

# London Borough of Croydon Pension Fund ("the Fund")

## RESPONSIBLE INVESTMENT POLICY

### 1. INTRODUCTION

The London Borough of Croydon Pension Fund's Pension Committee ("the Committee") has a fiduciary duty to act in the best interests of members. To do this effectively, the Committee recognises the importance of managing Environmental, Social and Governance ("ESG") issues, including Climate Change, that are financially material to the Fund, both in terms of opportunities and risks. This policy sets out how the Fund manages those ESG risks and opportunities. It outlines the key principles that have been established, and our approach to considering sustainability risk and other ESG factors.

Responsible Investment ("RI") has been defined as encompassing both financial and non-financial factors, bringing together ESG factors and broader systemic issues, e.g. climate change and sustainable development, along with active ownership (stewardship and voting) as these can have a material impact on financial performance.

This is the first standalone Responsible Investment Policy ("RI Policy") that has been published. Prior the publication of this RI Policy, the approach to managing ESG risks and opportunities was outlined in the Investment Strategy Statement. The Committee will continue to make progress on evolving the policy, to ensure the Fund continues to reflect good practice on Responsible Investment. The Fund is required by the Regulations to include in the Investment Strategy Statement (ISS):

- the policy on how ESG considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- the policy on the exercise of the rights (including voting rights) attaching to investments.

The Committee recognises pooling across the Local Government Pension Scheme. The Fund participates in the London Collective Investment Vehicle (CIV) as part of the Government's pooling agenda. Croydon is a shareholder, contributes regulatory capital and a subscription fee. The London CIV was launched in December 2015. The Committee recognises the importance of working collaboratively with the London CIV ("LCIV") and other LCIV partner funds to make the Fund's ESG approach effective.

The Committee is responsible for the Fund's investment strategy and in which asset classes (known as the strategic asset allocation). The Committee also retains the duty of setting their Responsible Investment policy, taking into consideration the Fund's key stakeholders. The Fund does not directly manage its investments and the investment managers (including the London CIV) have discretion to buy and sell investments within the various portfolios, within the guidelines of their mandates. These guidelines may include ESG considerations.

The RI Policy that follows has been approved by the Pension Committee ("the Committee") following a series of training and information events presented by the Fund's advisers. RI issues have many facets for which authoritative and consistent sources of data are in their infancy. Seemingly simple investment changes may have unintended consequences for the operation of free markets, local communities and the environment as well as the value of the Fund's investments. The Fund needs to take a holistic approach that takes into account how its policies will impact all citizens and communities as well as direct stakeholders of the Fund whilst adhering to the principles of fiduciary duty.

## 2. RESPONSIBLE INVESTING

Croydon Council (the “Council”) is the Administering Authority of the Pension Fund and administers the Fund on behalf of the participating employers and members.

The Local Authority (Functions & Responsibilities) (England) Regulations 2000 (as amended), state that functions relating to the Fund are the responsibility of the full Council. The Council has delegated these functions to the Pensions Committee and to the Council’s Head of Pensions and Treasury.

The Administering Authority has established a Pension Board in accordance with Section 5 of the Public Service Pensions Act 2013. The Board assists the Pension Fund in securing compliance with the Fund regulations and other legal and regulatory requirements.

Members of the Committee have a fiduciary duty to act in the best interests of members and other stakeholders in all financial and non-financial decisions. With respect to the Fund’s investments, to do this effectively there is recognition of the importance of generating sustainable long-term returns. This involves more than an appraisal of financial factors but also takes into account non-financial factors such as ESG issues, including climate change, which may be financially material to the Fund’s investments. The Fund also has an exclusions policy on exposure to tobacco across the investments (further detail can be found below under exclusions & divestment).

There is a growing urgency and continual regulatory development with regard to long-term sustainability issues, such as The Climate Change Act 2008 that legally binds the UK to bring all greenhouse gas emission to net-zero by 2050, and the comprehensive ‘apply and explain’ requirements for asset owners set out in the UK Stewardship Code 2020. Therefore, it is imperative that ESG and stewardship (or active ownership) considerations are integrated throughout investment processes and that they are taken into account as part of funding and investment strategy setting.

## 3. RI BELIEFS

The Fund is committed to embedding RI into all aspects of the investment decision-making process and has adopted a set of Responsible Investment Beliefs as set out in the table below. These beliefs have informed the policy set out in section 4, below.

Belief	Explanation
<b>Summary</b>	ESG issues, including climate change, create material risks and opportunities which will influence long term investment performance and the ability of the Fund to achieve its investment and funding objectives. Therefore, robust ESG and stewardship practices should be integrated throughout the investment process of the Fund. The Fund recognises that the responsible management of RI issues by the Fund’s investment managers, including the London CIV is a reputationally important issue.
<b>ESG integration and broad risk management</b>	Effective management of ESG issues is a key determinant of long-term shareholder value and good risk management. Their consideration is part of the Fund’s fiduciary duty to beneficiaries. The Fund therefore recognises the importance of its investment managers integrating all material financial and non-financial factors, including ESG considerations, into the decision-making process for fund investments and the ongoing monitoring of these same issues.
<b>Stewardship</b>	Good stewardship can protect and enhance value for companies and markets as a whole. The Fund is committed to being a long-term steward of the assets in which it

Belief	Explanation
	invests. It believes in the importance of investment managers acting as active asset owners through proactive voting and engagement with companies.
<b>Climate change risk</b>	The Fund believes that climate change presents financial risks to the Fund over the short, medium and long-term and that the Fund should better understand and mitigate where possible.
<b>Pooling</b>	<p>The Fund is a participating Fund in the London CIV Pool. The Fund believes that it should work collaboratively with the London CIV to set clear expectations of its investment managers and advisers on how ESG considerations are incorporated into investment activities. The London CIV should offer funds to investors that integrate ESG considerations into their investment process and develop a consistent policy approach to stewardship and climate change.</p> <p>The Committee will ensure that appropriate reporting is available for Pool aligned assets in order that progress can be monitored against the RI Policy.</p>
<b>Ongoing commitment</b>	Responsible investment is a rapidly developing area and the Fund should commit to staying informed, developing its approach and increasing its ambition with regard to these issues.

#### 4. RI POLICY

This section sets out the RI Policy based upon the Responsible Investment Beliefs set out in section 3, above. The Fund has responsibility for setting its investment strategy and its ambitions on RI.

##### ESG integration and broad risk management

The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.

The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments.

The Fund expects its external investment managers (and specifically the London CIV) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

The Fund recognises the importance of ensuring that Pool level engagement between the London CIV and its chosen investment managers provides appropriate assurance with regard to the Funds' policy commitments in this area.

In addition the Pensions Committee undertakes training on a regular basis and this will include training and information sessions on matters of social, environmental and corporate governance.

## Stewardship

The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills.

The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries.

## Engagement

It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed. The Fund's investment managers should exercise their rights as owners of investments to actively participate in company level decisions tabled as shareholder votes at General Meetings.

In addition to proactive voting, the Fund's investment managers should act as active asset owners through engagement with companies where there are concerns over ESG issues. Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

The Fund through its participation in the London CIV 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 invests.

The Fund is a member of both the Local Authority Pension Fund Forum (LAPFF) and the Pension and Lifetime Savings Association (PLSA) and in this way joins with other LGPS Funds to magnify its voice and maximise the influence of investors as asset owners

In order to enable effective engagement the following topics have been identified as specific RI priorities for the Fund:

- Climate Change
- Energy efficiency
- Waste & Pollution
- Labour standards

## Voting

The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

The Fund has delegated responsibility for voting rights to the Fund's managers, and expects them to vote in accordance with the Fund's voting policy. The Fund will incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Pension Fund website.

### **Climate Change**

The Fund recognises the systemic risk associated with climate change as well as the Council's targets in this regard and the views and aspirations of other scheme employers and scheme members.

The Committee supports the objectives of the Paris Agreement and believes that keeping global temperature rises well below 2°C relative to pre-industrial levels is entirely consistent with the Fiduciary duty of the Fund.

The Committee intend to undertake further work to identify and manage climate related risks. The Fund will be undertaking further training on Fund specific net zero objectives and how they can be achieved. The Fund will consider the appropriateness of climate change scenario analysis in order to understand the climate impact on return at the total Fund and asset class level across different warming scenarios and help the Fund to further its decision-making.

The Fund is working with advisers to understand what would be required with regards to the Department for Levelling Up, Housing and Communities' (DLUHC) reporting of Climate Risk recommendations that are expected to become mandatory for LGPS Funds in the coming years

### **Exclusions & Divestment**

The Fund will only invest in investments with a strong environmental, social and governance policy that includes no investments in tobacco manufacturers over time. It is recognised that the application of the restrictions may be limited in certain circumstances, for example investments in "pooled assets". These types of funds are held collectively with other investors, normally in order to reduce costs or ensure a wider range of investment opportunities.

Furthermore, where this is consistent with the agreed investment strategy, the Fund will invest in assets that positively address these same environmental, social and governance policy issues. Examples of this approach include investing in renewable energy projects, and looking to explore opportunities to contribute to and invest in the Borough.

### **Pooling**

The Fund and 32 other LGPS funds have formed the LCIV Pool, and are committed to collaboratively working together to meet the Government's criteria for asset pooling.

More information on this initiative can be found on the London CIV website (<https://londonciv.org.uk/>).

## **5. IMPLEMENTATION**

### **ESG integration and broad risk management**

The Fund reviews the investment process and ESG practices of all prospective managers at the investment/manager selection stage.

Assurance will be sought through engagement with investment managers and as part of ongoing reporting and presentations that the investment managers are appropriately integrating ESG into their investment processes and decision making. If managers are lagging behind their peers and the essence of this Policy, they will be engaged and encouraged to improve.

## Stewardship - voting rights and engagement

The Fund has delegated the exercise of voting rights to all investment managers, on the basis that voting power will be exercised by them with the objective of preserving and enhancing long-term shareholder value.

The Fund's investment managers are expected to produce written guidelines and policies outlining their own stewardship process and practices (including voting and engagement). These managers are encouraged to vote in line with their respective guidelines, in respect of all resolutions, at annual and extraordinary general meetings of companies. As part of its manager selection and monitoring process, the Fund reviews such guidelines and policies and ensures that the practices adopted are aligned with the Fund's own Responsible Investment Beliefs.

The Fund supports the 12 principles of the Financial Reporting Council's UK Stewardship Code 2020 (the Code). The Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the seven Principles of the Stewardship Code.

The Fund expects its external investment managers to be signatories of the Stewardship Code and reach Tier One level of compliance or to be seeking to achieve a Tier One status within a reasonable timeframe. Where this is not feasible the Fund expects a detailed explanation as to why it will not be able to achieve this level.

When it comes to engagement, investment managers are expected to engage in constructive dialogue on behalf of the Fund and to use their influence to encourage companies to adopt best practice in key areas. If the Fund cannot reach agreement with the investment manager on a stewardship issue, it may be appropriate to divest from the manager.

## Climate change

The Fund is assessing the implications of reporting in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures ("TCFD") framework across the four pillars of Governance, Strategy, Risk Management, Metrics and Targets.

The Fund will be undertaking further training on Fund specific net zero objectives and how they can be achieved.

The London CIV has committed to become a net zero entity by 2040 in line with the Paris Agreement objectives to limit global temperature rise below 1.5°C. It will also become a net zero company across operational and supply chain emissions as early as 2025. More information on this initiative can be found on the London CIV website (<https://londonciv.org.uk/>).

## Pooling

It is expected that the Fund's ability to carry out this Responsible Investment Policy will be enhanced through the London CIV, due to the inherent benefits of scale and improved governance and stewardship practices that will result from the collaboration.

## **6. MONITORING AND REPORTING PROGRESS**

### **ESG integration and broad risk management**

Ongoing ESG developments will be monitored through performance reporting. Where managers are lagging behind their peers (or the expectations of this Policy) engagement will be undertaken with the manager to encourage them to improve.

### **Stewardship - voting rights and engagement**

All equity investment managers are expected to report on their voting activity on a regular basis.

The Fund will look to publish summaries of the voting undertaken on the Fund's behalf and provides member communications as and when appropriate.

Where managers are lagging behind their peers (or expectations of this policy) on voting and engagement activity, engagement will be undertaken with the manager to explain their performance and encourage them to improve.

In addition, the Fund is a member of the LAPFF which aims to protect the long-term investment interests of LGPS beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies through active engagement with management. Further details can be found on the LAPFF website.

The Fund receives regular email updates and a quarterly report from LAPFF on engagement activity including the nature and outcomes from those engagement activities.

### **Climate change**

The Fund is committed to developing its reporting in this area, including with regards to carbon-footprinting (for example, carbon intensity, fossil fuel reserves and potential emissions) and scenario analysis, where appropriate.

The Fund is working with advisers to understand what would be required with regards to the Department for Levelling Up, Housing and Communities' (DLUHC) reporting of Climate Risk recommendations that are expected to become mandatory for LGPS Funds in the coming years. The reporting of carbon exposures in investment portfolios is a relatively new development and as such not all investment managers provide data on a comparable basis.

The Fund will consider the appropriateness of climate change scenario analysis in order to understand the climate impact on return at the total Fund and asset class level across different warming scenarios and help the Fund to further its decision-making.

### **Pooling**

The Fund is committed to working with LCIV pool partner funds to further develop pool level reporting and to facilitate the Fund's RI reporting on its total assets including those not held in the pool.

**For and on behalf of the London Borough of Croydon Pension Fund Committee**