London Borough of Sutton Pension Fund

Responsible Investment Policy

September 2024

Sutton

London Borough of Sutton Pension Fund Responsible Investment Policy

Purpose

This policy outlines the London Borough of Sutton Pension Fund's (the "Fund") Responsible Investment approach, guiding its Investment Strategy. The Pension Fund Committee ("the Committee") is tasked with formulating and implementing this strategy. The policy will be reviewed and updated at least every 3 years.

Scope

This document sets out the beliefs and principles of the LB Sutton Fund's approach to Responsible Investment, alongside the ways in which these can be implemented, monitored and communicated to relevant stakeholders. It is important to note that not every principle will necessarily be applicable to all types of investment in the same way, and therefore it may not be possible to apply the same practices across the entire portfolio consistently.

Aims and objectives

This Responsible Investment Policy complements the Fund's Investment Strategy Statement (ISS) which is a statutory requirement of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The policy explains the Fund's approach to the oversight and monitoring of the Fund's activities from a responsible investment and stewardship perspective.

Responsible investment is an approach to investing that aims to incorporate financially material environmental, social and governance (ESG) factors into investment decisions to better manage risk and to generate sustainable, long-term returns. Stewardship is the responsible allocation and management of capital to create sustainable value for beneficiaries, the economy and society.

The aims and objectives of LB Sutton Pension Fund RI policy are to:

- Reduce the likelihood that ESG issues and Climate Risk will negatively impact asset values and returns;
- Inform stakeholders on the action LB Sutton Pension Fund is taking to address and manage ESG and Climate Risk issues.

Responsible Investment Beliefs

The Fund’s investment beliefs reflect the need to deliver sustainable investment returns in order to pay pension benefits. They recognise the importance of active asset ownership and effective stewardship, alongside the assessment of investment risk and opportunity over the long term.

- The Fund believes ESG factors can have a financially material impact on the delivery of investment objectives and therefore the Fund recognises that it is consistent with its fiduciary responsibility to identify and manage ESG risks and opportunities appropriately.

- The Fund is committed to active ownership and expects all of its investment fund managers to exercise their voting rights and to actively engage with companies to encourage responsible investment behaviour. The Fund will only consider divestment as a last resort once all avenues of engagement have been undertaken and shown not to be effective.

- The Fund will seek to integrate ESG issues throughout the investment decision making process, from setting investment strategy to monitoring the Fund’s investment managers.

- The Fund seeks to identify investment opportunities that have a real-world positive impact, alongside generating suitable investment returns.

- The Fund expects that its appointed fund managers will provide evidence on an annual basis of the assessment, presence, and materiality of ESG issues across their respective portfolios. This should include how the assessment impacts on the investment thesis of relevant assets.

- The Fund will seek advice from its appointed investment adviser regarding any changes to its investment strategy and will consider how ESG matters and the Fund's identified priorities and beliefs may influence this.

- The Fund believes that having a diverse and inclusive workforce and governance structures leads to better outcomes for businesses and organisations. The Fund expects all its stakeholders and in particular suppliers, contractors, fund managers and consultants to include Diversity and Inclusion as key aspects of running their business and will ask for policies and evidence of their approach.

The Fund will adopt investment strategies that seek to minimise and ideally eliminate irresponsible corporate behaviour. Some of the environmental, social and governance issues which it will focus on include:

- Environmental degradation
- Armament sales to military regimes
- Human rights violations

- Institutionalisation of poverty through discriminatory market practices
- Racial or sexual discrimination

Climate Change

Considering the implications of and seeking to mitigate climate change related risks, as well as taking advantage of opportunities, is consistent with the Fund's fiduciary duty and is fundamental to the ability to continue to generate long-term sustainable returns within the Fund's investment portfolio. Accordingly, the Fund recognises that climate change is one of the material ESG factors that pose a potential financial risk over the Fund's investment timescale.

- The Fund will communicate its view of the importance of climate change as a key risk to the Fund's appointed investment managers (including London CIV). It will also communicate its view that there is the potential for investment opportunities arising from the transition to a low-carbon economy.

- The Fund expects its appointed investment managers (including London CIV) to provide evidence of their consideration of climate change as a factor which affects portfolio construction on an ongoing basis.

- The Fund will work with the London CIV and its other appointed investment managers to undertake carbon exposure analysis across the Fund's portfolio, in order to understand the climate risk in the portfolio and assess the Fund's progress towards achieving its Net Zero targets.

- The Fund expects its investment fund managers to fulfil their statutory duty in terms of the reporting of climate related disclosures.

- The Fund will fulfil the requirements of TCFD and report in accordance with the IFRS rules.

- The Fund recognises that exposure to fossil fuel investments is one component of overall exposure to climate change risks and acknowledges the importance of considering climate change risk holistically.

- The Fund has set a target to achieve Net Zero by 2050 or sooner.

- To support the long term aim of Net Zero by 2050 the Fund has set specific interim targets:

    - Reduce the Weighted Average Carbon Intensity (scope 1 & 2) of listed equities by 50% by 2030 (relative to a 2020 baseline)

    - Engage with investment managers in order to increase the percentage of companies in listed equities which have Science Based Targets initiative (SBTi) approved targets

    - 15% of total fund assets invested into climate solutions (defined as activities, products and services that contribute to emissions reductions in line with Net Zero) by 2030

UN Social Development Goals (SDGs)

The Sustainable Development Goals ("SDGs") are a global framework adopted by all United Nations member states, which serves to address global challenges of social, economic and environmental sustainability.

The Fund has identified a number of SDGs as relevant to the Fund and supportive of the Fund’s responsible investment ambitions. The core principle underpinning the Fund’s agreed approach is the desire to be a long-term, sustainable investor. The following SDGs have been selected as the Fund's priorities, which have been grouped into three themes:

Environment

- SDG 13 - Climate Action - this is reflected as an overarching theme relevant to the Fund and has a dedicated section within the Responsible Investment policy.
- SDG 7 - Energy - intrinsically linked to climate change and to biodiversity, the committee agree that the energy sector is transforming to meet the needs of a low-carbon world; as such, there is an opportunity to support this transition.
- SDG 11 - Sustainable Cities and Communities - The Fund supports the ambition of making cities inclusive, safe, resilient and sustainable and will consider opportunities to invest in such themes in accordance with the Fund’s wider objectives of being able to deliver sustainable financial returns to meet its pension promises.

Economic

- SDG 8 - Economic Growth - economic growth can lead to positive investment opportunities along with an opportunity to reduce inequalities and poverty. This has both local and global relevance.
- SDG 9 - Infrastructure - participating in infrastructure development is an opportunity to improve economic connections and assist in reducing inequalities. Strong local infrastructure is fundamental to the Fund's local community and there are global opportunities which connect to investment for a low-carbon future.

Social

- SDG 3 - Good Health and Wellbeing - the recent COVID-19 pandemic reinforces the need for communities to invest in the health and wellbeing of their populations.

- SDG 10 - Reduced Inequalities - reducing inequality, and ensuring no-one is left behind, are integral to achieving the sustainable development goals. It is not sufficient for countries to record positive economic growth; the resultant benefits and opportunities must be available to all, regardless of gender, ethnicity or any other characteristic. The Fund takes a proactive approach to human rights and diversity and inclusion across all aspects of the Fund's business.

The Fund notes that there is both local and global relevance to the SDGs and that it is important to be mindful of the context in which investment opportunities are selected and the necessity of balancing the risk, return, and diversification characteristics of any decisions made.

The Fund will communicate the agreed priority SDGs to its appointed fund managers (including London CIV), and will request that they have regard for, and provide evidence of having considered, the SDGs in their selection, retention and realisation of underlying investments.

Stewardship - Voting & Engagement

The Fund recognises the importance of responsible and active ownership and has a duty to exercise its stewardship and active ownership responsibilities (such as use of voting rights and encouraging its appointed investment managers to actively engage with investee companies) effectively by using its influence as a long-term investor to encourage positive behaviour.

- The Fund supports the Local Authority Pension Fund Forum ("LAPFF") stance regarding engagement with investee companies, rather than divestment from certain sectors. The committee considers that pursuing an engagement-led approach is consistent with its fiduciary duty to members and allows the Fund, through the actions of its appointed investment managers, to be an active participant in encouraging the companies in which it invests to transform and adapt to meet the needs of a changing world, including supporting the transition to a low carbon economy.

- In the first instance, the Fund expects its appointed fund managers (including London CIV) will use engagement tools to improve standards and long-term sustainability characteristics of investee companies. Where this proves unsuccessful, the Fund would support a decision to divest as a last resort. The Fund will communicate its beliefs to its appointed fund managers and expects that they will provide evidence of their engagement activity, including case studies, on an annual basis.

- The Fund will monitor the stewardship activity of its appointed fund managers (including London CIV) and expects that they will highlight examples of thematic voting (for example, on matters such as climate change, human rights and strong standards of corporate governance) and outcomes.

- In the event that voting rights are not used, the Fund will ask that their appointed fund managers explain why this is the case.

- The Fund will request details from their appointed fund managers (including London CIV) regarding how voting decisions are made (e.g. whether based on recommendations of proxy voting agencies) and seek explanations of voting activity which conflicts with the Committee's agreed priorities.

- The Fund believes that collaboration via the London CIV gives rise to stewardship and engagement opportunities, as does the Fund's continued membership of LAPFF, as well as broader collaboration with other investors.

- The Fund will continue to participate in LAPFF to actively shape their agenda and priorities on stewardship matters.

- The Fund may consider joining other investment industry collaboration initiatives in future to work with other investors to achieve greater traction on sustainability issues.

Transparency, Disclosure and Reporting

The Fund believes that reporting, both from its appointed investment managers and from the Fund to its members and the wider public, is an important aspect of its Responsible Investment approach.

- The Fund will publish its Responsible Investment Policy and keep it under regular review.

- The Fund believes regular monitoring and reporting of actions and progress is important, given that this is closely linked to good governance and transparency.

- As the Committee continues to discuss and refine its approach to Responsible Investment, the approach to reporting and disclosure will develop.

Impact Reporting

One of the Fund's investment beliefs is to seek investment opportunities that have a real world positive impact, alongside generating suitable investment returns. The Fund has made a 10% strategic allocation to impact investments to help achieve this.

Impact Investing can be defined as “Investments made with the intention to generate positive, measurable social and environmental impact alongside financial return”.

The Fund will monitor the real world positive impact of its investments and report on this annually to the Pension Committee.

Memberships & Affiliations

The Fund believes that it will improve its effectiveness by acting collectively with other like minded investors, because it increases the likelihood that it will be heard by the company, fund manager or other relevant stakeholder compared with acting alone. The Fund recognises the need to operate at a market-wide level to promote improvements that will help it to deliver sustainable long-term growth.

Further Information

If you require further information about anything in or related to this Policy, please contact: lbspensioninvestments@sutton.gov.uk

Glossary

ESG Factors: Environmental, social and corporate governance factors which could impact company performance and therefore investment returns. Examples include (but are not limited to) climate change, workforce issues, remuneration, independence of the board and auditors, board composition and diversity.

Ethical Investment: An approach seeking a moral or ethical return, potentially ahead of financial return.

Governance: The process and principles by which a company or organisation undertakes its business. For the Fund, governance includes how it undertakes both its operational and investment responsibilities on behalf of its members.

Pensions Board: The role of the Pensions Board is to assist in the good governance of the Fund through the monitoring of Fund performance and adherence to statutory duties. The Pensions Board is not a decision-making body, nor does it hold a scrutiny function; its role is to assist in the compliance with scheme rules.

Pensions Committee: Body established by the London Borough of Sutton Council (the administering authority) in charge of the management of the administration of benefits and strategic management of the Fund, including Fund assets.

Socially Responsible/Social Impact Investments: Investments that deliver social impact as well as a financial return are often described as “social investments”. The Fund considers opportunities in social investments alongside other opportunities and will assess their relative merits on fundamental grounds and with reference to suitability of fit for the Fund.

Responsible Investment: The integration of financially material environmental, social and corporate governance (“ESG”) factors into investment processes both before and after the investment decision.

Stewardship: We define the concept of stewardship the same as the Financial Reporting Council (FRC), the organisation that oversees 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. The UK Stewardship Code (2020) sets high standards for asset owners and asset managers, and for service providers that support them”.