

# **London Borough of Harrow Pension Fund**

## **Draft Responsible Investment Policy**

**For consideration by Pension Fund Committee  
29 March 2023**

## Purpose

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 30 March 2023

## Introduction

The London Borough of Harrow ("the Council"), in its capacity as Administering Authority, is responsible for administering the London Borough of Harrow Pension Fund (the "Fund").

The Council has delegated to the Pension Fund 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 to 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 the 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

The Committee has 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 and necessary to meet 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. Accordingly, the Committee expect the Fund's appointed fund managers to 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.
- Risk and return considerations are key to ensuring the Fund's fiduciary duty to members is fulfilled, although there are wider issues which may influence 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 how to mitigate those impacts.
- **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 to protect the Fund from this risk, and to capture opportunities arising as a result of the transition over time to a low-carbon economy. The Committee also believe that social issues (including working conditions) and broader consideration of nature-related outcomes (including pollution and deforestation), 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' carbon dioxide emissions 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 relevant **voting rights** will be 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 thus 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 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 to ensure our investment strategy is aligned with our beliefs and principles regarding 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 before investing and will take into account the expected cost versus potential benefit from a scheme member's 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 Consultants monitor the Fund's underlying managers on an ongoing basis, including detailed due diligence to assign an 'ESG rating' to underlying managers which reflects the quality of their approach and commitment to ESG integration. We discuss and monitor ESG ratings of the Fund's investment managers 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.
- Immediately after each triennial valuation of the Fund we will undertake a formal review of the Fund's triennial investment strategy. Both during these reviews and in our ongoing investment monitoring activity, we will specifically consider RI issues, including the merits of strategies which seek to generate positive financial returns while also seeking 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 our ongoing risk assessment and monitoring.
- To support our risk and opportunity identification and management, as these become a requirement for LGPS funds 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 our Investment Consultant, 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 (eg exclusion of investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the UK Government), 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 Investment Consultant, 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 Consultant, 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 Investment Consultant how the manager is implicitly aligned as part of our monitoring.

### ***Implementation***

- Where applicable, we invest in assets that meet at least a 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 approaches often come to market which aim to address both the risks and opportunities presented by global challenges. We will consider such new investment approaches (across all asset classes) that are raised by the Fund's investment advisor and will assess the suitability of such investments within the context of the wider Fund in discussion with its Investment Consultant.
- 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.
- 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 will request and consider this information as part of the selection process. We will review responses with support and input from the Fund's Investment Consultant.

### ***Training***

The Committee will receive training on a regular basis from the Fund's Investment Consultant on relevant RI matters, including but 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.

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

## **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/>).

## **Review**

We will review this policy

- annually,
- as part of each formal investment strategy review (which follows the triennial valuation),
- or as required in response to changing regulations or broader governance developments.