

## **Responsible Investment Policy**

- 1.1. Responsible Investment is defined by the United Nation's 'Principles for Responsible Investment' document as an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and to generate sustainable, long term returns. The Pension Fund's approach to responsible investment is aligned with the Fund's investment beliefs and recognises ESG factors as central themes in measuring the sustainability and impact of its investments.
- 1.2. Failure to appropriately manage ESG factors is considered to be a key risk for the Pension Fund as this can have an adverse impact on the Fund's overall investment performance, which ultimately affects the scheme members, employers and local council tax payers.
- 1.3. The United Nations has established 17 Sustainable Development Goals (SDGs) as a blueprint to achieving a better and more sustainable future for all. These goals aim to address the challenges of tackling climate change, supporting industry, innovation and infrastructure, and investing in companies that are focused on playing a key role in building that sustainable future.
- 1.4. The Pension Fund acknowledges that these goals form a vital part of acting as a responsible investor alongside its administering authority employer, Westminster City Council, with the Council having recently committed itself to achieving carbon neutrality by the year 2030.
- 1.5. The Pension Fund maintains a policy of engagement with all its stakeholders, including those operating in the investment industry. It is broadly recognised that, in the foreseeable future, the global economy will transition from its reliance on fossil fuels to the widespread adoption of renewable energy as its main source. The impact of this transition on the sustainability of investment returns will be continually assessed by officers, advisors and investment managers.
- 1.6. The Pension Fund Committee is committed to playing an active role in the transition to a sustainable economic and societal environment. To that extent, the Pension Fund will continue to seek investments that match its pensions liability profile, whilst having a positive impact on overall society. Greater impact can be achieved through active ownership and lobbying for global companies to change and utilise their resources sustainably.
- 1.7. Notwithstanding these noble objectives, it is important to note that the Pension Fund Committee has a vital, fiduciary duty to act in the best interests of the LGPS beneficiaries to ensure that their pension benefits are honoured in retirement.

## **Policy Implementation: Selection Process**

- 1.8. The Pension Fund Committee delegates the individual investment selection decisions to its investment managers. To that extent, the Pension Fund

maintains a policy of non-interference with the day-to-day decision-making processes of the investment managers. However, as part of its investment manager appointment process, the Pension Fund Committee assesses the investment managers' abilities to integrate ESG factors into their investment selection processes.

1.9. This includes, but is not limited to:

- a. evidence of the existence of a Responsible Investment policy;
- b. evidence of ESG integration in the investment process;
- c. evidence of sign-up to the relevant responsible investment frameworks such as the United Nations Principles for Responsible Investment (PRI);
- d. evidence of compliance with the Stewardship Code as published by the Financial Reporting Council (FRC);
- e. a track record of actively engaging with global companies and stakeholders to influence best practice;
- f. an ability to appropriately disclose, measure and report on the overall impact of ESG decisions made.

1.10. As part of its investment selection process, the Pension Fund Committee will obtain proper advice from the Fund's internal and external advisors with the requisite knowledge and skills. Our investment advisor will assess ESG considerations as part of its due diligence process and assess investment managers against the following criteria:

- a. for active managers, the advisor will assess how ESG issues are integrated into investment selection, divestment and retention decisions;
- b. for passive managers, the investment advisor places less focus on ESG issues in the investment selection process, and considers ESG issues in its responsible investment policy and if the manager engages with global companies and stakeholders where appropriate;
- c. consideration of whether managers are making most effective use of voting rights and if votes are exercised in a manner consistent with ESG considerations specified by the manager;
- d. how significantly managers value ESG issues and whether any specialist teams and resources are dedicated to this area; and
- e. how ESG risk assessment is integrated into the portfolio investment selection process and the value and effectiveness of these assessments.

1.11. Investment managers are expected to follow best practice and use their influence as major institutional investors and long-term stewards of capital to promote best practice in the companies/projects in which they invest. Investable companies will be expected to comply with all applicable laws and regulations in their respective markets as a minimum.

## **Policy Implementation: Ongoing Engagement and Voting**

- 1.12. Whilst it is still quite difficult to quantify the impact of the less tangible non-financial factors on the economic performance of an organisation, this is an area that continues to see significant improvement in the measurement of benchmarking and organisational progress. Several benchmarks and disclosure frameworks exist to measure the different aspects of available ESG data which include carbon emissions, diversity on company boards and social impact. It is apparent that poor scoring on these ESG factors can have an adverse impact on an organisation's financial performance. It is therefore important for the appointed investment managers to effectively assess the impact such factors may have on the underlying investment performance.
- 1.13. The Pension Fund views active engagement as an essential activity in ensuring long-term value and encourages investment managers to consider assessing a range of factors, such as the company's historical financial performance, governance structures, risk management approach, the degree to which strategic objectives have been met and environmental, governance and social issues.
- 1.14. Pension Fund officers will continue to engage with the investment managers on an ongoing basis to monitor overall investment performance, including ESG considerations. This can be implemented in several forms which include, but are not limited to:
  - a. Regular meetings with investment managers to assess investment performance and the progress made towards achieving ESG targets;
  - b. reviewing reports issued by investment managers and challenging performance where appropriate;
  - c. working with investment managers to establish appropriate ESG reporting and disclosures in line with the Pension Fund's objectives;
  - d. contributing to various working groups that seek to positively influence the reporting of industry standards on ESG metrics;
  - e. actively contributing to the efforts of engagement groups such as the Local Authority Pension Fund Forum (LAPFF), of which the fund is a member (currently 83 LGPS member funds).
- 1.15. The Pension Fund holds units in pooled equity funds, where our asset managers will have the opportunity to vote at company meetings on our behalf. Engagement with companies can have a direct impact on voting choices and fund manager voting and engagement reports are reviewed on a regular basis.
- 1.16. The Fund will continue to collaborate with the London CIV on maintaining a shared voting policy for the equity managers on the LCIV platform and actively seek to align these policies with manager insights. Lobbying with other LCIV clients will give the Pension Fund greater control and impact over our voting choices and a centralised process will ensure our voting remains consistent and has the greatest impact.

- 1.17. The Pension Fund's officers will work closely with the LCIV pool, through which the Pension Fund will increasingly invest, in developing and monitoring its internal frameworks and policies on all ESG issues which could present a material financial risk to the long-term performance of the fund. This will include the LCIV's ESG frameworks and policies for investment analysis, decision making and responsible investment.
- 1.18. In preparing and reviewing its Investment Strategy Statement, the Pension Fund will consult with interested stakeholders including, but not limited to:
  - a. Pension Fund employers;
  - b. Local Pension Board;
  - c. advisors/consultants to the fund;
  - d. investment managers.

### **Policy Implementation: Training**

- 1.19. The Pension Fund Committee and the Fund's officers will receive regular training on ESG issues and responsible investment. A review of training requirements and needs will be carried out at least once on annual basis. Training is intended to cover the latest updates in legislation and regulations, as well as best practice with regards to ESG integration into the pension fund's investment process.