



Responsible Investment: Draft Fund policy

Continuing your Responsible Investment framework development

The Pension Committee (“the Committee”) of the London Borough of Harrow Pension Fund (“the Fund”) completed a survey to collect their views on Responsible Investment in November 2022. Based on the outcomes of that survey and the discussions held at a previous workshop, we have prepared a policy to document these views.

At a glance...

- This paper includes a draft Responsible Investment (“RI”) policy prepared by Aon, using the Committee’s responses to the recent survey undertaken prior to the 23 November 2022 meeting, and the subsequent discussion.
- This policy – once finalised and agreed by the Committee – will serve to:
 - guide your future investment implementation decisions (such as the recent agreement by the Investment Sub-Committee (“ISC”) to invest with Robeco, and the decision to switch to the “Paris Aligned” version of the global equity fund managed by Baillie Gifford);
 - inform Aon as your advisor, and your appointed investment managers; and
 - potentially be shared with the Fund’s members if desired, made publicly available, or retained as an internal document for the Committee’s own reference at this time.

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Why bring you this paper?

To support the Committee’s discussion and agreement of a suitable Responsible Investment policy to guide the Fund’s approach.

Next steps

- Discuss the contents of this paper at the 23 November Committee meeting
- Adopt the policy and agree how to document this (for example, within the ISS; or as part of a standalone document, whether public or internal only).

Prepared for: The Committee
 Prepared by: Aon
 Date: 23 November 2022

Summary of key views

Following completion of the survey by the majority of Committee members, Aon have reviewed the responses provided. The summary overleaf outlines the key views expressed by the Committee.

Summary of consensus beliefs

- Environmental, social and governance (ESG) factors are **financially material**; taking them into account is **consistent with the Committee's fiduciary duty** to members of the Fund.
- The Fund is a **long term investor**, and the Committee will invest in a manner that is consistent with that long-term outlook. You expect your investment advisor to reflect this long-term perspective in our advice to you, and for your appointed fund managers to, likewise, make decisions with longer term ESG risks in mind.
- Taking ESG considerations into account may lead to **better risk-adjusted returns**, and it is therefore important that the Fund's appointed managers incorporate these matters into their decision making on asset selection, realisation, and retention.
- While risk and return considerations are important, you believe that **your managers' approach to engagement and stewardship of assets** is a relevant factor in decision-making.
- You will consider investments which seek to deliver positive impacts on societal/environmental issues, as well as those which integrate ESG risk and opportunities, or 'tilt' towards certain investments.
- **Climate change is a key risk factor** to the Fund. This risk should be assessed and understood in order to protect the Fund and capture opportunities arising as a result of the transition over time to a low-carbon economy. However, you also believe that issues of social justice and broader consideration of nature-related outcomes are relevant to decision-making.
- Acting as responsible stewards of capital is important, and the Committee believe in the **value of engagement**. To that end, the Committee expects that the Fund's voting rights are exercised to the fullest extent possible, and that the Fund's managers will actively engage with underlying assets to encourage continued development of sustainable business practices, transparency, and inform their decision making on investment selection, realisation, and retention.

At the previous workshop meeting, the Committee agreed that the appropriate next step should be to document consensus views, outline supporting actions, and define these in a policy document that will serve to guide the Fund's direction, implementation, and articulation of its approach.

Key areas for discussion

In drafting your RI policy, we have incorporated views that the Committee expressed through the survey, and in discussions.

Where the Committee was in full agreement, these views are summarised in the policy. Where we have imputed views on the basis of discussions held, the Committee may wish to discuss the views further before finalising the actions and policy.

Some of these views represent a development or extension of existing actions that the Committee already take. Where this is the case, we have highlighted the relevant section in red for discussion at the upcoming meeting.

Next steps

We look forward to discussing the draft RI Policy with the Committee at the 23 November 2022 meeting.

Once the Committee is comfortable with the wording of the policy, we propose that:

1. it forms one of the key Fund documents and is formally reviewed annually, and that
2. the Committee determines whether publishing the policy online or otherwise making it available to members is desired at this time, or whether the Committee wish to maintain the policy as an internal document.
3. Dependent on above the Committee may also wish to share the full document or key principles with the Borough, London CIV, and/or other fund managers appointed directly by the Fund.



Actions

- Committee to discuss and provide feedback on the draft RI Policy, in particular the red highlighted areas
 - Consider how/if to discuss with the Borough
 - Once agreed, determine whether make the RI Policy available publicly (e.g. incorporated within the ISS, or via the Fund's website)
 - Aon and Fund Officers to agree and develop the action plan that will help meet the commitments set out in the RI Policy
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The Fund's draft Responsible Investment policy

The purpose of this policy is to set out our Responsible Investment beliefs and principles, and to detail the approach we are taking to fulfil our commitments.

The effective date of this policy is November 2022.

Introduction

The London Borough of Harrow (the "Borough"), in its capacity as Administering Authority, has responsibility to administer the London Borough of Harrow Pension Fund (the "Fund"). The Council has delegated to us, the Pensions Committee (the "Committee") all the powers and duties of the Council in relation to its functions and authority. We are therefore responsible for making all investment decisions regarding the Fund.

As the Committee, we recognise that it is our fiduciary duty is to act in the best financial interest of members of the Fund and ensure that the objectives of the Fund are met. We therefore aim to seek the best investment return to meet the funding objective subject to an appropriate level of risk and liquidity.

In defining Responsible Investment ('RI'), we have looked to the Principles for Responsible Investment (PRI)'s definition as the integration and consideration of environmental, social and governance ('ESG') issues into both initial asset investment processes and then ongoing asset ownership practices.

We recognise that, as a long-term investor, we (and, by extension, our appointed fund managers and our advisor) should incorporate ESG risks into our investment decision making process, as the long-term value of investments may be negatively impacted if these risks are not understood or evaluated properly. Likewise, emerging opportunities may be missed if ESG factors are not roundly considered.

In developing the Fund's approach to RI, we seek to understand and manage ESG considerations to which the Fund is exposed, to the extent that these may impact on the Fund's asset portfolio or overall strategy.

This policy sets out our beliefs and approach to RI, including actions taken on behalf of members and other stakeholders which aim to capitalise on ESG opportunities and to protect the Fund from ESG-related risks.

Our beliefs and principles

We have discussed and agreed consensus beliefs and principles relating to RI. These beliefs and principles form the basis of our policy and are set out below.

- Environmental, social and governance (ESG) factors are **financially material** and an important component of the Committee's decision making; taking these issues into account is **consistent with the Committee's fiduciary duty** to members of the Fund.
- The Fund is a **long-term investor**, and the Committee will invest in a manner that is consistent with that long-term outlook: investing in this manner is expected to generate greater and more sustainable risk-adjusted returns. The Committee expect the Fund's appointed fund managers to, likewise, make decisions with longer term ESG risks in mind.
- Taking ESG considerations into account may lead to **better risk-adjusted returns**, and it is therefore important that our appointed managers incorporate these matters into their decision making on asset selection, realisation, and retention.
- While risk and return considerations are key to ensuring the Fund's fiduciary duty to members is fulfilled, there are wider issues relevant to the Committee's decision making on investments. These include the approach to asset stewardship and engagement taken by prospective or current investment managers appointed by the Fund, and **wider social and environmental impact** of investments. In particular, awareness of negative environmental or social impacts arising from the Fund's investments is important in considering mitigation.
- **Climate change is a key risk factor** to the Fund which may impact on the achievement of its investment return objectives over the relevant time horizon. Therefore, climate-related matters should be assessed and understood in order to protect the Fund from this risk, and capture opportunities arising as a result of the transition over time to a low-carbon economy. The Committee also believe that issues of social justice and broader consideration of nature-related outcomes, both of which are impacted by climate change, are relevant to decision-making.
- The Committee will seek advice and information from its advisor with regard to how the Fund's **approach to climate risk mitigation** and management can develop over time, including with respect to setting relevant targets (such as 'net zero' by **2040**) and ongoing monitoring of the Fund's position.
- Acting as responsible stewards of capital is important, and the Committee believes in the **value of engagement**. To that end, the Committee expects that the Fund's **voting rights** are exercised to the fullest extent possible, and that the Fund's managers will **actively engage** with underlying assets to encourage continued development of sustainable business practices, transparency, and inform their decision making on investment selection, realisation, and retention.
- The Committee recognise that **the Fund's members may have an interest** in how RI is incorporated as part of the Fund's investment

Aon comment

Further information and training will be necessary to support discussion on net zero commitments and how other LGPS peers are incorporating climate considerations into their actions.

Aon will provide updates on this important area.

strategy. Accordingly, the Committee will **incorporate the RI policy and approach into member communication and engagement.**

Our RI approach

We take the important steps and follow the procedures below in order to ensure our investment strategy is aligned with our beliefs and principles toward RI.

Committee decision making

We aim to integrate consideration of ESG issues throughout all aspects of our investment decision making process, including modelling and setting investment strategy and monitoring the Fund's investment managers. We are supported in these aims through regular and ongoing input from, and engagement with, our investment advisors.

We do not apply personal, ethical or moral judgments when making investment decisions, and instead remain focused on the primary objective of acting in the best financial interests of the Fund's members. With the support of our advisors, we consider the availability, suitability and depth of conviction in an idea or strategy prior to investing and will take into account the expected cost versus potential benefit from a member perspective in line with our fiduciary duty.

We undertake periodic training on RI to understand how ESG factors, including climate change, could impact the Fund's assets/liabilities and members' retirement outcomes.

ESG risk monitoring and assessment

Our processes to monitor and assess ESG-related risks and opportunities include the following:

- Our investment advisors monitor the Fund's underlying managers on an ongoing basis, including detailed due diligence on many to assign an 'ESG rating' to underlying managers which reflects the quality of and commitment to ESG integration. We discuss and monitor ESG ratings of the Fund's investment manager on an ongoing basis.
- We recognise that developments will continue in this area. We ask our investment advisors to highlight appropriate opportunities to invest in responsible investment strategies and will give due consideration to any proposals.
- **At least as part of each formal triennial investment strategy review, we will specifically consider RI issues, including the merits of strategies which seek to generate not only positive financial returns, but also seek to make a wider positive impact on society.**
- We include ESG-related risks, including climate change, on the Fund's risk register as part of ongoing risk assessment and monitoring.

- To support our risk and opportunity identification and management, we will make use of the recommendations of the Taskforce on Climate-related Financial Disclosures (“TCFD”), which has established a set of clear, comparable and consistent recommended disclosures about the risks and opportunities presented by climate change.
- As part of formal investment strategy reviews, we will consider qualitative and quantitative climate change scenario analysis to review the potential risks and consider mitigating action as required.
- We expect our investment managers to understand our RI principles, beliefs and requirements. We provide our Policy to advisors and appointed fund managers and ask them to confirm their adherence.
- In the event that any fund manager or service provider does not meet any of the expectations listed in this policy, the Officers will engage with the respective stakeholders to encourage improvements in processes, transparency or activity as required.

Expectations and monitoring of investment managers

- As part of our delegated responsibilities, we expect the Fund's investment managers to take account of financially material ESG considerations (including climate change) in the selection, retention and realisation of investments. Whilst we do not expect all our investment managers to explicitly take into account non-financial ESG considerations, we do expect transparency on these matters in order to facilitate a full understanding of the Fund's investments.
- We, with the support from our advisors, carry out a periodic review of the ESG profile of the investments. The use of third-party data from MSCI, manager data from the PRI, and alongside commentary from the advisor, can support the Committee in identifying areas of potential ESG risk and engagement points.
- We expect investment managers to align with the UK Stewardship Code Principles and PRI objectives. Where managers are not signatories to these codified principles, we will assess with our advisor how the manager is implicitly aligned as part of our monitoring.

Implementation

- Where applicable, we invest in assets that meet at least a certain minimum threshold ESG rating/requirement, and this threshold will be reviewed on a periodic basis to ensure that it meets our evolving requirements.
- We recognise that new investment solutions often come to market which aim to address both risks and opportunities presented by global challenges. We will consider such new investment solutions (across all asset classes) that are raised by the Fund's advisor, and will assess the suitability of such investments within the context of the wider Fund in discussion with its investment advisor.
- We expect the Fund's appointed fund managers to be transparent in their approach, including their approach to stewardship, how they integrate ESG into their investment decision making process and consideration of social and environmental impact matters.

Aon comment

LGPS are not **yet** within scope of the mandatory reporting requirement under the TCFD framework, introduced in 2021 for segments of the corporate pension fund universe. It is likely that legislation will be introduced to mandate this following consultation in Q4 2022.

Aon will support the Fund in readiness for this area.

Aon comment

A periodic ESG review, along with carbon intensity reporting, can be provided through an "ESG Dashboard" if this is of interest to the Committee.

- We expect the Fund's investment managers to provide their RI policy to us and our advisors periodically, including details of their approach to stewardship, how they integrate ESG into their investment decision making process and approach to non-financial factors. When we look to appoint a new investment manager, we request and consider this information as part of the selection process. We review responses with support and input from the Fund's investment advisor.

Training

On a regular basis, the Committee will receive training from the Fund's advisor on relevant RI matters, not limited to evolving regulatory requirements.

Stewardship – voting and engagement

We recognise the importance of our role as a steward of capital. Whilst we recognise that we do not control (or wish to control) the investment decisions that our investment managers take on our behalf, we believe in using our influence, where possible, through those fund managers to promote the highest standards of governance and corporate responsibility in the underlying companies in which the Fund's investments reside. We recognise that ultimately this protects the financial interests of the Fund and its beneficiaries.

We therefore expect the Fund's investment managers to use their influence as major institutional investors to carry out our rights and duties as a shareholder including voting, along with – where relevant and appropriate – engaging with underlying investee companies.

We request details on an annual basis of how the Fund's investment manager is undertaking voting and engagement activity.

Where possible, voting information should include details of voting actions and rationale with relevance to the Fund, in particular, where:

- votes were cast against management;
- votes against management generally were significant and
- votes were abstained

Similarly, engagement activity disclosures should be of relevance to the Fund's investments and include information on the rationale and outcome of engagement activity.

We review the stewardship activities on an annual basis with input from the Fund's investment advisor and will engage with managers as required.

Aon comment

Committee to consider further training or discussion of beliefs.

Aon comment

These policies are consistent with those in the ISS.

Aon comment

Corporate pension schemes are required to prepare an annual statement that provides details of how managers have voted and engaged with companies on behalf of the trustees.

Whilst not a requirement for LGPS, this would align with best practice seen elsewhere.

Initiatives and industry collaboration

We recognise that collaboration with others and support of broader initiatives can be a powerful tool to influence behaviour.

We expect the Fund's investment managers to consider collaboration with others, as permitted by relevant legal and regulatory codes, where collaboration is likely to be the most effective mechanism for encouraging positive change at investee companies/issuers.

We expect our advisors to keep us informed of relevant global and industry initiatives and may consider participating in opportunities where there is appropriate alignment with our beliefs and principles. The Fund is already a participating member of the Local Authority Pension Fund Forum ("LAPFF"), which is active in furthering responsible investment issues across participating LGPS members.

Evolving our approach

We acknowledge that the Fund's approach to RI will need to continually evolve, due to both the changing landscape with respect to ESG issues and broader industry developments.

We are committed to making ongoing improvements to our approach and the processes that underpin the delivery of this policy and are focused on making sure that it remains relevant and appropriate for our members.

Disclosure and reporting

We believe transparency is important. In support of this belief, we will consider our approach to incorporating this policy and its direction in engaging with members. This policy supplements additional disclosures and information available as part of our Investment Strategy Statement (available at <https://www.harrowpensionfund.org/resources/investment-strategy-statement-march-2019/>).

We will review this policy annually, as part of each formal triennial investment strategy review, or as required in response to changing regulations or broader governance developments.

Approved by the Pensions Committee of the London Borough of Harrow Pension Fund

Aon comment

Please let us know if you would like any further details on industry initiatives. Joining Aon's Responsible Investment Network, which provides virtual and in-person roadshows, events and training sessions, along with updates on relevant market developments, may be of interest to some or all of the Committee.



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