term structural

	Governance: 15 Other: 1	issues, aiming to stay ahead of regulatory changes and adopt best practice.
LCIV Absolute Return Fund (Ruffer)	Total engagements: 53 (across 23 entities) Environmental: 17 Social: 12 Governance: 23 Strategy, Financial and Reporting: 1	Ruffer continually engage with companies on a case-by-case basis to drive shareholder value and look to achieve tangible ESG progress with investee companies. Examples of a significant firm-level engagement is: ArcelorMittal – Ruffer has engaged with ArcelorMittal in relation to its progress on the Climate Action 100+ Net-Zero Benchmark, focusing on climate-related lobbying, governance and medium-term greenhouse gas emissions reduction targets. Barclays – Ruffer met with Barclays to discuss refining and setting targets for the climate change policies. As a result, Barclays have agreed to undertake interim targets to help benchmarking against their net zero 2050 commitment. Ruffer also discussed board structure and succession planning for the CEO.
Macquarie Infrastructure Funds – MEIF & MIP	Macquarie were unable to provide specific engagement data given the nature of these funds.	Macquarie Infrastructure and Real Assets (MIRA) take an active and involved approach to the investments the fund makes. Engagement with the management of the assets/companies in relation to sustainability and ESG considerations is continual, where they often have seats on the Board of Directors. Macquarie's voting and engagement policy is set centrally, and they were able to articulate examples of active engagements/ collaborations or initiatives that resulted in desired outcomes and supported sustainable outcomes of portfolio companies. Some examples of such initiatives are where MIRA is actively supporting AGS airports as it seeks to achieve net zero

		direct emissions by mid-2030.Another initiative is in relation to the JTowercom's sustainability strategy. MIRA has been continuously supporting electric vehicle and solar panel establishment, assisting the company in achieving its sustainability goals.
M&G Debt Opportunities Fund	The M&G Debt Opportunities Fund (DOF) is a private market credit team and as such engagement data is limited, however M&G continually engage with portfolio companies since investment. M&G have not been recording DOF II engagements so far, and are in the process of exiting the three remaining portfolio assets,	ESG-related engagements are primarily controlled and managed by credit analysts. Credit analysts will lead the engagement with companies to ensure there is a dialogue on ESG issues. The Sustainability and Stewardship Team (SST) works actively with analysts and attends company meetings as required.
Permira Direct Lending	Total engagements: 30 (across 6 entities) Environmental: 8 Social: 10 Governance: 6 Strategy, Financial and Reporting: 6	Permira maintain ongoing contact with the management teams of their portfolio companies, however, given their position as lenders they will typically rely on the equity sponsor to report ESG-related concerns and drive ESG improvements. Investing in private companies also reduces the transparency of the information available to assess ESG risks. As current Hillingdon commitment has only 6 assets remaining, there is limited ESG engagement available at this point of fund life. Two examples of significant engagements include: Cruise.co – Permira has engaged with the CEO of the Company on ESG/Sustainability strategy. As part of the engagement, the manager has presented a benchmarking exercise against peers and competitors in the sector and other cruise operator approaches to ESG/Sustainability. The exercise included examples of KPIs that could be collected and reported as well as highlighted opportunities to strengthen company level approach to ESG strategy. Permira continues to engage with the Company and has recently introduced

		consultants to support carbon footprint on their cruise holidays. Paperchase – Permira has engaged with the CEO of the Company in recognising the sustainability as a key pillar to their new strategy, including development the “Paperchase promise” project that aims to deliver sustainable sourcing and plastic reduction. As part of the engagement, Permira has introduced an external adviser to support on sustainability strategy development.
UBS Balanced Property	UBS were unable to provide specific fund level engagement data given the fund of fund nature of the mandate.	The UBS Balanced Property portfolio is a fund of funds and therefore UBS engages with underlying fund managers and have limited oversight of the underlying portfolio assets. UBS’s engagement and voting activities are overseen by the Stewardship Committee which is chaired by the head of investments. Annual GRESB scores, which assist UBS with monitoring investments’ ESG performance which is used to inform engagement. Underlying funds are made aware of ESG priority areas and KPIs in quarterly meetings. UBS conduct engagements directly with underlying fund managers on various topics ranging from carbon reduction targets, climate risk (including a physical risk assessment), diversity, governance, and ESG-related training and is conducted in various forms, for example written communications, conference calls, and face-to-face meetings (AGMs, investor meetings, etc). An ESG questionnaire is also distributed to underlying fund managers on an annual basis.

ESG Voting (for equity/multi asset funds only)

Investment Managers’ Voting Activity (for equity/multi asset funds only)

As the Fund invests via fund managers the managers provided details on their voting actions including a summary of the activity covering the financial reporting year up to 31 March 2022. The managers also provided examples of any significant votes. New investments were made following financial year end and as a result there was no voting data for the period and therefore these are not included in this section.

Fund Name	Voting summary	Examples of significant votes	Commentary
LGIM Global Passive Equity	Meetings eligible to vote for: 2,440 Resolutions eligible to vote for: 30,430 Resolutions voted for: 99.9% Resolutions voted with management: 80.2% Resolutions voted against management: 19.6% Resolutions abstained from: 0.3%	Amazon.com INC – LGIM voted against electing Jeffrey P.Bezos as a director. LGIM has a longstanding policy to advocate for separation of the roles of CEO and board chair as the manager believes that the roles are substantially different and require distinct skills/experiences. LGIM have voted against all combined board chair/CEO roles since 2020 and have published a guide for boards on separation of the roles. Apple INC – LGIM voted for reporting on Civil Rights Audit. LGIM support proposals related to diversity and inclusion policies as these issues are considered as material risks to the company by the manager. LGIM believe that gender diversity has a financially material affect on the clients with implications affecting assets LGIM manage on their behalf. Intel Corporation – LGIM voted for reporting on Global Median Gender/Racial Pay Gap with the aim of influencing investee companies on having greater gender balance, LGIM expect each company they invest in to have at least one female on their board.	LGIM’s Investment Stewardship team are responsible for managing voting activities across all funds. LGIM’s Investment Stewardship team uses ISS’s ‘Proxy Exchange’ electronic voting platform to electronically vote clients’ shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. To ensure the proxy provider votes in accordance with their position on ESG, LGIM have put in place a custom voting policy with specific voting instructions. LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management.

LGIM Future World	Meetings eligible to vote for: 4,465 Resolutions eligible to vote for: 47,851 Resolutions voted for: 99.9% Resolutions voted with management: 81.7% Resolutions voted against management: 17.4% Resolutions abstained from: 0.8%	The above examples are also applicable to the LGIM Future World Fund.	Same as above.
LCIV Absolute Return Fund (Ruffer)	Meetings eligible to vote for: 96 Resolutions eligible to vote for: 1,307 Resolutions voted for: 100% Resolutions voted with management: 92% Resolutions voted against management: 6% Resolutions abstained from: 2%	Royal Dutch Shell (Shell) – Ruffer voted for implementing company's climate transition plan (with management). Shell are looking to continue engaging on remaining areas of Climate Action 100+. Hence, the transition plan that ensures absolute emission equivalent targets sit alongside short to medium-term intensity milestones have been put in place. The vote has passed with c.89% in favour. Shell will continue to monitor how the company progresses and improves over time as well as will continue support for credible energy transition strategies and initiatives. **NEC** – Ruffer voted against election of an independent director. This was due to the director's affiliation to a	The LCIV has delegated its voting rights to the underlying investment manager (in this case Ruffer) and requires them to vote, except where it is impractical to do so. The LCIV also monitors voting alerts and where these are issued, requires the investment managers to take account of these alerts as far as practical to do so or provide justification for non-compliance. The LCIV reviews and monitors the voting policies and activities of its investment managers. Ruffer is the appointed investment

	company linked by cross-shareholdings with NEC and so Ruffer deemed him to not be independent. As the proposal passed with c.65% in favour, Ruffer will continue to engage with the company on governance issues and feedback concerns such as lack of independence across the board.	manager for the LCIV Absolute Return Fund. As a discretionary investment manager, Ruffer does not have a formal policy on consulting with clients before voting. However, they accommodate LCIV voting instructions for specific areas of concerns or companies where feasible. Ruffer proxy voting advisor is Institutional Shareholder Services (ISS). However they have developed their own internal voting guidelines and do not delegate or outsource stewardship activities, but rather take into account issues raised by ISS to assist in the assessment of resolutions and the identification of contentious issues.